



Nano One Materials Corp.
Financial Statements
December 31, 2021
(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, 2021 and 2020, 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, 2021 and 2020, 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 audit 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 audit is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, prepared under the conditions mentioned above, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

During the year ended December 31, 2021 the Company received \$1,948,731 and accrued \$47,652 from the Government of Canada for its research activities through various programs. Refer to financial statements Note 6.

Due to the significance of government assistance received and possibility that amounts claimed are susceptible to potential manipulation, we consider government assistance to be a key audit matter.

Our audit procedures included, but were not limited to:

- Reviewing and gaining an understanding of the Company's policy for recognizing government assistance and internal controls related to government assistance.
- Reviewing contribution agreements and vouching grants received.
- Recalculating amortization of deferred government assistance and testing the eligibility and accuracy of the amounts applied as reductions against the Company's applicable assets and expenses.



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 28, 2022

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

As at December 31, 2021 and December 31, 2020

	Note	December 31, 2021 \$	December 31, 2020 \$
Assets			
Current assets			
Cash and cash equivalents		52,652,258	27,750,290
Short-term investment		-	1,009,164
Receivables and prepayments	3	697,182	403,985
		53,349,440	29,163,439
Non-current assets			
Deposits	3	158,691	287,929
Property and equipment	4	1,824,058	1,484,956
Intangible assets - patents	5	25,708	22,703
		2,008,457	1,795,588
Total assets		55,357,897	30,959,027
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		759,014	480,038
Accounts payable to related parties	8	25,024	49,324
Deferred government assistance	6	18,958	821,256
Lease liabilities - current portion	4	143,740	88,833
		946,736	1,439,451
Non-current liabilities			
Lease liabilities	4	656,190	621,240
Total liabilities		1,602,926	2,060,691
Shareholders' equity			
Share capital	7	82,607,348	50,733,826
Reserves	7	8,977,007	4,726,488
Deficit		(37,829,384)	(26,561,978)
Total shareholders' equity		53,754,971	28,898,336
Total liabilities and shareholders' equity		55,357,897	30,959,027
Nature and continuance of operations	1		
Subsequent events	14		

Approved on behalf of the Board of Directors on March 28, 2022:

"Dan Blondal"
Director

"Lyle Brown"
Director

Nano One Materials Corp.
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

	Note	December 31, 2021 \$	December 31, 2020 \$
Expenses			
Amortization	5	1,888	1,576
Business development fees		-	90,026
Consulting fees		510,653	456,291
Depreciation	4	125,145	83,539
Finance costs	4	74,501	27,372
General and administrative expenses		560,679	332,586
Investor relations and shareholder information		760,856	565,692
Management and directors' fees	8	354,175	429,000
Professional fees, net	6,8	335,408	218,559
Research expenses, net	6,8	2,133,219	228,644
Salaries and benefits, net	6,8	1,823,225	1,005,293
Share-based payments	7,8	4,385,894	1,651,930
Transfer agent and filing fees		297,413	152,151
Travel, meals, and conferences		28,033	58,805
Loss from operating expenses		(11,391,089)	(5,301,464)
Interest income		198,761	89,056
Bad debt		(130,780)	-
Loss and comprehensive loss for the year		(11,323,108)	(5,212,408)
Loss per share			
Weighted average number of common shares outstanding			
- basic		93,876,156	79,131,582
- diluted		93,876,156	79,131,582
Basic loss per common share		(0.12)	(0.07)
Diluted loss per common share		(0.12)	(0.07)

Nano One Materials Corp.

Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

	Note	December 31, 2021 \$	December 31, 2020 \$
Operating activities			
Loss for the year		(11,323,108)	(5,212,408)
Adjustments for:			
Amortization		1,888	1,576
Depreciation	4	674,712	272,841
Finance costs		74,501	27,372
Share-based payments		4,385,894	1,651,930
Interest income		(198,761)	(89,056)
Non-cash working capital items:			
Receivables and prepayments		(293,197)	(231,125)
Deposits		-	(37,205)
Accounts payable and accrued liabilities		485,426	523,557
Accounts payable to related parties		(24,300)	24,460
Deferred government assistance		(802,298)	144,883
		(7,019,243)	(2,923,175)
Investing activities			
Interest income received on cash and cash equivalents		198,761	78,952
Maturity of short-term investment		1,009,164	199,851
Purchase of short-term investment		-	(1,000,000)
Deposits on property and equipment		(115,068)	(192,809)
Security deposit on facility lease		(7,125)	-
Purchases of property and equipment, net		(763,533)	(597,827)
Payments for intangible assets	5	(4,893)	-
		317,306	(1,511,833)
Financing activities			
Issuance of common shares/units for cash		33,799,225	32,444,233
Share issue costs		(2,005,376)	(1,868,855)
Payments of lease liabilities	4	(189,944)	(137,594)
		31,603,905	30,437,784
Increase in cash and cash equivalents		24,901,968	26,002,776
Cash and cash equivalents, beginning of year		27,750,290	1,747,514
Cash and cash equivalents, end of year		52,652,258	27,750,290
Cash and cash equivalents comprise:			
Cash	10	816,595	23,720,964
Cash equivalents		51,835,663	4,029,326
Cash and cash equivalents, end of year		52,652,258	27,750,290
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, 2021 and December 31, 2020

	Number of common shares	Share capital \$	Reserves \$	Deficit \$	Total \$
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 loss for the year	-	-	-	(5,212,408)	(5,212,408)
December 31, 2020	88,237,538	50,733,826	4,726,488	(26,561,978)	28,898,336
December 31, 2020	88,237,538	50,733,826	4,726,488	(26,561,978)	28,898,336
Issue of common shares - prospectus financing	5,405,000	28,916,750	-	-	28,916,750
Share issue costs - cash	-	(2,005,376)	-	-	(2,005,376)
Share issue costs - non-cash	-	(641,100)	641,100	-	-
Exercise of stock options	369,125	436,995	-	-	436,995
Re-allocated on exercise of stock options	-	239,824	(239,824)	-	-
Re-allocated on cancellation of stock options	-	-	(55,702)	55,702	-
Exercise of warrants	1,516,440	4,445,480	-	-	4,445,480
Re-allocated on exercise of warrants	-	480,949	(480,949)	-	-
Share-based payments	-	-	4,385,894	-	4,385,894
Loss and comprehensive loss for the year	-	-	-	(11,323,108)	(11,323,108)
December 31, 2021	95,528,103	82,607,348	8,977,007	(37,829,384)	53,754,971

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

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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. Effective June 8, 2021, the Company's common shares commenced trading on the Toronto Stock Exchange (the "TSX") under the symbol "NANO". The Company's common shares formerly traded 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 establishing partnerships throughout the lithium-ion battery supply chain to improve the cost and durability of lithium-ion batteries and progress towards commercialization. As of the approval date of these financial statements, the Company holds twenty (21) patents (December 31, 2020 – sixteen (16) (Note 5), with several others pending.

These 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 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, 2021, the Company had working capital of \$52,402,704 (December 31, 2020 - \$27,723,988), 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.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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

Principles of consolidation

Subsidiaries are entities controlled by the Company and are included in the financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed where necessary to align them with the policies adopted by the Company. Inter-company balances and transactions, and any unrealized income (loss) and expenses arising from inter-company transactions, are eliminated in preparing the financial statements.

Subsequent to December 31, 2021, on February 22, 2022, the Company incorporated a wholly-owned subsidiary, Nano One Materials Québec Inc. ("Nano Quebec"), in Quebec, Canada.

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 equity incentives (stock options, restricted share units, deferred share units, performance share units) 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.

Determining fair value of other equity incentives granted requires management's assessment of the market price of the Company's common shares on the date immediately preceding the date of grant.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting estimates and judgments (continued)

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.

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 years ended December 31, 2021 and December 31, 2020, government grants received by the Company have been applied as reductions, as applicable, against property and equipment on the statements of financial position, and to professional fees, research expenses, and salaries and benefits on the statements of loss and comprehensive loss.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 an Omnibus Equity Incentive Plan that provides for the granting of stock options, restricted share units, deferred share units, and performance share units to directors, officers, employees and consultants to acquire common shares of the Company as part of long-term incentive compensation.

Stock options

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.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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).

Restricted share units

Restricted share units ("RSUs") are granted to eligible directors, employees and consultants of the Company. RSUs are classified as equity settled share-based payment transactions as the participations will receive either common shares of the Company or payment of cash, or any combination of the foregoing, as determined by the Company in its sole discretion, following a redemption event. As such, the Company measures the share-based payment expense based on the quoted market price of the Company's common shares at the grant date and recognizes the expense over the vesting period, with a corresponding increase in shareholders' equity.

Deferred share units

Deferred share units ("DSUs") are granted to directors of the Company. DSUs are classified as equity settled share-based payment transactions as the participations will receive either common shares of the Company or payment of cash, or any combination of the foregoing, as determined by the Company in its sole discretion, following a redemption event. As such, the Company measures the share-based payment expense based on the quoted market price of the Company's common shares at the grant date and recognizes the expense over the vesting period, with a corresponding increase in shareholders' equity.

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 and software:	
• Computer equipment and fixtures	30%
• Office equipment	20%
• Computer software	50%
Leasehold improvements	Over the terms of the leases

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.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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 and demand deposits. Cash equivalents are high-interest savings accounts (see details on the management of capital in Note 10), and 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.

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, 2022. The Company has reviewed these updates and determined that none are applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies. Additionally, there were no new standards adopted by the Company during the year ended December 31, 2021.

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

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

3. RECEIVABLES, PREPAYMENTS, AND DEPOSITS

Receivables consist of the following:

	December 31, 2021	December 31, 2020
	\$	\$
Accrued government assistance (Note 6)	47,652	4,986
Interest receivable	231	235
Prepaid expenses	285,697	41,950
Research cost recoveries	308,267	-
Sales tax recoverable	55,335	90,564
Subscriptions receivable	-	266,250
	697,182	403,985

As at December 31, 2020, subscriptions receivable represented amounts received and held by the Company's transfer agent for common shares issued on the exercise of warrants that occurred before December 31, 2020. The amounts were collected in full during the year ended December 31, 2021.

Research cost recoveries and receivables

In December 2020, the Company entered into a Cathode Evaluation Agreement with an American-based multinational auto manufacturer ("USCo") to jointly evaluate the performance and commercial benefit of the Company's patented process for nickel-rich and cobalt-free cathode materials in lithium-ion batteries for electric vehicle applications. During the year ended December 31, 2021, the Company recognized cost recoveries of \$387,647 (2020 - \$nil) in connection with this arrangement, of which \$308,267 was receivable as at December 31, 2021. The parties are continuing work under this arrangement.

In May 2021, the Company entered into a Co-Development Agreement with CBMM Technology Suisse SA ("CBMM"), a niobium producer to co-develop niobium coated battery cathode materials with CBMM. During the year ended December 31, 2021, the Company recognized and received cost recoveries of \$226,800 in connection with this arrangement. The parties are continuing work under this arrangement.

In May 2020, the Company concluded a work program 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. Over the course of the work program, the Company recovered total costs of \$541,896.

During the years ended December 31, 2021 and December 31, 2020, the Company accrued or received the following research cost recoveries within research expenses, net:

	December 31, 2021	December 31, 2020
	\$	\$
USCo	387,647	-
CBMM	226,800	-
OEM Partner	-	185,552
Other recoveries received	-	56,679
	614,447	242,231

Deposits consist of the following:

	December 31, 2021	December 31, 2020
	\$	\$
Deposits on property and equipment	93,000	229,364
Security and other deposits	65,691	58,565
	158,691	287,929

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

For the years ended December 31, 2021 and December 31, 2020

4. PROPERTY AND EQUIPMENT

	Research and development equipment \$	Pilot plant \$	Right-of-use assets \$	Computer equipment and software \$	Leasehold improvements \$	Total \$
Cost						
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
December 31, 2020	1,123,699	2,049,930	852,452	163,291	76,617	4,265,989
Accumulated depreciation						
December 31, 2019	523,787	1,828,014	76,133	80,258	-	2,508,192
Depreciation	86,082	36,214	120,177	25,751	4,617	272,841
December 31, 2020	609,869	1,864,228	196,310	106,009	4,617	2,781,033
Cost						
December 31, 2020	1,123,699	2,049,930	852,452	163,291	76,617	4,265,989
(1) Additions, net	444,892	116,974	205,300	74,393	172,255	1,013,814
December 31, 2021	1,568,591	2,166,904	1,057,752	237,684	248,872	5,279,803
Accumulated depreciation						
December 31, 2020	609,869	1,864,228	196,310	106,009	4,617	2,781,033
(2) Depreciation	295,516	114,516	166,964	38,839	58,877	674,712
December 31, 2021	905,385	1,978,744	363,274	144,848	63,494	3,455,745
Net book value						
December 31, 2020	513,830	185,702	656,142	57,282	72,000	1,484,956
December 31, 2021	663,206	188,160	694,478	92,836	185,378	1,824,058

(1) Additions, net for the years ended December 31, 2021 and 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 \$
Year ended December 31, 2021						
Deferred government assistance amortized	297,045	49,375	-	42,792	149,751	538,963
Year ended December 31, 2020						
Deferred government assistance amortized	689,715	252,969	-	32,752	227,168	1,202,604

(2) Depreciation for the years ended December 31, 2021 and December 31, 2020 is allocated as follows:

	Depreciation expense \$	Research expenses, net \$	Total \$
December 31, 2020			
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
December 31, 2021			
Research and development equipment	-	295,516	295,516
Pilot plant	-	114,516	114,516
Right-of-use assets	83,102	83,862	166,964
Corporate equipment and software	38,839	-	38,839
Leasehold improvements	3,204	55,673	58,877
	125,145	549,567	674,712

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

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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 December 31, 2021 including extensions
Burnaby, BC	Building	Corporate head office (main)	0.7 Years
Burnaby, BC	Building	Corporate head office (expansion)	2.5 Years
Burnaby, BC	Building	Laboratory and pilot plant	6.7 Years
Burnaby, BC	Building	Laboratory	6.7 Years

A reconciliation of the carrying amount of the lease liabilities as at December 31, 2021 and December 31, 2020 and changes during the years then ended is as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Lease liabilities		
Beginning of year	710,073	253,395
Additions	-	205,400
Lease extension	205,300	361,500
Lease payments	(189,944)	(137,594)
Lease interest (finance costs)	74,501	27,372
End of year	799,930	710,073
Current portion of lease liabilities	143,740	88,833
Non-current portion of lease liabilities	656,190	621,240
Maturity analysis - contractual undiscounted cash flows		
Less than one year	207,724	150,011
One to five years	588,536	476,866
More than five years	194,328	310,925
Total undiscounted lease liabilities	990,588	937,802

Short-term leases are leases with a lease term of twelve months or less. As at December 31, 2021, and December 31, 2020, the Company did not have any short-term leases. As at December 31, 2021, the Company included the available extension options on its leases within the measurement of the lease liabilities, and there were no leases with residual value guarantees.

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

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

5. INTANGIBLE ASSETS

As at December 31, 2021, intangible assets include twenty (20) (December 31, 2020 - sixteen (16)) issued patents associated with the Company's technology. These patents were issued by various jurisdictions including Canada, China, Japan, Korea, Taiwan, and the United States. The patents have expiries ranging between thirteen (13) to nineteen (19) years from the patent issuance date.

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.

	Issued patents \$
<hr/>	
<u>Cost</u>	
December 31, 2019 and December 31, 2020	25,514
<hr/>	
<u>Accumulated amortization</u>	
December 31, 2019	1,235
Amortization	1,576
December 31, 2020	2,811
<hr/>	
<u>Cost</u>	
December 31, 2020	25,514
Additions	4,893
December 31, 2021	30,407
<hr/>	
<u>Accumulated amortization</u>	
December 31, 2020	2,811
Amortization	1,888
December 31, 2021	4,699
<hr/>	
<u>Net book value</u>	
December 31, 2020	22,703
December 31, 2021	25,708

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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, 2021 and December 31, 2020 the following amounts were received or accrued:

	December 31, 2021	December 31, 2020
	\$	\$
Grant cash proceeds received:		
(1) Sustainable Development Technology Canada (SDTC)	1,915,359	3,055,202
(2) Innovation Assistance Program (IAP)	-	241,225
(2) Automotive Supplier's Innovation Program (ASIP)	-	217,446
(2) Industrial Research Assistance Program (NRC-IRAP)	33,372	182,285
(2) Other Grants	-	2,700
	1,948,731	3,698,858
Grant cash proceeds accrued:		
(2) Industrial Research Assistance Program (NRC-IRAP) (Note 3)	47,652	-
(1) See deferred government assistance below for allocation of SDTC for the years ended December 31, 2021 and December 31, 2020.		
(2) Proceeds and accruals are recorded within research expenses, net.		

Deferred government assistance:

As at December 31, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, and changes during the years then ended are as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Deferred government assistance (SDTC Program #2)		
Beginning of year	821,256	676,373
Additions - receipt of SDTC grant proceeds	1,652,859	2,805,202
(1) Amortization	(2,455,157)	(2,660,319)
End of year	18,958	821,256

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

	December 31, 2021	December 31, 2020
	\$	\$
Property and equipment (Note 4)	538,963	1,202,604
Professional fees, net	159,889	174,470
Salaries and benefits, net	295,870	151,461
Research expenses, net	1,460,435	1,131,784
	2,455,157	2,660,319

Effective May 31, 2021, the Company completed Milestone 2. As at December 31, 2021, the Company has received the Milestone 3 funds totalling \$1,652,859 representing the aggregate of SDTC and British Columbia Innovative Clean Energy, Mines and Petroleum Resources ("BC-ICE") contributions.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

6. GOVERNMENT ASSISTANCE (continued)

Sustainable Development Technology Canada (“SDTC”):

SDTC Program #2 (active):

In 2019, the Company executed a contribution agreement with SDTC for a non-repayable grant in respect of the Company’s “Scaling Advanced Battery Materials” project. The SDTC Program #2 grant is for up to \$8,545,500 (\$5,944,376 received as at December 31, 2021) which includes BC-ICE contributions (discussed below). SDTC Program #2 is estimated to conclude in June 2024.

Initially, the non-repayable grant was for up to \$5,000,000 and was increased to \$5,512,500 upon receiving two additional one-time non-repayable grants of \$250,000 and \$262,500 from SDTC in relation to COVID-19 pandemic relief during the years ended December 31, 2020 and December 31, 2021, respectively. In May 2020, the BC-ICE fund confirmed it would contribute \$3,033,000 to the SDTC Program #2 (which is included in the \$8,545,500 discussed above). 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 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, 2021, the Company received a total of \$1,915,359 (2020 - \$3,055,202) which includes \$262,500 in relation to a COVID-19 pandemic relief payment, and \$1,652,859 for Milestone 3 funding from SDTC and BC-ICE, in aggregate (2020 - \$2,805,202 of which \$2,214,490 and \$590,712 related to Milestone 2 and Milestone 1 catch-up payments by BC-ICE, respectively).

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

In aggregate, the Company received net proceeds from NRC-IRAP of \$33,372 (2020 - \$182,285) and accrued \$47,652 within receivables (subsequently received) during the year ended December 31, 2021 as detailed below.

NRC-IRAP Program #5 (completed):

In 2018, the Company executed an agreement with NRC-IRAP for non-repayable contributions to the Company totalling \$325,255 over the course of the program, for the development of coatings for high durability lithium-ion battery cathodes. Under the terms of the agreement, NRC-IRAP reimbursed the Company for 80% of salaries paid to employees involved in this project. The NRC-IRAP Program #5 concluded in October 2020.

During the year ended December 31, 2021, the Company repaid \$3,408 to NRC-IRAP for an overclaim that occurred during the year ended December 31, 2020. Additionally, the Company reversed \$4,986 from government assistance income (within research expenses, net due to an over accrual during the year ended December 31, 2020. During the year ended December 31, 2020, the Company received \$182,285 in connection with this grant.

Youth Internship Contribution Agreement (completed subsequently)

In May 2021, the Company entered into two Youth Internship Contribution Agreements with NRC-IRAP for up to an aggregate maximum reimbursement of \$72,000 in Company salaries through to January 31, 2022.

During the year ended December 31, 2021, the Company received \$36,780 (2020 - \$nil) from NRC-IRAP, and accrued \$16,335 (2020 - \$nil) within receivables (subsequently received).

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

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

6. GOVERNMENT ASSISTANCE (continued)NRC-IRAP Program #6 (active):

In December 2021, the Company executed an agreement with NRC-IRAP for non-repayable contributions to the Company totaling up to \$404,000 over the course of the program through to June 2023. The scope of the program is research into cost optimization of the Company's patented process for the manufacture of cathode active materials and specifically the use of metal feedstocks and thermal processing methods. Under the terms of the agreement, NRC-IRAP will reimburse the Company for 80% of salaries paid to employees involved in this project.

During the year ended December 31, 2021, the Company accrued \$31,317 (2020 - \$nil) within receivables (subsequently received) from NRC-IRAP in connection with this grant.

Innovation Assistance Program ("IAP") from NRC-IRAP:

Effective April 1, 2020, the Company executed an agreement with IAP which provided the Company with non-repayable contributions totalling \$241,225 as COVID-19 pandemic relief payments 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, \$241,225 was received representing 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):

In 2016, the Company executed an agreement with ASIP which provided the Company with non-repayable contributions totalling \$1,950,952 in relation to the preparation, design, construction, optimization, and operation of its pilot plant. The ASIP program concluded in June 2020.

During the year ended December 31, 2020, the Company received the final payment of \$217,446 in connection with this grant.

Other Grants:

During the year ended December 31, 2021, no amounts were received for training and employment grants (2020 - \$2,700).

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

	December 31, 2021	December 31, 2020
	\$	\$
Sustainable Development Technology Canada (SDTC)	8,025,672	6,110,313
Automotive Supplier's Innovation Program (ASIP)	1,950,952	1,950,952
Industrial Research Assistance Program (NRC-IRAP)	828,338	794,966
Innovation Assistance Program (IAP) (from NRC-IRAP)	241,225	241,225
Scientific Research & Experimental Development (SR&ED)	98,661	98,661
Other Grants	80,059	80,059
	11,224,907	9,276,176

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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.

Share capital

Transactions for the issuance of share capital during the year ended December 31, 2021:

- a) On April 1, 2021, the Company completed a short-form prospectus financing consisting of the issuance of 5,405,000 common shares at a price of \$5.35 per share for gross proceeds of \$28,916,750.

An underwriters' cash commission totalling \$1,735,005 was paid upon closing of the offering, plus legal, filing and other fees of \$270,371. Additionally, the Company issued 324,999 finders' (underwriters') warrants exercisable at \$5.35 until April 1, 2022 having a fair value on issuance of \$641,100. These share issue costs were recorded as a reduction of share capital.

- b) Upon the exercise of stock options, 369,125 common shares were issued at prices between \$0.38 and \$2.81 per share, for proceeds of \$436,995. In addition, \$239,824 representing the fair value of the stock options granted and vested was re-allocated from reserves to share capital.
- c) Upon the exercise of warrants, 1,516,440 common shares were issued at prices between \$1.60 and \$3.55 per share, for proceeds of \$4,445,480. In addition, \$480,949 representing the fair value of certain of the warrants on initial issuance was re-allocated from reserves to share capital.

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

- d) On February 21, 2020, the Company completed a non-brokered private placement consisting of the issuance 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. The Company recorded the fair value of the warrants issued using the Black-Scholes option pricing model. These share issue costs were recorded as a reduction of share capital.

- e) Upon the exercise of stock options, 2,724,100 common shares were issued 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.
- f) Upon the exercise of warrants, 3,396,494 common shares were issued at prices 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 was re-allocated from reserves to share capital.
- g) 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.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

7. SHARE CAPITAL AND RESERVES (continued)

Reserves

The Company has an Omnibus Equity Incentive Plan (the "Equity Plan") effective October 2021, which superseded a previous stock option plan. The Equity Plan provides for the grant of stock options, RSUs, DSUs, and performance share units ("PSUs"). Under the Equity Plan, the maximum number of equity-based awards issued cannot exceed 10% of the Company's currently issued and outstanding common shares. Additionally, RSUs are required to be settled by December 31 in the third year following the year of grant ("Expiry date"), whereas DSUs are settled once the awardee retires or departs.

Stock options

In accordance with the Equity Plan, 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. These terms remain consistent from the former stock option plan.

A summary of the status of the Company's stock options as at December 31, 2021 and December 31, 2020, and changes during the years then ended is as follows:

	Year ended December 31, 2021		Year ended December 31, 2020	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of year	4,604,075	1.66	5,843,425	0.86
Granted	2,143,950	4.85	1,502,250	2.53
Exercised	(369,125)	1.18	(2,724,100)	0.42
Cancelled	(41,850)	2.84	(17,500)	1.25
Options outstanding, end of year	6,337,050	2.76	4,604,075	1.66

As at December 31, 2021, the Company has stock options outstanding and exercisable as follows:

	Options outstanding #	Options exercisable #	Exercise price \$	Expiry date
(1)	25,000	25,000	0.70	March 10, 2022
	50,000	50,000	1.08	September 13, 2022
	150,000	150,000	1.14	January 3, 2023
	210,575	210,575	1.57	July 12, 2023
	1,347,625	1,347,625	2.52	July 20, 2023
	25,000	25,000	2.81	September 8, 2023
	2,375,000	2,375,000	1.28	November 12, 2023
	15,000	15,000	3.05	December 4, 2023
	1,366,750	1,140,000	5.10	February 1, 2024
	52,100	-	5.26	February 25, 2024
	40,000	10,000	4.90	June 7, 2024
	40,000	10,000	3.62	October 5, 2024
	240,000	-	3.14	December 2, 2024
	400,000	-	5.10	February 1, 2026
	6,337,050	5,358,200		

(1) These options were exercised subsequent to December 31, 2021 (Note 14).

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

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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, 2021:

Exercise prices \$	Options #	Weighted average remaining life (years)	Weighted average exercise price \$
0.70 - 1.57	2,810,575	1.8	1.29
2.52 - 3.62	1,667,625	1.8	2.64
4.90 - 5.26	1,858,850	2.5	5.10
	6,337,050	2.0	2.76

The Company recorded the fair value of the stock options granted during the years ended December 31, 2021 and December 31, 2020 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, 2021	December 31, 2020
Risk-free interest rate	0.4%	0.3%
Expected life of stock options (years)	3.4	3.0
Historical volatility	73.6%	71.4%
Dividend rate	0%	0%
Weighted average fair value per stock option granted	\$ 2.43	\$ 1.18

The total share-based payments expense for the year ended December 31, 2021 was \$4,385,894 (2020 - \$1,651,930), of which \$4,269,158 (2020 - \$1,651,930) is attributable to stock options that vested during the year then ended.

During the year ended December 31, 2020, the Company granted 15,000 stock options 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, 2021, 41,850 unvested stock options were cancelled upon certain employees leaving employment of the Company. As a result, the original share-based payments expense of \$55,702 was reversed from reserves and credited to deficit.

During the year ended December 31, 2020, 17,500 stock options were cancelled upon termination of consulting contracts. As a result, the original share-based payments expense of \$14,013 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, 2021 and December 31, 2020

7. SHARE CAPITAL AND RESERVES (continued)

Restricted share units and deferred share units (RSUs / DSUs)

In accordance with the Equity Plan, RSUs and DSUs are granted to directors, officers, employees, and consultants as part of long-term incentive compensation. The number of Equity Incentives awarded, and underlying vesting conditions are determined by the Company. Additionally, at the Company's sole discretion, upon each vesting date participants receive (a) common shares equal to the number of Equity Incentives that vested; (b) a cash payment equal to the number of vested Equity Incentives multiplied by the fair market value of a Voting Share; or (c) a combination of (a) and (b).

On the grant date of RSUs and DSUs, the Company determines whether it has a present obligation to settle in cash. If the Company has a present obligation to settle in cash, the RSUs and DSUs are accounted for as liabilities, with the fair value remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. The Company has a present obligation to settle in cash if the Company has a past practice or a stated policy of settling in cash, or generally settles in cash whenever the counterparty asks for cash settlement. If no such obligation exists, RSUs and DSUs are accounted for as equity settled share-based payments and are valued using the share price of the common shares on the grant date. Since the Company controls the settlement, the RSUs and DSUs are considered equity settled.

Pursuant to the underlying agreements, all Equity Incentives granted to date are to be settled in common shares.

A summary of the status of the Company's Equity Incentives as at December 31, 2021 and December 31, 2020, and changes during the years then ended is as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
	Equity Incentives #	Equity Incentives #
Equity Incentives outstanding, beginning of year	-	-
Granted - RSUs	184,505	-
Granted - DSUs	8,626	-
Equity Incentives outstanding, end of year	193,131	-

As at December 31, 2021, the Company has RSUs and DSUs outstanding as follows:

RSUs outstanding #	DSUs outstanding #	Vested #	Weighted average grant date fair value per RSU & DSU	Final vesting date	Expiry date
184,505	-	-	-	August 27, 2023	December 31, 2024
-	8,626	-	-	August 27, 2023	n/a
184,505	8,626	-	4.17		

During the year ended December 31, 2021, the Company granted 184,505 RSUs and 8,626 DSUs to officers and directors of the Company, whereby one-third (64,377) of the RSUs and DSUs vest on August 27, 2022, one-third (64,377) vest on August 27, 2023, and the remaining one-third (64,377) vest on August 27, 2024.

The value of the Equity Incentives granted was based on the fair value of the Company's common shares on the date of grant. Accordingly, the Equity Incentives were granted at a fair value of \$4.17 each for a total value of \$805,356 which is being recognized within share-based payment expense as the Equity Incentives vest.

The total share-based payments expense for the year ended December 31, 2021 was \$4,385,894, of which \$116,736 (2020 - \$nil) is attributable to vesting of Equity Incentives granted during the year then ended with the remaining portion of share-based payment expense being attributable to the vesting of stock options, as described above.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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' or brokers' 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, 2021 and December 31, 2020, and changes during the years then ended is as follows:

	Year ended December 31, 2021		Year ended December 31, 2020	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of year	5,561,328	2.52	676,500	1.60
Issued - attached to units	-	-	7,423,950	2.29
Issued - underwriters'/finders' warrants	324,299	5.35	890,372	2.13
Exercised	(1,516,440)	2.93	(3,396,494)	1.74
Expired	-	-	(33,000)	1.60
Warrants outstanding, end of year	4,369,187	2.59	5,561,328	2.52

As at December 31, 2021, the Company has warrants outstanding and exercisable as follows:

Warrants #	Weighted average exercise price \$	Expiry Date	Weighted average remaining life (years)
324,299	5.35	April 1, 2022	0.2
31,316	2.72	October 29, 2022	0.8
1,583,100	3.55	October 29, 2022	0.8
2,354,379	1.60	February 21, 2023	1.1
76,093	1.60	February 21, 2023	1.1
4,369,187	2.59		1.0

During the year ended December 31, 2021, the Company issued 324,299 compensatory underwriters' warrants upon closing of the short-form prospectus financing in April 2021 (2020 - 890,372 compensatory finders' warrants were issued). 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:

	December 31, 2021	December 31, 2020
Risk-free interest rate	0.2%	0.8%
Expected life of warrants (years)	1.0	2.5
Historical volatility	96.0%	64.3%
Dividend rate	0%	0%
Weighted average fair value per finders' warrant issued	\$ 1.98	\$ 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.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

8. RELATED PARTY TRANSACTIONS (continued)

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

	Transactions year ended December 31, 2021 \$	Transactions year ended December 31, 2020 \$	Balances outstanding December 31, 2021 \$	Balances outstanding December 31, 2020 \$
Bedrock Capital	150,000	258,500	-	-
DBM CPA	117,925	91,500	8,400	7,875
Directors' fees	86,250	79,000	-	-
Management and directors' fees	354,175	429,000	8,400	7,875
Officers - Salaries and benefits / research expenses	1,172,800	830,000	631	2,696
Directors and officers - Share-based payments	3,756,185	1,339,100	-	-
Professional fees	188,584	191,635	15,993	38,753
	5,471,744	2,789,735	25,024	49,324

(a) Management and directors' fees:

- Includes the services of Bedrock Capital Corp. ("Bedrock Capital") a company controlled by Paul Matysek the Chairman and a Director of the Company;
- Includes the services of Donaldson Brohman Martin, CPA Inc. ("DBM CPA"), a firm in which Dan Martino, CFO is a principal; and
- Includes fees paid to the Company's directors for their positions as non-executive directors and/or board committee members or chairpersons (Lyle Brown, \$33,375 (2020 - \$39,500), Joseph Guy, \$28,375 (2020 - \$39,500), Gord Kukec, \$22,625 (2020 - \$nil), Paul Matysek, \$1,875 (2020 - \$nil)).

(b) Professional fees:

- Includes the services of Patent Filing Specialists Inc. ("Patent Filing Specialists"), a company controlled by Joseph Guy, a Company Director. Transactions incurred during the year ended December 31, 2021 are included within both intangible assets and professional fees (2020 – professional fees only).

(c) Salaries and benefits (including allocations to research expenses, net):

- Includes salaries and short-term variable cash-based compensation incentives paid to Dan Blondal, CEO (\$397,900 (2020 - \$362,500)), Stephen Campbell, CTO (\$252,000 (2020 - \$180,000)), John Lando, Former President until November 30, 2021 (\$283,150 (2020 - \$287,500)), Alex Holmes, COO (\$204,750 (2020 - \$nil)), and Pamela Kinsman, Corporate Secretary and Director of Sustainability and Corporate Affairs (\$35,000 (2020 - \$nil)). Expense reimbursements outstanding as at December 31, 2021 related to Alex Holmes (2020 - related to Dan Blondal).

In accordance with an executive employment agreement the Company has in place with Dan Blondal, in case of termination by the Company without cause, he is entitled to six (6) weeks' base pay (or notice) for every year of service to a maximum of twenty-four (24) months. He would not be entitled to further bonus payments after termination. In the case of resignation after a Change of Control and for 'Good Reason', Dan Blondal is entitled to twenty-four (24) months' base salary.

(d) Share-based payments:

- Includes amounts recognized on vesting of stock options and Equity Incentives granted to directors and officers.
- During the year ended December 31, 2021, 1,580,000 stock options were granted to directors and officers which are exercisable at either \$3.62 or \$5.10 each. 400,000 of these stock options have a five year term expiring in February 2026, with the remainder having three year terms expiring in either February 2024 or October 2024. The stock options have varying vesting terms. During the year ended December 31, 2020, 1,140,000 stock options were granted to directors and officers exercisable at \$2.52 each until July 20, 2023 which vested immediately on grant.
- In October 2021, the Company granted 184,505 RSUs and 8,626 DSUs to various directors and officers (2020 – none were granted). See Note 7 for specifics on vesting terms.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

9. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash investing and financing activities during the years ended December 31, 2021 and December 31, 2020 as follows:

	December 31, 2021 \$	December 31, 2020 \$
Non-cash investing activities:		
Property and equipment included in accounts payable and accrued liabilities	5,535	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	14,488	36,555
Non-cash financing activities:		
Addition or extension of right-of-use asset	205,300	566,900
Shares issued for finance fee	-	215,538
Fair value of finders' warrants issued	641,100	673,300

During the years ended December 31, 2021 and December 31, 2020, no amounts were paid for interest or income taxes.

10. MANAGEMENT OF CAPITAL

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 generating returns on excess funds while maintaining accessibility to such funds. 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. Management reviews and adjusts its capital structure on an ongoing basis.

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, 2021.

The Company currently has no source of revenues, though it receives funding from government programs (Note 6), and certain research cost recoveries from strategic partners. Additionally, the Company has historically relied upon 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.

Additionally, the Company may seek to invest excess capital in guaranteed investment certificates ("GICs") bearing fixed rates of interest that are either redeemable (cash equivalents) or non-redeemable (short-term investments) and have terms not exceeding 24 months. The Company will also hold excess capital in high-interest savings accounts ("HISAs") which bear interest at variable rates (classified as cash equivalents).

As at December 31, 2021, the Company had excess capital invested in HISAs which are accessible on demand and did not have any GIC or other short-term investment holdings. The primary source of interest income earned during the year then ended was from HISAs.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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

Financial assets:	Classification and measurement:
Cash and cash equivalents	FVTPL
Receivables	Amortized cost
Deposits	Amortized cost

Financial liabilities:	Classification and measurement:
Accounts payable and accrued liabilities	Amortized cost
Accounts payable to related parties	Amortized cost
Lease liabilities	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 until such time that the Company commences generating profitable operations.

Nano One Materials Corp.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

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, receivables, and deposits.

The Company minimizes its credit risk on its cash and cash equivalents, by holding the funds with a high-credit quality Canadian chartered bank. Management believes that the Company's credit risk attributable to its various components of receivables is low.

The Company is also exposed to credit risk relating to its deposits (comprised of facility lease security deposits, corporate credit card collateral, and deposits on equipment purposes) 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. The Company's exposure to variable interest rates is limited to cash equivalents held in HISAs, and a deposit held as collateral with a Canadian chartered bank on the Company's corporate credit cards.

For the year ended December 31, 2021, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the year by approximately \$392,000 (2020 – \$138,000).

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 dollar, and occasional transactions in the Euro, and the British Pound. Additionally, as at December 31, 2021, the Company held certain financial assets and liabilities that were denominated in these foreign currencies.

Based on the December 31, 2021 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 (CAM) 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).

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

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and December 31, 2020

13. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended December 31, 2021, and December 31, 2020, is as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Loss for the year	(11,323,108)	(5,218,408)
Expected income tax (recovery)	(3,057,000)	(1,407,000)
Change in tax resulting from:		
Permanent differences	1,187,000	725,000
Change in recognized deductible temporary differences	2,572,000	1,200,000
Share issue costs	(715,000)	(504,000)
Adjustment to prior year provision versus statutory tax returns and other	13,000	(14,000)
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, 2021 and December 31, 2020, are as follows:

	December 31, 2021	Expiry Date Range	December 31, 2020	Expiry Date Range
	\$		\$	
Property and equipment	5,587,000	No expiry	4,539,000	No expiry
Right-of-use asset / lease liability	105,000	No expiry	44,000	No expiry
Investment tax credits	-	2035	29,000	2035
Share issue costs	3,241,000	2042 to 2045	1,535,000	2041 to 2044
Non-capital loss carry forwards	22,247,000	2026 to 2041	15,459,000	2026 to 2040

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

14. SUBSEQUENT EVENTS

The Company has received proceeds of \$59,532 upon the exercise of stock options and warrants as described below:

- The Company issued 25,000 common shares upon the exercise of stock options at \$0.70 each for proceeds of \$17,500; and
- The Company issued 26,270 common shares upon the exercise of warrants at \$1.60 each for proceeds of \$42,032.