



Nano One Materials Corp.
Condensed Interim Consolidated Financial Statements
For the nine months ended
September 30, 2023

(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

Nano One Materials Corp.**Condensed Interim Consolidated Statements of Financial Position**

Unaudited – Prepared by Management

As at September 30, 2023 and December 31, 2022

	Note	September 30, 2023 \$	December 31, 2022 \$
Assets			
Current assets			
Cash and cash equivalents		26,001,903	39,445,395
Receivables and prepayments	4	1,238,359	2,865,285
Inventory	5	776,872	317,279
		28,017,134	42,627,959
Non-current assets			
Deposits	4	176,955	375,554
Property, plant and equipment	6	17,778,801	13,041,110
Intangible assets - patents	7	36,634	31,737
		17,992,390	13,448,401
Total assets		46,009,524	56,076,360
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		4,821,305	1,829,435
Accounts payable to related parties	10	50,722	23,639
Deferred liabilities	8	733,439	-
Lease liabilities - current portion	6	343,841	186,795
		5,949,307	2,039,869
Non-current liabilities			
Lease liabilities	6	1,476,902	587,122
Total liabilities		7,426,209	2,626,991
Shareholders' equity			
Share capital	9	106,113,291	96,704,471
Shares committed for issuance	9,15	102,400	171,000
Reserves	9	8,371,504	10,209,880
Deficit		(76,003,880)	(53,635,982)
Total shareholders' equity		38,583,315	53,449,369
Total liabilities and shareholders' equity		46,009,524	56,076,360
Nature and continuance of operations	1		
Subsequent events	15		

Approved on behalf of the Board of Directors on November 8, 2023:

"Carla Matheson"
Director

"Lyle Brown"
Director

Nano One Materials Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Unaudited – Prepared by Management

For the three and nine months ended September 30, 2023 and September 30, 2022

	Note	Three months ended		Nine months ended	
		September 30, 2023 \$	September 30, 2022 \$	September 30, 2023 \$	September 30, 2022 \$
Expenses					
Amortization	7	812	594	2,113	1,580
Business development and investor relations		158,830	155,068	511,677	557,732
Depreciation	6	56,948	39,902	176,687	111,664
Finance costs	6	56,223	15,907	107,867	49,260
General and administrative expenses		512,959	330,747	1,800,144	880,775
Professional and consulting, net	10	664,024	268,937	1,913,596	1,239,043
Research and operational expenses, net	6,8	1,955,350	665,879	5,954,731	2,295,543
Share-based payments	9,10	404,441	356,025	1,071,715	1,325,912
Wages, benefits and fees, net	8,10	3,771,933	574,867	12,615,924	4,848,911
Loss from operating expenses		(7,581,520)	(2,407,926)	(24,154,454)	(11,310,420)
Interest income	12	321,726	404,964	1,141,600	579,927
Loss on disposal of equipment		(42,851)	-	(53,637)	-
Loss and comprehensive loss for the period		(7,302,645)	(2,002,962)	(23,066,491)	(10,730,493)
Loss per share					
Weighted average number of common shares					
- basic		104,424,147	100,326,706	103,264,058	97,416,708
- diluted		104,424,147	100,326,706	103,264,058	97,416,708
Basic loss per common share		(0.07)	(0.02)	(0.22)	(0.11)
Diluted loss per common share		(0.07)	(0.02)	(0.22)	(0.11)

Nano One Materials Corp.

Condensed Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

	Note	September 30, 2023 \$	September 30, 2022 \$
Operating activities			
Loss for the period		(23,066,491)	(10,730,493)
Adjustments for:			
Amortization		2,113	1,580
Depreciation	6	1,056,225	719,160
Finance costs		107,867	49,260
Research expenses, net - warrants issued		-	595,000
Share-based payments		1,071,715	1,325,912
Interest income		(1,141,600)	(579,927)
Loss on disposal of equipment		53,637	-
Net change in non-cash working capital items	11	3,893,968	(165,490)
		(18,022,566)	(8,784,998)
Investing activities			
Interest income received on cash and cash equivalents		1,141,600	579,927
Deposits		(79,099)	(343,201)
Purchase price of Johnson Matthey Battery Materials Ltd.	3	-	(10,250,000)
Purchases of property, plant and equipment, net		(3,302,960)	(602,409)
Payments for intangible assets	7	(7,010)	(3,766)
		(2,247,469)	(10,619,449)
Financing activities			
Issuance of common shares for cash		7,026,322	12,881,888
Shares committed for issuance		102,400	-
Share issue costs		-	(34,450)
Payments of lease liabilities	6	(302,179)	(158,217)
		6,826,543	12,689,221
Change in cash and cash equivalents		(13,443,492)	(6,715,226)
Cash and cash equivalents, beginning of period		39,445,395	52,652,258
Cash and cash equivalents, end of period		26,001,903	45,937,032
Cash and cash equivalents comprise:			
Cash		8,376,191	14,750,635
Cash equivalents	12	17,625,712	31,186,397
Cash and cash equivalents, end of period		26,001,903	45,937,032
Supplemental cash flow information	11		

Nano One Materials Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

	Number of common shares	Share capital \$	Shares committed for issuance \$	Reserves \$	Deficit \$	Total \$
December 31, 2021	95,528,103	82,607,348	-	8,977,007	(37,829,384)	53,754,971
Issue of common shares - private placement	4,643,148	12,536,500	-	-	-	12,536,500
Share issue costs - cash	-	(34,450)	-	-	-	(34,450)
Exercise of stock options	155,000	194,200	-	-	-	194,200
Re-allocated on exercise of stock options	-	120,380	-	(120,380)	-	-
Re-allocated on cancellation of stock options	-	-	-	(12,004)	12,004	-
Exercise of warrants	94,493	151,188	-	-	-	151,188
Re-allocated on exercise of warrants	-	21,973	-	(21,973)	-	-
Re-allocated on expiry of warrants	-	641,100	-	(641,100)	-	-
Warrants issued	-	-	-	595,000	-	595,000
Share-based payments	-	-	-	1,325,912	-	1,325,912
Loss and comprehensive loss for the period	-	-	-	-	(10,730,493)	(10,730,493)
September 30, 2022	100,420,744	96,238,239	-	10,102,462	(48,547,873)	57,792,828
December 31, 2022	100,516,495	96,704,471	171,000	10,209,880	(53,635,982)	53,449,369
Exercise of RSUs	99,721	358,223	-	(358,223)	-	-
Exercise of stock options	1,557,821	3,546,220	(171,000)	-	-	3,375,220
Proceeds received for subsequent exercise of stock options	-	-	102,400	-	-	102,400
Exercise of stock options - cashless net exercise	12,776	-	-	-	-	-
Re-allocated on exercise of stock options	-	1,830,353	-	(1,830,353)	-	-
Re-allocated on cancellation of stock options	-	-	-	(103,593)	103,593	-
Exercise of warrants	2,281,939	3,651,102	-	-	-	3,651,102
Re-allocated on exercise of warrants	-	22,013	-	(22,013)	-	-
Re-allocated on expiry of warrants	-	909	-	(595,909)	595,000	-
Share-based payments	-	-	-	1,071,715	-	1,071,715
Loss and comprehensive loss for the period	-	-	-	-	(23,066,491)	(23,066,491)
September 30, 2023	104,468,752	106,113,291	102,400	8,371,504	(76,003,880)	38,583,315

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

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

1. NATURE AND CONTINUANCE OF OPERATIONS

Nano One® Materials Corp. (the “Company”) was incorporated under the laws of the Province of Alberta on November 5, 1987, and continued under the laws of the Province of British Columbia. The Company’s head office is located at Unit 101B - 8575 Government Street, Burnaby, BC, V3N 4V1, Canada. Its records office is located at Suite 2900 – 550 Burrard Street, Vancouver, BC, V6C 0A3, Canada. The Company’s common shares trade on the Toronto Stock Exchange (the “TSX”) under the symbol “NANO”.

On November 1, 2022, the Company through its subsidiary Nano One Materials Québec Inc. (Note 2), closed the transaction to acquire 100% of the shares of Johnson Matthey Battery Materials Ltd., a private Canadian company located in Candiac, Québec, for consideration of \$10,250,000, plus working capital items and transaction costs (legal fees) for total gross cash consideration of \$16,352,993 (Note 3).

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. As of the approval date of these consolidated financial statements (the “financial statements”), the Company holds thirty-four (34) patents that are approved for issuance, or have issued, (Note 7), in addition to other pending patent applications.

These condensed interim consolidated financial statements (the “financial statements”) have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has not yet commenced commercial operations and has historically incurred operating losses.

As at September 30, 2023, the Company had working capital of \$22,067,827 (December 31, 2022 - \$40,588,090). Subsequent to the period ended September 30, 2023, on October 5, 2023, by way of a non-brokered private placement, Sumitomo Metal Mining Co., Ltd. (“SMM”) made a strategic equity investment into the Company resulting in the issuance of 5,498,355 common shares at \$3.07 each for proceeds of \$16,879,950 (Note 15(c)). Management assesses the Company’s financial position inclusive of the equity investment from SMM is sufficient for the Company to cover operating costs and continue as a going concern beyond one year.

The timing and extent of the Company’s commercialization and capital expansion plans is largely discretionary to which the Company’s strategic decisions will be based upon its ability to raise additional capital from equity sources, project financing arrangements, strategic partners, or new and continued government assistance programs. The Company’s ability to continue as a going concern on a long-term basis is also dependent upon commencing commercial operations to generate future profitability.

There are many external factors that can adversely affect general workforces, economies, and financial markets globally. Examples include, but are not limited to, the COVID-19 global pandemic and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of adverse results of such external factors and their effect on the Company’s business or ability to raise funds.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company’s annual audited consolidated financial statements for the year ended December 31, 2022, and do not include all the information required for full annual financial statements 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”). It is suggested that these financial statements be read in conjunction with the annual audited consolidated financial statements.

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.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional and presentation currency

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

Principles of consolidation

These financial statements include the financial information of the Company and its subsidiaries.

The financial statements include the following entities:

Nano One Materials Corp.	100%	Parent company
Nano One Materials Québec Inc. (“Nano Québec”)	100%	Holding company
Nano One Materials Candiac Inc. (“Nano Candiac”)	100%	Operating subsidiary

On February 22, 2022, the Company incorporated Nano Québec (Québec, Canada).

On November 1, 2022, the Company through its subsidiary Nano Québec, completed the acquisition of Johnson Matthey Battery Materials Ltd., (Québec, Canada) and on the same date changed the name to Nano One Materials Candiac Inc.

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.

Comparative figures

Certain comparative figures within operating expenses on the consolidated statements of loss and comprehensive loss have been reclassified to conform to the current period’s presentation. This includes the reclassification of amounts that were formerly within research and operational expenses; into wages, benefits and fees.

Significant accounting policies

The accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited consolidated financial statements and are those the Company expects to adopt in its annual audited consolidated financial statements for the year ended December 31, 2023. Accordingly, these financial statements should be read in conjunction with the Company’s most recent annual audited financial statements.

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, 2024. 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.

In June 2023, the International Sustainability Standards Board (“ISSB”) issued the following IFRS Sustainability Disclosure Standards: *General Requirements for Disclosure of Sustainability-related Information* (IFRS S1); and *Climate-related Disclosure* (IFRS S2), which are effective for accounting periods beginning on or after January 1, 2024, but are not currently mandated in Canada. The Company will monitor the continued development of mandating these standards and the requisite disclosure requirements.

IFRS S1 sets out general reporting requirements for disclosing sustainability-related financial information. IFRS S2 requires an entity to disclose information about climate-related risks and opportunities and the impact on an entity’s financial position, performance, cash flows, strategy, and business model.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

3. ACQUISITION OF JOHNSON MATTHEY BATTERY MATERIALS LTD.

On November 1, 2022, the Company through its subsidiary Nano Québec, closed the transaction to acquire Johnson Matthey Battery Materials Ltd. (“JMBM Canada”, and renamed by the Company to Nano One Materials Cadiac Inc.) a private Canadian company located in Cadiac, Québec, for cash consideration of \$10,250,000, plus working capital items totalling \$5,750,000, and transaction costs (legal fees) of \$352,993, as detailed below. In respect of this transaction, the Company signed a Definitive Agreement through its subsidiary Nano Québec on May 24, 2022.

As part of the acquisition, the Company acquired a lithium iron phosphate (“LFP”) production facility, land, and equipment. JMBM Canada was acquired for the purpose of expanding and accelerating the Company’s commercialization strategy for the production of cathode active materials (CAM) for lithium-ion battery applications.

The acquisition of JMBM Canada constitutes an asset acquisition and has been accounted for under the acquisition method in accordance with the guidance provided in IFRS 3, *Business Combinations* (“IFRS 3”). The assets acquired did not qualify as a business according to the definition in IFRS 3, and therefore the acquisition did not constitute a business combination, but rather it is treated as a payment of cash consideration for the acquisition of JMBM Canada and its net assets. The allocation of the purchase price to the assets acquired and liabilities assumed is based on estimated fair values at the acquisition date.

JMBM Canada’s assets, liabilities, and operations from November 1, 2022 are included in these financial statements.

	November 1, 2022
Net assets (liabilities) of JMBM acquired:	\$
Cash	179,642
Receivables and prepayments	7,115,699
Property, plant and equipment:	
Production and research equipment	2,445,257
Information technology equipment	19,117
Building	4,874,961
Land	3,263,658
Accounts payable and accrued liabilities	(1,545,341)
Net assets acquired	16,352,993
Consideration paid on asset acquisition:	\$
Cash	16,000,000
Transaction costs - cash	352,993
Total consideration paid	16,352,993

4. RECEIVABLES, PREPAYMENTS, AND DEPOSITS

Receivables and prepayments consist of the following:

	September 30, 2023	December 31, 2022
	\$	\$
(1) Accrued government assistance	5,833	28,027
Prepaid expenses	541,140	1,378,892
(2) Trade receivables	-	807,331
Sales tax recoverable and other	691,386	651,035
	1,238,359	2,865,285

(1) Accrued government assistance comprises an amount due from NRC-IRAP (Note 8).

(2) The Company collected the trade receivables during the nine months ended September 30, 2023, which were acquired in the acquisition of JMBM Canada.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

4. RECEIVABLES, PREPAYMENTS, AND DEPOSITS (continued)

Research cost recoveries

During the nine months ended September 30, 2023 and September 30, 2022, the Company accrued or received the following cost recoveries within research and operational expenses, net:

	September 30, 2023	September 30, 2022
	\$	\$
USCo	161,700	5,095
CBMM	-	233,649
Other recoveries	-	90,863
	161,700	329,607

American-based multinational auto manufacturer (“USCo”):

In 2020, the Company entered into a Cathode Evaluation Agreement with 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. The parties continue to collaborate under this arrangement.

During the nine months ended September 30, 2023, the Company received \$161,700 (US\$122,500) from USCo.

During the nine months ended September 30, 2022, the Company collected \$313,362 from USCo, of which \$5,095 was recognized as cost recoveries during the nine months ended September 30, 2022.

CBMM Technology Suisse SA (“CBMM”):

In 2021, the Company entered into a Co-Development Agreement with CBMM, a niobium producer to co-develop niobium coated battery cathode materials with CBMM. During the nine months ended September 30, 2023, there were no cost recoveries recognized or received (2022 - \$233,649). The parties continue to collaborate under this agreement.

Deposits

Deposits consist of the following:

	September 30, 2023	December 31, 2022
	\$	\$
Deposits on property, plant and equipment	1,299	260,529
Security and other deposits	175,656	115,025
	176,955	375,554

5. INVENTORY

Inventory is comprised of the following:

	September 30, 2023	December 31, 2022
	\$	\$
Raw materials	776,872	317,279

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

6. PROPERTY, PLANT AND EQUIPMENT

	Building \$	Production and research equipment \$	Land \$	Construction in progress \$	Right-of-use assets \$	Information technology equipment \$	Leasehold improvements \$	Pilot plant \$	Total \$
Cost									
December 31, 2021	-	1,568,591	-	-	1,057,752	237,684	248,872	2,166,904	5,279,803
Acquisition of JMBM (Note 3)	4,874,961	2,445,257	3,263,658	-	-	19,117	-	-	10,602,993
Additions, net	-	1,035,944	-	220,338	127,000	215,341	16,211	52,625	1,667,459
Disposal	-	(4,402)	-	-	-	-	-	-	(4,402)
December 31, 2022	4,874,961	5,045,390	3,263,658	220,338	1,184,752	472,142	265,083	2,219,529	17,545,853
Accumulated depreciation									
December 31, 2021	-	905,385	-	-	363,274	144,848	63,494	1,978,744	3,455,745
Depreciation	31,418	434,378	-	-	171,505	70,717	100,247	240,785	1,049,050
Disposal	-	(52)	-	-	-	-	-	-	(52)
December 31, 2022	31,418	1,339,711	-	-	534,779	215,565	163,741	2,219,529	4,504,743
Cost									
December 31, 2022	4,874,961	5,045,390	3,263,658	220,338	1,184,752	472,142	265,083	2,219,529	17,545,853
Additions, net	-	2,675,652	-	1,409,335	1,241,138	45,666	494,372	-	5,866,163
Disposals	-	(75,267)	-	-	-	(1,014)	-	-	(76,281)
September 30, 2023	4,874,961	7,645,775	3,263,658	1,629,673	2,425,890	516,794	759,455	2,219,529	23,335,735
Accumulated depreciation									
December 31, 2022	31,418	1,339,711	-	-	534,779	215,565	163,741	2,219,529	4,504,743
(1) Depreciation	146,249	482,255	-	-	255,037	85,514	87,170	-	1,056,225
Disposals	-	(3,983)	-	-	-	(51)	-	-	(4,034)
September 30, 2023	177,667	1,817,983	-	-	789,816	301,028	250,911	2,219,529	5,556,934
Net book value									
December 31, 2022	4,843,543	3,705,679	3,263,658	220,338	649,973	256,577	101,342	-	13,041,110
September 30, 2023	4,697,294	5,827,792	3,263,658	1,629,673	1,636,074	215,766	508,544	-	17,778,801

(1) Depreciation for the nine months ended September 30, 2023 and September 30, 2022 is allocated as follows:

	Depreciation expense \$	Research and operational expenses, net \$	Total \$
Production and research equipment	-	276,401	276,401
Right-of-use assets	64,818	62,896	127,714
Information technology equipment	39,646	-	39,646
Leasehold improvements	7,200	67,219	74,419
Pilot plant	-	200,980	200,980
September 30, 2022	111,664	607,496	719,160
Building	-	146,249	146,249
Production and research equipment	-	482,255	482,255
Right-of-use assets	77,462	177,575	255,037
Information technology equipment	85,514	-	85,514
Leasehold improvements	13,711	73,459	87,170
September 30, 2023	176,687	879,538	1,056,225

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Net additions to property, plant and equipment include amounts amortized from deferred government assistance (deferred liabilities) which reduces gross additions. For the nine months ended September 30, 2023 and the year ended December 31, 2022, these amounts were allocated within property, plant and equipment as follows:

	September 30, 2023	December 31, 2022
	\$	\$
Production and research equipment	1,099,750	123,919
Construction in progress	613,780	-
Information technology equipment	-	46,986
Leasehold improvements	-	4,033
Pilot plant	-	6,513
	1,713,530	181,451

Right-of-use assets and Lease liabilities

The Company has agreements to lease its office space, laboratory, and pilot plant 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 have been calculated at initial recognition with a discount rate of either 9% or 12%.

The Company has identified the following leases:

Location	Asset	Type	Term of lease at September 30, 2023 including extensions
Burnaby, BC	Building	Corporate head office (main)	2.0 Years
Burnaby, BC	Building	Corporate head office (supplement)	4.9 Years
Burnaby, BC	Building	Laboratory and pilot plant	4.9 Years
Burnaby, BC	Building	Warehouse and office supplement	2.3 Years

A reconciliation of the carrying amount of the lease liabilities as at September 30, 2023 and December 31, 2022 and changes during the period/year then ended is as follows:

	September 30, 2023	December 31, 2022
	\$	\$
Lease liabilities		
Beginning of period/year	773,917	799,930
Addition or extension	1,241,138	127,000
Lease payments	(302,179)	(219,785)
Lease interest (finance costs)	107,867	66,772
End of period/year	1,820,743	773,917
Current portion of lease liabilities	343,841	186,795
Non-current portion of lease liabilities	1,476,902	587,122
Maturity analysis - contractual undiscounted cash flows		
Less than one year	539,577	246,626
One to five years	1,791,280	593,960
More than five years	-	77,731
Total undiscounted lease liabilities	2,330,857	918,317

Short-term leases are leases with a lease term of twelve months or less. As at September 30, 2023, and December 31, 2022, the Company did not have any short-term leases. As at September 30, 2023, 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 Condensed Interim Consolidated Financial Statements**

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

7. INTANGIBLE ASSETS

As at September 30, 2023, intangible assets included thirty-four (34) (December 31, 2022 – twenty-five (25)) patents that are approved for issuance, or have issued, 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 and consulting, as incurred. The Company has other pending patent applications in which all associated costs have been expensed.

	Issued patents \$
<hr/>	
Cost	
December 31, 2021	30,407
Additions	8,439
<u>December 31, 2022</u>	<u>38,846</u>
<hr/>	
Accumulated amortization	
December 31, 2021	4,699
Amortization	2,410
<u>December 31, 2022</u>	<u>7,109</u>
<hr/>	
Cost	
December 31, 2022	38,846
Additions	7,010
September 30, 2023	45,856
<hr/>	
Accumulated amortization	
December 31, 2022	7,109
Amortization	2,113
September 30, 2023	9,222
<hr/>	
Net book value	
December 31, 2022	31,737
September 30, 2023	36,634

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

8. GOVERNMENT ASSISTANCE

The Company receives funding from various Canadian federal and provincial government programs. During the nine months ended September 30, 2023 and September 30, 2022 the following amounts were received:

	September 30, 2023	September 30, 2022
	\$	\$
Amounts received:		
(1) Sustainable Development Technology Canada (SDTC)	4,087,807	1,797,824
(2) Industrial Research Assistance Program (NRC-IRAP)	131,407	251,999
(2) Other Grants	60,865	-
	4,280,079	2,049,823

(1) See deferred government assistance below for allocation of SDTC proceeds for the nine months ended September 30, 2023 and September 30, 2022.

(2) Proceeds are recorded within research and operational expenses, net.

Deferred government assistance (deferred liabilities):

As at September 30, 2023 and December 31, 2022, deferred liabilities included amounts for deferred government assistance in relation to SDTC projects. A reconciliation of the carrying amount of the deferred government assistance as at September 30, 2023 and December 31, 2022, and changes during the period/year then ended are as follows:

	September 30, 2023	December 31, 2022
	\$	\$
Deferred government assistance		
Beginning of period/year	-	18,958
Additions - proceeds received	3,284,507	1,797,824
(1) Amortization	(2,551,068)	(1,816,782)
End of period/year	733,439	-

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

	September 30, 2023	December 31, 2022
	\$	\$
Property, plant and equipment (Note 6)	1,713,530	181,451
Professional and consulting, net	-	64,243
Research and operational expenses, net	577,232	204,353
Wages, benefits and fees, net	260,306	1,366,735
	2,551,068	1,816,782

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

8. GOVERNMENT ASSISTANCE (continued)

Sustainable Development Technology Canada (“SDTC”):

SDTC Pre-Commercial Trial and Multi Cathode Piloting Hub Project (active):

On February 13, 2023, the Company executed an agreement with SDTC in respect of a new government program (Pre-Commercial Trial and Multi Cathode Piloting Hub) (the “SDTC Pre-Commercial Project”) which will provide the Company up to \$10,000,000 (\$3,284,507 received as at September 30, 2023) in funding from SDTC in stages. The funds are non-dilutive, and non-repayable and are intended to support the Company’s design, construction, and operation of a multi-cathode piloting hub in Candiac. The initial project timeline is from January 1, 2023 to December 31, 2025.

The funds from the SDTC Pre-Commercial Project will be paid to the Company in four (4) instalments plus the release of a final 10% hold-back upon satisfactory review and approval of the project by SDTC. The instalments from SDTC will be paid to the Company at the beginning of each of the four (4) Milestones and will be initially recognized within deferred liabilities.

During the nine months ended September 30, 2023, the Company received Milestone 1 funds of \$3,284,507.

SDTC Scaling Project (completed):

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 Scaling Project”). The SDTC Scaling Project grant was for \$8,545,500 (received) which includes British Columbia Innovative Clean Energy, Mines and Petroleum Resources (“BC-ICE”) contributions (discussed below).

As at September 30, 2023 all proceeds had been received (2022 - \$7,742,210), including the final holdback of \$803,300 received during the nine months ended September 30, 2023.

As at September 30, 2023, the Company had completed this project (including Milestone 4 effective January 31, 2023) along with its reporting obligations to SDTC.

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

Between the programs detailed below, the Company received proceeds from NRC-IRAP during the nine months ended September 30, 2023 of \$131,407 (2022 - \$251,999). As at September 30, 2023, the Company had accrued proceeds of \$5,833 (December 31, 2022 – \$28,027) (Note 4).

Youth Internship Contribution Agreement (active):

Since 2021, the Company has entered into various Youth Internship Contribution Agreements with NRC-IRAP. Under the terms of the agreements, the contributions from NRC-IRAP were for the reimbursement of certain salaries paid to employees of the Company.

M2CAM Program (completed):

In 2021, the Company executed an agreement with NRC-IRAP for non-repayable contributions to the Company over the course of the program through to June 2023 (completed). The scope of the program was 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 (M2CAM). Under the terms of the agreement, NRC-IRAP reimbursed the Company for 80% of salaries paid to employees involved in this project.

Nano One Materials Corp.**Notes to the Condensed Interim Consolidated Financial Statements**Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

8. GOVERNMENT ASSISTANCE (continued)

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

	September 30, 2023	December 31, 2022
	\$	\$
Sustainable Development Technology Canada (SDTC) and BC-ICE	13,911,314	9,823,507
Automotive Supplier's Innovation Program (ASIP)	1,950,952	1,950,952
Industrial Research Assistance Program (NRC-IRAP) ⁽¹⁾	1,555,331	1,423,924
Other Grants	239,585	178,720
	17,657,182	13,377,103

⁽¹⁾ Includes amounts from the Innovation Assistance Program (IAP) from NRC-IRAP.

9. 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 nine months ended September 30, 2023:**

- a) Upon the exercise of RSUs, 99,721 common shares were issued for \$nil proceeds. In addition, \$358,223 representing the fair value initially recognized, was re-allocated from reserves to share capital.
- b) Upon the exercise of stock options, 1,557,821 common shares were issued at prices between \$1.14 and \$2.88 each for proceeds of \$3,375,220 (\$3,546,220 gross proceeds, less \$171,000 which had been collected as at December 31, 2022, and recorded as shares committed for issuance). In addition, \$1,830,353 representing the fair value initially recognized, was re-allocated from reserves to share capital.

Additionally, the Company issued 12,776 common shares on the cashless net exercise of 97,500 stock options which were exercisable at \$2.52 each. The re-allocation of the fair value initially recognized is combined within the amount disclosed above.

- c) Upon the exercise of warrants, 2,281,939 common shares were issued at \$1.60 each for proceeds of \$3,651,102. In addition, \$22,013 representing the fair value initially recognized, was re-allocated from reserves to share capital.
- d) In September 2023, the Company received \$102,400 in proceeds from the subsequent exercise of 80,000 stock options at \$1.28 each. The proceeds are presented as shares committed for issuance.

Transactions for the issuance of share capital during the nine months ended September 30, 2022:

- a) On June 16, 2022, by way of a non-brokered private placement, Rio Tinto made a strategic equity investment into the Company resulting in the issuance of 4,643,148 common shares of the Company at \$2.70 each for proceeds of \$12,536,500 (US \$10,000,000).

Share issue costs of \$34,450 were paid for filing fees which were recorded as reduction of share capital.

Additionally, the Company issued 1,000,000 compensatory warrants to Rio Tinto as consideration for technical and support services in connection with the parties entering into a Strategic Collaboration Agreement on June 16, 2022. The warrants were exercisable at \$4.00 each for one year until June 16, 2023. The fair value of the warrants of \$595,000 was recognized within research expenses, net. See below for fair value details.

- b) Upon the exercise of stock options, 155,000 common shares were issued between \$0.70 and \$1.57 each for proceeds of \$194,200. In addition, \$120,380 representing the fair value initially recognized, was re-allocated from reserves to share capital.
- c) Upon the exercise of warrants, 94,493 common shares were issued at \$1.60 each for proceeds of \$151,188. In addition, \$21,973 representing the fair value initially recognized on the portion of these warrants which were issued as compensatory warrants, was re-allocated from reserves to share capital.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

9. SHARE CAPITAL AND RESERVES (continued)

Reserves

The Company has an Omnibus Equity Incentive Plan which was approved by shareholders in October 2021 (the "Equity Plan") and replaces the previous stock option plan. The Equity Plan provides for the grant of stock options, RSUs, DSUs, performance share units ("PSUs") and other share-based awards subject to TSX approval. 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 market price of the Company's common shares as calculated at the close of the trading session on the date immediately prior to the date of grant. Stock options can be granted for a maximum term of ten years, and vest at the discretion of the Board of Directors. Stock options outstanding under the Company's former stock option plan are governed by the Equity Plan unless the former stock option plan is more beneficial, in which case the terms of the stock option plan will apply for the benefit of the option holder. The Company's Equity Plan permits the holder of stock options to exercise cashless (net exercise) by surrendering a portion of the underlying stock option shares to pay for the exercise cost.

A summary of the status of the Company's stock options as at September 30, 2023 and December 31, 2022, and changes during the period/year then ended is as follows:

	Period ended September 30, 2023		Year ended December 31, 2022	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of period/year	6,269,863	2.80	6,337,050	2.76
Granted	452,418	3.28	184,410	2.88
Exercised ⁽¹⁾	(1,655,321)	2.29	(200,375)	1.37
Cancelled/forfeited/expired	(61,613)	3.33	(51,222)	4.05
Options outstanding, end of period/year	5,005,347	3.00	6,269,863	2.80

⁽¹⁾ In accordance with the Company's Equity Plan, option holders exercised 97,500 stock options on a cashless basis (net exercise) for the issuance of 12,776 common shares.

The weighted average share price of the Company during the nine months ended September 30, 2023, the period in which stock options were exercised, was \$3.11.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

As at September 30, 2023, the Company has stock options outstanding and exercisable as follows:

	Options outstanding #	Options exercisable #	Exercise price \$	Expiry date
(1)	2,300,000	2,300,000	1.28	November 12, 2023
	15,000	15,000	3.05	December 4, 2023
	1,332,500	1,332,500	5.10	February 1, 2024
	44,500	44,500	5.26	February 25, 2024
	40,000	40,000	4.90	June 7, 2024
	40,000	40,000	3.62	October 5, 2024
	240,000	180,000	3.14	December 2, 2024
	400,000	400,000	5.10	February 1, 2026
	141,575	47,192	2.88	February 4, 2027
	9,100	6,066	2.88	June 13, 2027
	442,672	-	3.28	March 17, 2028
	5,005,347	4,405,258	3.00	

(1) 1,070,000 stock options were subsequently exercised (Note 15).

The following table summarizes the above information about the stock options outstanding as at September 30, 2023:

Exercise prices \$	Options #	Weighted average remaining life (years)	Weighted average exercise price \$
1.28 - 2.88	2,450,675	0.3	1.38
3.05 - 3.62	737,672	3.1	3.25
4.90 - 5.26	1,817,000	0.8	5.10
	5,005,347	0.9	3.00

The Company recorded the fair value of the stock options granted during the nine months ended September 30, 2023 and September 30, 2022, 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:

	September 30, 2023	September 30, 2022
Risk-free interest rate	2.9%	1.8%
Expected life of stock options (years)	5.0	5.0
Historical volatility	77.2%	67.4%
Dividend rate	0.0%	0.0%
Weighted average fair value per stock option granted	\$ 2.10	\$ 1.64

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

The total share-based payments expense for the nine months ended September 30, 2023 was \$1,071,715 (2022 - \$1,325,912), of which \$447,258 (2022 - \$729,921) was attributable to vesting of stock options during the period then ended.

During the period ended September 30, 2023, 61,613 (2022 - 7,372) stock options were either cancelled/forfeited upon certain individuals leaving employment of the Company or expired unexercised. As a result, the original share-based payments expense of \$103,593 (2022 - \$12,004) was reversed from reserves and credited to deficit.

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 expected to be settled in common shares.

A summary of the status of the Company's Equity Incentives as at September 30, 2023 and December 31, 2022, and changes during the period/year then ended is as follows:

	Period ended September 30, 2023	Year ended December 31, 2022
	Equity Incentives #	Equity Incentives #
Equity Incentives outstanding, beginning of period/year	379,679	193,131
Granted - RSUs	225,808	189,424
Granted - DSUs	85,976	-
Exercised	(99,721)	(2,876)
Equity Incentives outstanding, end of period/year	591,742	379,679

As at September 30, 2023, the Company has RSUs and DSUs outstanding as follows:

	RSUs outstanding #	DSUs outstanding #	Exercisable #	Weighted average grant date fair value per RSU/DSU	Final vesting date
(1)	126,570	-	65,068	4.17	August 27, 2024
	-	8,626	-	4.17	August 27, 2024
	144,762	-	18,479	2.88	February 4, 2025
	225,808	-	-	3.28	March 17, 2026
	-	85,976	-	3.28	March 17, 2026
	497,140	94,602	83,547	3.42	

(1) 31,843 RSUs were subsequently exercised (Note 15).

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Notes to the Condensed Interim Consolidated Financial Statements

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For the nine months ended September 30, 2023 and September 30, 2022

9. SHARE CAPITAL AND RESERVES (continued)

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

During the nine months ended September 30, 2023, the Company granted 225,808 RSUs to officers and directors of the Company, as well as 85,976 DSUs to certain directors of the Company. The RSUs and DSUs vest in three annual instalments (one-third (103,928) on March 17, 2024; one-third (103,928) on March 17, 2025; and the final one-third (103,928) on March 17, 2026).

During the year ended December 31, 2022, the Company granted 189,424 RSUs to officers and directors of the Company which vest in three annual instalments (one-third (63,141) on February 4, 2023; one-third (63,141) on February 4, 2024; and the final one-third (63,142) on February 4, 2025).

The value of the Equity Incentives granted was based on the fair value of the Company's common shares on the date of grant. During the nine months ended September 30, 2023, the Equity Incentives were granted at a fair value of \$3.28 each for a total value of \$1,022,652 (year ended December 31, 2022 - \$2.88 each for a total value of \$545,541) which is being accrued within share-based payment expense over the vesting periods.

The total share-based payments expense for the nine months ended September 30, 2023 was \$1,071,715 (2022 - \$1,325,912), of which \$624,457 (2022 - \$595,991) represents the vesting of Equity Incentives with the remaining portion of share-based payment expense being attributable to stock options, as described above.

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 or for other services and are valued using the Black-Scholes option pricing model.

A summary of the Company's common share purchase warrants as at September 30, 2023 and December 31, 2022, and changes during the period/year then ended is as follows:

	Period ended September 30, 2023		Year ended December 31, 2022	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of period/year	3,288,479	2.33	4,369,187	2.59
Issued	-	-	1,000,000	4.00
Exercised	(2,281,939)	1.60	(141,993)	1.60
Expired	(1,006,540)	3.98	(1,938,715)	3.84
Warrants outstanding, end of period/year	-	-	3,288,479	2.33

During the nine months ended September 30, 2023, certain of the warrants that expired unexercised were issued as compensatory warrants and originally recorded against share capital. As a result, the original fair value on the portion that were compensatory warrants relating to an historical equity financing totaled \$909 and was reversed from reserves and credited to share capital. In addition, the 1,000,000 compensatory warrants issued to Rio Tinto (see below), expired unexercised and their fair value that was originally recorded to operating expenses of \$595,000 was reversed from reserves and credited to deficit.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

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For the nine months ended September 30, 2023 and September 30, 2022

9. SHARE CAPITAL AND RESERVES (continued)

Warrants (continued)

During the year ended December 31, 2022, the Company issued 1,000,000 compensatory warrants to Rio Tinto as consideration for technical and support services in connection with the parties entering into a Strategic Collaboration Agreement on June 16, 2022. The warrants were exercisable at \$4.00 each until they expired on June 16, 2023. The Company recorded the fair value of the warrants issued to Rio Tinto using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair value was determined using the following weighted average assumptions:

	December 31, 2022
Risk-free interest rate	3.2%
Expected life of warrants (years)	1.0
Historical volatility	86.0%
Dividend rate	0.0%
Weighted average fair value per warrant granted	\$ 0.60

10. 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 key management (gross amounts):

	Transactions nine months ended September 30, 2023 \$	Transactions nine months ended September 30, 2022 \$	Balances outstanding September 30, 2023 \$	Balances outstanding December 31, 2022 \$
Bedrock Capital	112,500	112,500	-	-
DBMCPA	164,500	126,165	18,375	11,844
Directors' fees	241,509	176,660	-	-
Management and directors' fees (within wages, benefits and fees)	518,509	415,325	18,375	11,844
Wages, benefits and fees (officers)	1,985,547	992,340	-	-
Share-based payments (directors and officers)	654,580	891,149	-	-
Patent Filing Specialists (professional and consulting; and intangible assets)	351,029	170,452	32,347	11,795
	3,509,665	2,469,266	50,722	23,639

(a) Professional and consulting, net:

- Includes the services of Patent Filing Specialists Inc. ("Patent Filing Specialists"), a company controlled by Joseph Guy, a Company Director. Transactions are included within both intangible assets (for capitalized patent issue costs) and professional and consulting, net for patent filings, maintenance and related.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

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For the nine months ended September 30, 2023 and September 30, 2022

10. RELATED PARTY TRANSACTIONS (continued)

(b) Wages, benefits and fees, net:

- Includes salaries and short-term variable cash-based compensation incentives paid to Dan Blondal, CEO; Stephen Campbell, CTO; Alex Holmes, COO; Pamela Kinsman, Corporate Secretary/Director of Sustainability; Denis Geoffroy, Chief Commercialization Officer (CCO); Adam Johnson, Senior Vice-President of External Affairs; and Kelli Forster, Senior Vice-President of People & Culture.

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.

- Includes the services of Bedrock Capital Corp. ("Bedrock Capital") a company controlled by Paul Matysek the Executive Chairman and a Company Director.
- Includes the services of Donaldson Brohman Martin, CPA Inc. ("DBM CPA"), a firm in which Dan Martino, CFO is a principal.
- Includes compensation to non-executive directors of the Company and committee chairpersons.

(c) Share-based payments:

- Includes amounts recognized on vesting of stock options and Equity Incentives granted to directors and officers.
- During the nine months ended September 30, 2023, the Company granted 311,784 RSUs and DSUs to Company directors and officers (2022 – 189,424 RSUs granted). See Note 9 for specifics on vesting terms. The Company subsequently granted 96,574 DSUs and 11,301 RSUs (107,875 total DSUs and RSUs), to directors of the Company (Note 15).

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital during the nine months ended September 30, 2023 and September 30, 2022 were comprised of the following:

	September 30, 2023	September 30, 2022
	\$	\$
Receivables and prepayments	1,626,926	126,137
Inventory	(459,593)	-
Accounts payable and accrued liabilities	1,966,113	(320,977)
Accounts payable to related parties	27,083	15,755
Deferred liabilities	733,439	13,595
Net change	3,893,968	(165,490)

The Company incurred non-cash investing and financing activities during the nine months ended September 30, 2023 and September 30, 2022 as follows:

	September 30, 2023	September 30, 2022
	\$	\$
Non-cash investing activities:		
Property, plant and equipment included in accounts payable and accrued liabilities	1,829,926	31,620
Non-cash financing activities:		
Addition of right-of-use asset (Note 6)	1,241,138	127,000

During the nine months ended September 30, 2023 and September 30, 2022, no amounts were paid for interest or income taxes.

Nano One Materials Corp.

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12. 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 SDTC projects) (Note 8), as well as generating returns on excess funds while maintaining liquidity/accessibility to such funds. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment, growth of its workforce, and general capital market or 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 nine months ended September 30, 2023.

The Company currently has no source of revenues, though it receives funding from government programs (Note 8) and has historically relied upon equity financing (strategic partners and capital markets) to fund its activities. In order to fund ongoing capital and operating expenditures, the Company will spend its existing working capital and seek additional capital sources to facilitate commercialization plans.

The Company currently invests excess capital in high-interest savings accounts ("HISAs") and/or HISA funds which bear interest at variable rates (cash equivalents), as well as in guaranteed investment certificates ("GICs") bearing fixed rates of interest that are liquid and redeemable on demand (cash equivalents) and have original terms not exceeding 12 months.

As at September 30, 2023 and December 31, 2022, the Company had excess capital invested in a HISA, a HISA fund, and GICs, which facilitates the diversification of treasury amongst high-credit quality Canadian chartered banks. These holdings are accessible on demand or cashable. During the nine months ended September 30, 2023, the Company earned interest income of \$1,141,600 (2022 - \$579,927) from its treasury investments.

13. 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	Amortized cost
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
Deferred liabilities	Amortized cost
Lease liabilities	Amortized cost

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

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For the nine months ended September 30, 2023 and September 30, 2022

13. FINANCIAL INSTRUMENTS (continued)

Financial instruments - classification (continued)

The Company's financial instruments measured at amortized cost approximate their fair values. The carrying value of lease liabilities approximates 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, interest rate risk, credit risk, price risk, and currency risk.

a) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due. The Company has historically relied upon government assistance programs, equity financings, and the exercise of convertible equity securities (options and warrants), to satisfy its capital requirements and will continue to depend upon these and other possible sources of capital to finance its activities until such time that the Company commences commercial operations and generates future profitability.

b) 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 and cash equivalents held in its HISA and HISA fund, and a deposit held as collateral with a Canadian chartered bank on the Company's corporate credit cards. The Company's GICs carry fixed rates of interest.

For the nine months ended September 30, 2023, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the period by approximately \$212,000 (2022 – \$388,000).

c) 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 high-credit quality Canadian chartered banks. Management believes that the Company's credit risk attributable to its various components of receivables is low.

The Company is exposed to credit risk relating to its research cost recoveries receivable, and deposits (security deposits on facilities, and corporate credit card collateral), 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. The Company believes its exposure to credit risk is low with respect to accrued government assistance, and sales tax recoverable as these amounts are due from the Government of Canada.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2023 and September 30, 2022

13. FINANCIAL INSTRUMENTS (continued)

Financial instruments - risk (continued)

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, or the ability of holders of convertible equity securities (options and warrants) to exercise their securities, which affects proceeds to the Company on such exercises, due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements to determine the appropriate course of action to be taken by the Company.

Commodity price risk is defined as the potential adverse impact on the Company's results of operations in respect of fluctuating prices of its raw materials inventory. The Company is exposed to commodity price risk including exposure to the fluctuating market prices of lithium as it relates to lithium raw materials within inventory. Any adjustments to the Company's lithium inventory in respect of market fluctuations are included within research and operational expenses, net.

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 September 30, 2023, the Company held certain financial assets and liabilities that were denominated in these foreign currencies.

Based on the September 30, 2023 value of net assets denominated in foreign currencies, the impact of a 10% fluctuation in foreign exchange rates relative to the Canadian dollar would impact loss and comprehensive loss for the period by approximately \$10,000 (2022 - insignificant impact).

14. SEGMENTED INFORMATION

The Company operates in one business segment, the research and scale-up of a patented process for future commercial production of cathode active materials (CAM) for lithium-ion battery applications (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 7).

15. SUBSEQUENT EVENTS

(a) Upon the exercise of 1,070,000 stock options on both a cash and cashless net exercise basis, 677,827 common shares were issued for proceeds of \$128,000 (\$230,400 less \$102,400 received as at September 30, 2023).

(b) Upon the exercise of RSUs, 31,843 common shares were issued for \$nil proceeds.

(c) On October 5, 2023, by way of a non-brokered private placement, Sumitomo Metal Mining Co., Ltd. made a strategic equity investment into the Company resulting in the issuance of 5,498,355 common shares at \$3.07 each for proceeds of \$16,879,950.

Additionally, the parties entered into a Collaboration Agreement under which the parties will work together to accelerate the commercial production of cathode active material formulations. Further, the parties entered into an Investor Rights Agreement, providing Sumitomo Metal Mining Co., Ltd., with participation rights in any future equity financings to maintain a pro rata ownership interest for a period of up to three years from October 5, 2023.

(d) On October 10, 2023, the Company granted 96,574 DSUs and 11,301 RSUs (107,875 total DSUs and RSUs), to directors of the Company.