Nano One Materials Corp.

Consolidated Financial Statements

December 31, 2023

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nano One Materials Corp.

Opinion

We have audited the accompanying consolidated financial statements of Nano One Materials Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 Consolidated 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 consolidated 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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Assessment of Impairment Indicators of Property, plant and equipment ("PP&E")

As described in Note 6 to the consolidated financial statements, the carrying amount of the Company's PP&E was $18,362,255 as of December 31, 2023. As more fully described in Note 2 to the consolidated financial statements, management assesses PP&E for indicators of impairment at each reporting period or more frequently if facts and circumstances arise.

The principal considerations for our determination that the assessment of impairment indicators of the PP&E is a key audit matter are that there was judgment made by management when assessing whether there were indicators of impairment for the PP&E, specifically relating to the assets' carrying amount which is impacted by the Company's intent and ability to continue to utilize these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the PP&E.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Evaluating management's assessment of impairment indicators for consistency with operations and the relevant accounting standards.
- Evaluating the intent for the PP&E through discussion and communication with management.
- Examining the Company's cash flows for maintaining and developing the PPE when compared with the budget for future periods.
- Examining the disclosures in the consolidated financial statements.

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 consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Davidson & Company LLP

Vancouver, Canada | Chartered Professional Accountants

March 27, 2024

Nano One Materials Corp.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at December 31, 2023 and December 31, 2022

	Note	**December 31, 2023 $**	December 31, 2022 $
Assets			
Current assets			
Cash and cash equivalents	11	31,868,882	39,445,395
Restricted cash	11	575,000	-
Receivables and prepayments	4	1,130,043	2,865,285
Inventory	5	705,278	317,279
		34,279,203	42,627,959
Non-current assets			
Deposits and other assets	4	295,411	375,554
Property, plant and equipment	6	18,362,255	13,041,110
Intangible assets - patents	7	37,899	31,737
		18,695,565	13,448,401
Total assets		**52,974,768**	56,076,360
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		3,723,265	1,829,435
Accounts payable to related parties	10	46,461	23,639
Lease liabilities - current portion	6	374,242	186,795
		4,143,968	2,039,869
Non-current liabilities			
Lease liabilities	6	1,344,144	587,122
Total liabilities		**5,488,112**	2,626,991
Shareholders' equity			
Share capital	9	125,042,258	96,704,471
Shares committed for issuance	9	-	171,000
Reserves	9	7,171,841	10,209,880
Deficit		(84,727,443)	(53,635,982)
Total shareholders' equity		**47,486,656**	53,449,369
Total liabilities and shareholders' equity		**52,974,768**	56,076,360
Nature and continuance of operations	1		
Subsequent event	16		

Approved on behalf of the Board of Directors on March 27, 2024:

"Carla Matheson"	*"Lyle Brown"*
Director	**Director**

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

Nano One Materials Corp.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended December 31, 2023 and December 31, 2022

	Note	**December 31, 2023 $**	December 31, 2022 $
Expenses			
Amortization	7	3,007	2,410
Business development and investor relations		661,807	625,831
Depreciation	6	254,052	171,621
Finance costs	6	160,332	66,772
General and administrative expenses		2,509,027	1,415,160
Professional and consulting, net	8,10	2,719,748	1,542,005
Research and operational expenses, net	6,8	8,369,064	3,252,665
Share-based payments	9,10	1,745,926	1,745,697
Wages, benefits and fees, net	8,10	16,745,071	7,918,555
Loss from operating expenses		**(33,168,034)**	(16,740,716)
Interest income	12	1,654,412	924,301
Loss on disposal of equipment		(301,261)	(4,349)
Loss and comprehensive loss for the year		**(31,814,883)**	(15,820,764)
Loss per share			
Weighted average number of common shares outstanding			
- basic		**105,078,258**	98,185,028
- diluted		**105,078,258**	98,185,028
Basic loss per common share		**(0.30)**	(0.16)
Diluted loss per common share		**(0.30)**	(0.16)

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

Nano One Materials Corp.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended December 31, 2023 and December 31, 2022

	Note	**December 31, 2023 $**	December 31, 2022 $
Operating activities			
Loss for the year		(31,814,883)	(15,820,764)
Adjustments for:			
Amortization		3,007	2,410
Depreciation	6	1,503,393	1,049,050
Finance costs		160,332	66,772
Research expenses, net - warrants issued		-	595,000
Share-based payments		1,745,926	1,745,697
Interest income		(1,654,412)	(924,301)
Loss on disposal of equipment		301,261	4,349
Net change in non-cash working capital items	11	2,696,323	3,920,901
		(27,059,053)	(9,360,886)
Investing activities			
Interest income received on cash and cash equivalents		1,654,412	924,301
Deposits and other assets		(180,386)	(309,863)
Purchase price of Johnson Matthey Battery Materials Ltd.	3	-	(16,352,993)
Cash acquired on purchase price of Johnson Matthey Battery Materials Ltd.	3	-	179,642
Purchases of property, plant and equipment, net		(5,056,560)	(1,233,305)
Payments for intangible assets	7	(9,169)	(8,439)
Standby letter of credit	11	(575,000)	-
		(4,166,703)	(16,800,657)
Financing activities			
Issuance of common shares for cash		24,143,072	13,037,915
Shares committed for issuance		-	171,000
Share issue costs		(36,828)	(34,450)
Payments of lease liabilities	6	(457,001)	(219,785)
		23,649,243	12,954,680
Change in cash and cash equivalents		**(7,576,513)**	(13,206,863)
Cash and cash equivalents, beginning of year		**39,445,395**	52,652,258
Cash and cash equivalents, end of year		**31,868,882**	39,445,395
Supplemental cash flow information	11		

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

Nano One Materials Corp.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

For the years ended December 31, 2023 and December 31, 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 RSUs	2,876	11,993	-	(11,993)	-	-
Exercise of stock options	200,375	274,226	-	-	-	274,226
Re-allocated on exercise of stock options	-	167,912	-	(167,912)	-	-
Proceeds received for subsequent exercise of stock options	-	-	171,000	-	-	171,000
Re-allocated on cancellation of stock options	-	-	-	(14,166)	14,166	-
Exercise of warrants	141,993	227,189	-	-	-	227,189
Re-allocated on exercise of warrants	-	21,973	-	(21,973)	-	-
Re-allocated on expiry of warrants	-	891,780	-	(891,780)	-	-
Warrants issued for research services	-	-	-	595,000	-	595,000
Share-based payments	-	-	-	1,745,697	-	1,745,697
Loss and comprehensive loss for the year	-	-	-	-	(15,820,764)	(15,820,764)
December 31, 2022	100,516,495	96,704,471	171,000	10,209,880	(53,635,982)	53,449,369
December 31, 2022	100,516,495	96,704,471	171,000	10,209,880	(53,635,982)	53,449,369
Issue of common shares - private placement	5,498,355	16,879,950	-	-	-	16,879,950
Share issue costs - cash	-	(36,828)	-	-	-	(36,828)
Exercise of RSUs	131,564	491,008	-	(491,008)	-	-
Exercise of stock options	1,742,821	3,783,020	(171,000)	-	-	3,612,020
Exercise of stock options - cashless net exercise	1,095,603	-	-	-	-	-
Re-allocated on exercise of stock options	-	3,546,613	-	(3,546,613)	-	-
Re-allocated on cancellation of stock options	-	-	-	(128,422)	128,422	-
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	-	-	-	1,745,926	-	1,745,926
Loss and comprehensive loss for the year	-	-	-	-	(31,814,883)	(31,814,883)
December 31, 2023	**111,266,777**	**125,042,258**	**-**	**7,171,841**	**(84,727,443)**	**47,486,656**

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Nano One® Materials Corp. (the "Company") was incorporated under the laws of the Province of Alberta on November 5, 1987, and continued under the laws of the Province of British Columbia. 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-nine (39) patents that are granted or approved for issuance, or have been issued, (Note 7), in addition to other pending patent applications.

These 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 December 31, 2023, the Company had working capital of $30,135,235 (December 31, 2022 - $40,588,090). Management assesses the Company's financial position is sufficient to enable the Company to cover operating expenses and continue as a going concern for the next fiscal 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of presentation

These financial statements have been prepared in accordance with IFRS Accounting Standards, as issued by the International Accounting Standards Board ("IASB").

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (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.

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.

Significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRS Accounting Standards 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 profit or 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 are 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 stock options, and compensatory warrants for services or in relation to financings, requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the fair value of the Company’s common shares, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company’s future operating results or on other components of shareholders’ equity.

Property, plant and equipment

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

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

Acquisitions

The determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, considering all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The transaction with Johnson Matthey Battery Materials Ltd. during the year ended December 31, 2022, was determined to constitute an asset acquisition (Note 3).

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Significant accounting estimates and judgments (continued)

Research and operational 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. The Company has determined that until such time that it has a commercial-scale plant in the condition and location necessary to commence commercial production, that it will remain in the research phase and accordingly expenditures will be recognized within expenses on the consolidated statements of loss and comprehensive loss.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of raw materials, and packaging and parts is comprised of initial third-party acquisition costs. As at December 31, 2023, costs of work in progress are comprised only of raw materials costs within production equipment. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Raw materials, packaging, and consumable parts, are initially valued at cost and subsequently at the lower of cost and net realizable value.

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 expenditures in future periods are deferred on the statements of financial position within deferred liabilities and deducted against the related expenditures as incurred.

For the years ended December 31, 2023 and December 31, 2022, government grants received by the Company have been applied as reductions, as applicable, against property, plant and equipment on the consolidated statements of financial position, and to professional and consulting, research and operational expenses, and wages, benefits and fees on the consolidated statements of loss and comprehensive loss.

Acquisitions

Asset acquisitions are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values at the date of acquisition of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Company, if any. The acquiree’s identifiable assets and liabilities assumed are recognized at their fair value at the acquisition date, or if the fair values exceed the consideration paid, then the consideration paid is allocated on a pro rata basis to the identifiable assets acquired based on their relative fair values.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Research and development

Expenditures on research and development (operational) activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss (research and operational 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 and operational expenses are presented net of government assistance received, and net of other cost recoveries. Additionally, no development costs have been capitalized to the date of these financial statements.

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 and such value is reversed and credited to share capital upon the exercise or expiry of warrants.

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 12), and short-term (maturities with twelve months or less), interest bearing, redeemable instruments such as guaranteed investment certificates ("GICs") 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, interest-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.

2. **MATERIAL ACCOUNTING POLICY INFORMATION** (continued)

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.

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.

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 on the grant date and recognizes the expense over the vesting period, with a corresponding increase in reserves. When RSUs are exercised, the initial recorded value is reversed from reserves and credited to share capital.

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 on the grant date and recognizes the expense over vesting period, if any, with a corresponding increase in reserves. When DSUs are exercised, the initial recorded value is reversed from reserves and credited to share capital. DSUs vest immediately unless otherwise determined by the Company.

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant 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, plant and equipment, less its residual values, if any, over its estimated useful lives:

Production and research equipment:	
• Plant and machinery	14 years straight-line
• Production equipment fixtures	20%
• Research and development equipment	20%
Building	25 years straight-line
Land	N/A
Right-of-use assets	Over the terms of the leases
Leasehold improvements	Over the terms of the leases
Information technology equipment:	
• Computer equipment and fixtures	30%
• Office equipment	20%
• Computer software	50%
Pilot plant	Over the term of the related government assistance program

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. Critical replacement parts to be used for repairs and replacements within items of property, plant and equipment are classified as non-current other assets (deposits and other assets). 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, plant and equipment is recognized in profit or loss. Amounts received from selling items produced while preparing the asset for its intended use are prohibited from being deducted from the cost of property, plant and equipment. Instead, the Company will recognize such sale proceeds and related cost in profit or loss.

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Leases

The Company leases offices and research facilities which are included within property, plant and equipment. Under IFRS 16 – *Leases* ("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, plant 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.

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 13.

<u>Classification and measurement of financial assets and liabilities</u>

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.

<u>Impairment of financial assets</u>

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 13. The Company has no history of default on receivables.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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.

New accounting policies

Certain pronouncements have been issued by the IASB that are effective for accounting periods beginning on or after January 1, 2023. With the exception of changing the Company's accounting policies from "significant" to "material", the Company has reviewed all other updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within the material accounting policy information.

Standards issued but not yet effective

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.

Certain pronouncements have been issued by the IASB and ISSB that are effective for accounting periods beginning on or after January 1, 2024. The Company has reviewed these updates and determined that with the exception of the below, none are applicable or consequential to the Company and have been excluded from discussion within the material accounting policy information.

(Expressed in Canadian Dollars)

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 Candiac Inc.) a private Canadian company located in Candiac, 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.

Net assets (liabilities) of JMBM acquired:	**November 1, 2022 $**
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 AND OTHER ASSETS

Receivables and prepayments consist of the following:

		December 31, 2023 $	December 31, 2022 $
	Accrued government assistance	10,833	28,027
	Prepaid expenses	738,333	1,378,892
(1)	Trade receivables	-	807,331
	Sales tax recoverable and other	380,877	651,035
		1,130,043	2,865,285

(1) The Company collected the trade receivables during the year ended December 31, 2023, which were acquired in the acquisition of JMBM Canada.

(Expressed in Canadian Dollars)

4. RECEIVABLES, PREPAYMENTS, AND DEPOSITS AND OTHER ASSETS (continued)

Research cost recoveries

During the years ended December 31, 2023 and December 31, 2022, the Company accrued or received the following cost recoveries within research and operational expenses, net:

	December 31, 2023	December 31, 2022
	$	$
USCo	161,700	5,095
CBMM	-	233,649
Other recoveries	-	163,203
	161,700	401,947

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 year ended December 31, 2023, the Company received $161,700 (US$122,500) from USCo.

During the year ended December 31, 2022, the Company collected $313,362 from USCo, of which $5,095 was recognized as cost recoveries during the year ended December 31, 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 year ended December 31, 2023, there were no cost recoveries recognized or received (2022 - $233,649). The parties continue to collaborate under this agreement.

Deposits and other assets

Deposits and other assets consist of the following:

	December 31, 2023	December 31, 2022
	$	$
Spare parts and deposits on property, plant and equipment	102,838	260,529
Security and other deposits	192,573	115,025
	295,411	375,554

5. INVENTORY

Inventory is comprised of the following:

	December 31, 2023	December 31, 2022
	$	$
Raw materials	701,932	317,279
Inventory - work in progress	3,346	-
	705,278	317,279

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Production and research equipment $	Building $	Land $	Right-of-use assets $	Leasehold improvements $	Information technology equipment $	Construction in progress $	Pilot plant $	Total $
Cost									
December 31, 2021	1,568,591	-	-	1,057,752	248,872	237,684	-	2,166,904	5,279,803
Acquisition of JMBM (Note 3)	2,445,257	4,874,961	3,263,658	-	-	19,117	-	-	10,602,993
Additions, net	1,035,944	-	-	127,000	16,211	215,341	220,338	52,625	1,667,459
Disposal	(4,402)	-	-	-	-	-	-	-	(4,402)
December 31, 2022	5,045,390	4,874,961	3,263,658	1,184,752	265,083	472,142	220,338	2,219,529	17,545,853
Accumulated depreciation									
December 31, 2021	905,385	-	-	363,274	63,494	144,848	-	1,978,744	3,455,745
Depreciation	434,378	31,418	-	171,505	100,247	70,717	-	240,785	1,049,050
Disposal	(52)	-	-	-	-	-	-	-	(52)
December 31, 2022	1,339,711	31,418	-	534,779	163,741	215,565	-	2,219,529	4,504,743
Cost									
December 31, 2022	5,045,390	4,874,961	3,263,658	1,184,752	265,083	472,142	220,338	2,219,529	17,545,853
Additions, net	2,805,836	-	-	1,241,138	579,244	136,009	2,382,186	-	7,144,413
Reclass	2,602,524	-	-	-	-	-	(2,602,524)	-	-
Disposals	(341,468)	-	-	-	-	(1,014)	-	-	(342,482)
December 31, 2023	**10,112,282**	**4,874,961**	**3,263,658**	**2,425,890**	**844,327**	**607,137**	**-**	**2,219,529**	**24,347,784**
Accumulated depreciation									
December 31, 2022	1,339,711	31,418	-	534,779	163,741	215,565	-	2,219,529	4,504,743
(1) Depreciation	668,791	194,998	-	371,192	147,308	121,104	-	-	1,503,393
Disposals	(22,560)	-	-	-	-	(47)	-	-	(22,607)
December 31, 2023	**1,985,942**	**226,416**	**-**	**905,971**	**311,049**	**336,622**	**-**	**2,219,529**	**5,985,529**
Net book value									
December 31, 2022	3,705,679	4,843,543	3,263,658	649,973	101,342	256,577	220,338	-	13,041,110
December 31, 2023	**8,126,340**	**4,648,545**	**3,263,658**	**1,519,919**	**533,278**	**270,515**	**-**	**-**	**18,362,255**

(1) Depreciation for the years ended December 31, 2023 and December 31, 2022 is allocated as follows:

	Depreciation expense $	Research and operational expenses, net $	Total $
Building	-	31,418	31,418
Production and research equipment	-	434,378	434,378
Right-of-use assets	90,610	80,895	171,505
Information technology equipment	70,717	-	70,717
Leasehold improvements	10,294	89,953	100,247
Pilot plant	-	240,785	240,785
December 31, 2022	171,621	877,429	1,049,050
Building	-	194,998	194,998
Production and research equipment	-	668,791	668,791
Right-of-use assets	113,418	257,774	371,192
Information technology equipment	121,104	-	121,104
Leasehold improvements	19,530	127,778	147,308
December 31, 2023	**254,052**	**1,249,341**	**1,503,393**

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Net additions to property, plant and equipment include amounts amortized from deferred government assistance which reduces gross additions. For the years ended December 31, 2023 and December 31, 2022, these amounts were allocated within property, plant and equipment as follows:

	December 31, 2023	December 31, 2022
	$	$
Production and research equipment (Note 8)	2,217,832	123,919
Information technology equipment	-	46,986
Leasehold improvements	-	4,033
Pilot plant	-	6,513
	2,217,832	181,451

Right-of-use assets and Lease liabilities

The Company has agreements to lease certain of its offices and research 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 December 31, 2023 including extensions**
Burnaby, BC	Building	Corporate head office (extension)	4.7 Years
Burnaby, BC	Building	Research facilities	4.7 Years
Burnaby, BC	Building	Warehouse and office	2.1 Years
Burnaby, BC	Building	Corporate head office (main)	1.8 Years

A reconciliation of the carrying amount of the lease liabilities as at December 31, 2023 and December 31, 2022 and changes during the years then ended is as follows:

Lease liabilities	**December 31, 2023 $**	December 31, 2022 $
Beginning of year	773,917	799,930
Addition or extension	1,241,138	127,000
Lease payments	(457,001)	(219,785)
Lease interest (finance costs)	160,332	66,772
End of year	**1,718,386**	773,917
Current portion of lease liabilities	**374,242**	**186,795**
Non-current portion of lease liabilities	**1,344,144**	**587,122**
Maturity analysis - contractual undiscounted cash flows		
Less than one year	559,687	246,626
One to five years	989,809	593,960
More than five years	651,560	77,731
Total undiscounted lease liabilities	**2,201,056**	918,317

Short-term leases are leases with a lease term of twelve months or less. As at December 31, 2023 and December 31, 2022, the Company did not have any short-term leases. As at December 31, 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.

(Expressed in Canadian Dollars)

7. INTANGIBLE ASSETS

As at December 31, 2023, intangible assets included thirty-six (36) (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 ten (10) 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 $
Cost	
December 31, 2021	30,407
Additions	8,439
December 31, 2022	38,846
Accumulated amortization	
December 31, 2021	4,699
Amortization	2,410
December 31, 2022	7,109
Cost	
December 31, 2022	38,846
Additions	9,169
December 31, 2023	**48,015**
Accumulated amortization	
December 31, 2022	7,109
Amortization	3,007
December 31, 2023	**10,116**
Net book value	
December 31, 2022	31,737
December 31, 2023	**37,899**

(Expressed in Canadian Dollars)

8. GOVERNMENT ASSISTANCE

The Company receives funding from various Canadian federal and provincial government programs. During the years ended December 31, 2023 and December 31, 2022, the following amounts were received:

		December 31, 2023	December 31, 2022
	Amounts received:	**$**	$
(1)	Sustainable Development Technology Canada (SDTC)	4,087,807	1,797,824
(2)	Industrial Research Assistance Program (NRC-IRAP)	143,073	354,361
(2)	Other Grants	62,865	-
		4,293,745	2,152,185

(1) See deferred government assistance below for allocation of SDTC proceeds for the years ended December 31, 2023 and December 31, 2022.

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

Deferred government assistance (deferred liabilities):

As at December 31, 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 December 31, 2023 and December 31, 2022, and changes during the years then ended are as follows:

		December 31, 2023	December 31, 2022
	Deferred government assistance	**$**	$
	Beginning of year	-	18,958
	Additions - proceeds received	3,284,507	1,797,824
(1)	Amortization	(3,284,507)	(1,816,782)
	End of year	**-**	-

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

	December 31, 2023	December 31, 2022
	$	$
Property, plant and equipment (Note 6)	2,217,832	181,451
Professional and consulting, net	-	64,243
Research and operational expenses, net	731,530	204,353
Wages, benefits and fees, net	335,145	1,366,735
	3,284,507	1,816,782

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 December 31, 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 year ended December 31, 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 December 31, 2023, all proceeds were received (2022 - $7,742,210), including the final holdback of $803,300 received during the year ended December 31, 2023.

As at December 31, 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 year ended December 31, 2023, of $143,073 (2022 - $354,361).

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 totalling $439,000 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.

(Expressed in Canadian Dollars)

8. GOVERNMENT ASSISTANCE (continued)

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

	December 31, 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]	1,566,997	1,423,924
Other Grants	241,585	178,720
	17,670,848	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 year ended December 31, 2023:

a) Upon the exercise of RSUs, 131,564 common shares were issued for $nil proceeds. In addition, $491,008 representing the fair value initially recognized, was re-allocated from reserves to share capital.

b) Upon the exercise of stock options, 1,742,821 common shares were issued at prices between $1.14 and $2.88 each for proceeds of $3,612,020 ($3,783,020 gross proceeds, less $171,000 which had been received as at December 31, 2022, and recorded as shares committed for issuance).

Additionally, the Company issued 1,095,603 common shares on the net exercise of 97,500 stock options which were exercisable at $2.52 each and 2,115,000 stock options which were exercisable at $1.28 each. The re-allocation of the fair value initially recognized is combined within the amount disclosed above.

The fair value initially recognized totalling $3,546,613, was re-allocated from reserves to share capital in respect of the above exercises.

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) 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.

Share issue costs of $36,828 were paid for filing fees which were recorded as reduction of share capital.

Further, the parties entered into a Collaboration Agreement, and 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 three years to October 5, 2026.

9. SHARE CAPITAL AND RESERVES (continued)

Share capital (continued)

Transactions for the issuance of share capital during the year ended December 31, 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 RSUs, 2,876 common shares were issued for $nil proceeds. In addition, $11,993 representing the fair value initially recognized, was re-allocated from reserves to share capital.

c) Upon the exercise of stock options, 200,375 common shares were issued between $0.70 and $2.52 each for proceeds of $274,226. In addition, $167,912 representing the fair value initially recognized, was re-allocated from reserves to share capital.

d) Upon the exercise of warrants, 141,993 common shares were issued at $1.60 each for proceeds of $227,189. 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.

e) In December 2022, the Company received $171,000 in proceeds from the subsequent exercise of 150,000 stock options at $1.14 each. The proceeds are presented as shares committed for issuance.

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.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

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

	Year ended December 31, 2023		Year ended December 31, 2022	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of year	6,269,863	2.80	6,337,050	2.76
Granted	452,418	3.28	184,410	2.88
Exercised(1)	(3,955,321)	1.70	(200,375)	1.37
Cancelled/forfeited/expired	(78,395)	3.28	(51,222)	4.05
Options outstanding, end of year	**2,688,565**	**4.48**	6,269,863	2.80

(1) In accordance with the Company's Equity Plan, 2,212,500 stock options were exercised on a cashless basis (net exercise) for the issuance of 1,095,603 common shares.

As at December 31, 2023, the Company has stock options outstanding and exercisable as follows:

	Options outstanding #	Options exercisable #	Exercise price $	Expiry date
(1)	1,332,500	1,332,500	5.10	February 1, 2024
(1)	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	240,000	3.14	December 2, 2024
	400,000	400,000	5.10	February 1, 2026
	141,082	33,669	2.88	February 4, 2027
	9,100	9,100	2.88	June 13, 2027
	441,383	-	3.28	March 17, 2028
	2,688,565	**2,139,769**	**4.48**	

(1) Subsequently expired unexercised.

The following table summarizes the above information about the stock options outstanding as at December 31, 2023:

Exercise prices $	Options #	Weighted average remaining life (years)	Weighted average exercise price $
2.88	150,182	3.1	2.88
3.14 - 3.62	721,383	2.9	3.25
4.90 - 5.26	1,817,000	0.5	5.10
	2,688,565	**1.3**	**4.48**

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

The Company recorded the fair value of the stock options granted during the years ended December 31, 2023 and December 31, 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:

	December 31, 2023	December 31, 2022
Risk-free interest rate	2.9%	1.8%
Expected life of stock options (years)	5.0	5.0
Historical volatility	77.2%	75.6%
Dividend rate	0.0%	0.0%
Weighted average fair value per stock option granted	$ 2.10	$ 1.79

The total share-based payments expense for the year ended December 31, 2023, was $1,745,926 (2022 - $1,745,697), of which $612,911 (2022 – $1,004,764) was attributable to vesting of stock options during the year then ended.

During the year ended December 31, 2023, 78,395 (2022 – 51,222) 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 $128,422 (2022 - $14,166) 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 the date of approval of these financial statements are expected to be settled in common shares.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

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

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

	Year ended December 31, 2023	Year ended December 31, 2022
	Equity Incentives #	Equity Incentives #
Equity Incentives outstanding, beginning of year	379,679	193,131
Granted - RSUs	237,109	189,424
Granted - DSUs	182,550	-
Exercised	(131,564)	(2,876)
Equity Incentives outstanding, end of year	**667,774**	379,679

As at December 31, 2023, the Company has RSUs and DSUs outstanding as follows:

RSUs outstanding #	RSUs Exercisable #	DSUs outstanding #	Weighted average grant date fair value per RSU/DSU	Final vesting date
94,727	33,225	-	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
11,301	-	-	2.92	October 10, 2026
-	-	96,574	2.92	October 10, 2023
476,598	**51,704**	**191,176**	**3.35**	

On March 17, 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).

On October 10, 2023, the Company granted 11,301 RSUs to a director of the Company which vests in three annual instalments (one-third (3,767) on October 10, 2024; one-third (3,767) on October 10, 2025; and the final one-third (3,767) on October 10, 2026). The Company also granted 96,574 DSUs to directors of the Company which vested immediately.

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 year ended December 31, 2023, the Equity Incentives were granted at a fair value of $3.28 each (March 17, 2023 grant) for a total value of $1,022,652 and $2.92 each (October 10, 2023 grant) for a total value of $314,995 (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 year ended December 31, 2023, was $1,745,926 (2022 - $1,745,697), of which $1,133,015 (2022 - $740,933) represents the vesting of Equity Incentives with the remaining portion of share-based payment expense being attributable to stock options, as described above.

(Expressed in Canadian Dollars)

9. 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 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 December 31, 2023 and December 31, 2022, and changes during the years then ended is as follows:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of 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 year	**-**	**-**	3,288,479	2.33

During the year ended December 31, 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.

During the year ended December 31, 2022, various warrants expired unexercised, whereby certain warrants were issued as compensatory warrants. As a result, the original fair value on the portion that were compensatory warrants totalled $891,780 and was reversed from reserves and credited to share capital.

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

(Expressed in Canadian Dollars)

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 key management. The Company considers all directors and officers of the Company to be key management.

The following transactions were carried out with key management (gross amounts):

	Transactions year ended December 31, 2023	Transactions year ended December 31, 2022	**Balances outstanding December 31, 2023**	Balances outstanding December 31, 2022
	$	$	**$**	$
Bedrock Capital	150,000	150,000	-	-
DBM CPA	220,000	172,865	11,550	11,844
Directors' fees	320,259	238,521	-	-
Management and directors' fees (within wages, benefits and fees)	690,259	561,386	11,550	11,844
Wages, benefits and fees (officers)	2,424,678	1,348,197	-	-
Share-based payments (directors and officers)	1,163,140	1,125,228	-	-
Patent Filing Specialists (professional and consulting; and intangible assets)	451,166	253,684	34,911	11,795
	4,729,243	3,288,495	**46,461**	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.

(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 (effective January 15, 2024, Pamela Kinsman is no longer Corporate Secretary and remains with the Company as 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 (to January 15, 2024) is a principal. Subsequently, effective January 15, 2024, the Company announced the appointment of Carlo Valente as the new CFO. Dan Martino remains with the Company as Vice President of Finance.
- 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 year ended December 31, 2023, the Company granted 419,659 RSUs and DSUs to Company directors and officers (2022 – 189,424 RSUs granted). See Note 9 for specifics on vesting terms.
- There were no stock options granted to key management personnel during the year ended December 31, 2023 or December 31, 2022.

(Expressed in Canadian Dollars)

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital during the years ended December 31, 2023 and December 31, 2022, were comprised of the following:

	December 31, 2023	December 31, 2022
	$	$
Receivables and prepayments	1,735,242	4,947,596
Inventory	(387,999)	(317,279)
Accounts payable and accrued liabilities	1,326,258	(689,073)
Accounts payable to related parties	22,822	(1,385)
Deferred liabilities	-	(18,958)
Net change	**2,696,323**	3,920,901

The Company incurred non-cash investing and financing activities during the years ended December 31, 2023 and December 31, 2022 as follows:

	December 31, 2023	December 31, 2022
	$	$
Non-cash investing activities:		
Property, plant and equipment included in accounts payable and accrued liabilities	801,748	234,176
Non-cash financing activities:		
Addition of right-of-use asset (Note 6)	1,241,138	127,000

During the years ended December 31, 2023 and December 31, 2022, no amounts were paid for interest or income taxes.

Cash and cash equivalents consist of the following:

	December 31, 2023	December 31, 2022
	$	$
Cash	6,241,778	10,514,558
Cash equivalents	25,627,104	28,930,837
Cash and cash equivalents, end of year	**31,868,882**	39,445,395

Restricted cash

On December 12, 2023, the Company executed certain agreements with a Canadian chartered bank to purchase a standby letter of credit for $575,000 (the “letter of credit”). The letter of credit restricts the Company’s access to the cash in respect of an executed agreement with an arm’s length vendor for engineering services. The letter of credit takes the form of a redeemable guaranteed investment certificate with a one year term maturing on December 6, 2024 and bearing interest at a rate of 4.9% per annum. The contract with the vendor concludes on August 31, 2024, at which time at the direction of the Company, the letter of credit will be redeemed.

(Expressed in Canadian Dollars)

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 its commercialization objectives (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 operating and capital expenditure budgets that are monitored for variances and updated regularly depending on various factors, including but not limited to: business development and commercial arrangements, capital deployment, personnel planning, service contracts with vendors, access to financing, government program applications, 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 towards commercialization. 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, 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.

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) or in specific circumstances relate to standby letter of credit arrangements (restricted cash), and have original terms not exceeding 12 months.

As at December 31, 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 (with the exception of restricted cash). During the year ended December 31, 2023, the Company earned interest income of $1,654,412 (2022 - $924,301) 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
Restricted cash	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
Lease liabilities	Amortized cost

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 and positive operating cash flows.

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 deposits 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 year ended December 31, 2023, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the year by approximately $313,000 (2022 – $387,000).

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, restricted cash, receivables, and deposits.

The Company minimizes its credit risk on its cash and cash equivalents and restricted cash (standby letter of credit), 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 deposits (security deposits on facilities and other 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.

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. 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 December 31, 2023, the Company held certain financial assets and liabilities that were denominated in these foreign currencies.

Based on the December 31, 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 year by approximately $22,000 (2022 - $320,000).

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. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended December 31, 2023, and December 31, 2022, is as follows:

	December 31, 2023 $	December 31, 2022 $
Loss for the year	(31,814,883)	(15,820,764)
Expected income tax (recovery)	(8,590,000)	(4,272,000)
Change in tax resulting from:		
Permanent differences	509,000	493,000
Impact of acquisition	-	(4,868,000)
Change in recognized deductible temporary differences and other	8,091,000	8,656,000
Share issue costs	(10,000)	(9,000)
Total income tax expense (recovery)	**-**	-

(Expressed in Canadian Dollars)

15. INCOME TAXES (continued)

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, 2023 and December 31, 2022, are as follows:

	December 31, 2023 $	**Expiry Date Range**	December 31, 2022 $	Expiry Date Range
Property, plant and equipment	8,017,000	No expiry	2,335,000	No expiry
Right-of-use asset / lease liability	198,000	No expiry	124,000	No expiry
Share issue costs	1,482,000	2044 to 2047	2,364,000	2043 to 2046
Non-capital loss carry forwards	83,500,000	2026 to 2043	54,109,000	2026 to 2042

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

16. SUBSEQUENT EVENT

In January 2024, the Company granted an aggregate of 1,566,686 stock options and RSUs to officers, employees, and consultants as follows:

- 200,000 stock options to an officer of the Company exercisable at $1.94 each for a period five years until January 19, 2029, which vest one-third annually to January 19, 2027;
- 743,948 stock options to officers of the Company exercisable at $1.91 each for a period seven years until January 23, 2031, of which 500,000 vested immediately and the remainder vest one-third annually to January 23, 2027; and
- 622,738 RSUs to officers, employees, and consultants of the Company which vest one-third annually to January 23, 2024.