Nano One Materials Corp.

Condensed Interim Consolidated Financial Statements

For the three and six months ended

June 30, 2026

(Unaudited)

(Expressed in Canadian dollars)

Nano One Materials Corp.

Condensed Interim Consolidated Statements of Financial Position

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

As at June 30, 2026 and December 31, 2025

	Note	**June 30, 2026 $**	December 31, 2025 $
Assets			
Current assets			
Cash		19,333,426	23,597,749
Receivables and prepayments	3	3,569,991	2,827,246
Inventory	4	426,057	484,691
		23,329,474	26,909,686
Non-current assets			
Deposits and other assets	3	1,107,341	1,177,036
Loan receivable	5	2,106,740	2,067,069
Property, plant and equipment	6	15,754,884	14,264,006
Intangible assets - patents	7	57,800	57,249
		19,026,765	17,565,360
Total assets		**42,356,239**	44,475,046
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	11	4,950,864	3,254,820
Deferred income	8	-	500,000
Equipment finance liability - current portion		44,682	40,987
Lease liabilities - current portion	6	724,447	779,949
		5,719,993	4,575,756
Non-current liabilities			
Equipment finance liability		45,057	65,517
Lease liabilities	6	13,810,924	14,330,613
Government loan	9	4,540,993	3,012,925
		18,396,974	17,409,055
Total liabilities		**24,116,967**	21,984,811
Shareholders' equity			
Share capital	10	136,332,464	134,541,746
Contributed surplus	10	6,748,660	8,793,247
Deficit		(124,841,852)	(120,844,758)
Total shareholders' equity		**18,239,272**	22,490,235
Total liabilities and shareholders' equity		**42,356,239**	44,475,046
Nature of operations and liquidity risk	1		
Subsequent events	18		

Approved on behalf of the Board of Directors on August 11, 2026:

"Carla Matheson"	*"Anthony Tse"*
Director	**Director**

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

Nano One Materials Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

For the three and six months ended June 30, 2026 and June 30, 2025

		Three months ended		Six months ended	
	Note	**June 30, 2026 $**	June 30, 2025 $	**June 30, 2026 $**	June 30, 2025 $
Expenses					
Amortization and depreciation	6,7	37,566	59,599	100,748	120,814
Business development and investor relations		134,405	118,142	250,079	219,151
Finance costs	16	397,367	558,799	866,252	725,972
General and administrative expenses		746,432	748,226	1,421,111	1,351,742
Professional and consulting	11	836,444	332,111	1,252,008	756,125
Research and operational expenses, net		1,463,867	1,702,190	2,430,736	3,415,206
Share-based payments	10,11	448,923	538,263	824,462	1,912,317
Wages, benefits and fees	11	4,993,207	4,274,403	9,001,632	7,898,990
Other expense	16	25,561	57,557	8,678	72,569
Loss from operating expenses		**(9,083,772)**	(8,389,290)	**(16,155,706)**	(16,472,886)
Gain (loss) on disposal of property, plant and equipment	16	(23,584)	18,470	(23,584)	1,324,247
Government grant income	12,16	4,653,985	5,533,671	10,715,683	14,945,733
Interest income		129,238	43,631	258,205	82,308
Loss and comprehensive loss for the period		**(4,324,133)**	(2,793,518)	**(5,205,402)**	(120,598)
Loss per share					
Weighted average number of common shares outstanding					
- basic		**119,755,073**	111,492,838	**119,580,693**	111,459,161
- diluted		**119,755,073**	111,492,838	**119,580,693**	111,459,161
Basic loss per common share		**(0.04)**	(0.03)	**(0.04)**	(0.00)
Diluted loss per common share		**(0.04)**	(0.03)	**(0.04)**	(0.00)

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

Nano One Materials Corp.

Condensed Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

For the six months ended June 30, 2026 and June 30, 2025

	Note	**June 30, 2026 $**	June 30, 2025 $
Operating activities			
Loss for the period		(5,205,402)	(120,598)
Adjustments for:			
Amortization and depreciation	6,7	870,039	958,354
Finance costs		866,252	725,972
Foreign exchange on financial liability		3,244	366
Government grant (below-market interest rate benefit)	16	(1,786,107)	(4,717,758)
Share-based payments	10	824,462	1,912,317
Interest income		(258,205)	(82,308)
(Gain) loss on disposal of property, plant and equipment (non-cash)	16	23,584	(1,305,544)
Loss on derecognition of lease liability	16	22,378	-
Net change in non-cash working capital items	13	109,295	(1,700,603)
Interest paid on lease liabilities	6	(673,398)	(429,568)
		(5,203,858)	(4,759,370)
Investing activities			
Interest income		258,205	82,308
Deposits and other assets		-	(1,200)
Disposals of property, plant and equipment		-	18,703
Purchases of property, plant and equipment		(2,051,079)	(341,270)
Proceeds from sale and leaseback, net	6	-	13,699,122
Payments for intangible assets	7	(3,005)	(7,385)
		(1,795,879)	13,450,278
Financing activities			
Issuance of common shares for cash		240,859	-
Share issue costs paid		(261,521)	-
Payments of equipment finance liability		(24,679)	(4,120)
Principal paid on lease liabilities		(261,454)	(307,046)
Proceeds from government loan	9	3,125,991	7,503,313
Termination fee paid on derecognition of lease liability		(83,782)	-
		2,735,414	7,192,147
Change in cash and cash equivalents		**(4,264,323)**	15,883,055
Cash and cash equivalents, beginning of period		**23,597,749**	7,160,529
Cash and cash equivalents, end of period		**19,333,426**	23,043,584
Supplemental cash flow information	13		

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

Nano One Materials Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

For the six months ended June 30, 2026 and June 30, 2025

	Note	Number of common shares	Share capital $	Contributed surplus $	Deficit $	Total $
December 31, 2024		111,411,022	125,582,347	5,738,196	(109,891,910)	21,428,633
Exercise of RSUs		85,129	208,791	(208,791)	-	-
Re-allocated on cancellation of stock options		-	-	(11,299)	11,299	-
Re-allocated on cancellation of RSUs		-	-	(11,575)	11,575	-
Share-based payments	10	-	-	1,912,317	-	1,912,317
Loss and comprehensive loss for the period		-	-	-	(120,598)	(120,598)
June 30, 2025		111,496,151	125,791,138	7,418,848	(109,989,634)	23,220,352
December 31, 2025		118,640,646	134,541,746	8,793,247	(120,844,758)	22,490,235
Issue of shares - ATM financing	10	223,000	240,859	-	-	240,859
Share issue costs - cash		-	(110,882)	-	-	(110,882)
Exercise of RSUs/DSUs		923,436	1,660,741	(1,660,741)	-	-
Re-allocated on expiry/forfeiture of stock options		-	-	(1,204,379)	1,204,379	-
Re-allocated on forfeiture of RSUs		-	-	(8,982)	3,929	(5,053)
Share-based payments	10	-	-	829,515	-	829,515
Loss and comprehensive loss for the period		-	-	-	(5,205,402)	(5,205,402)
June 30, 2026		**119,787,082**	**136,332,464**	**6,748,660**	**(124,841,852)**	**18,239,272**

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

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

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" and commenced trading on the U.S. OTCQB under the symbol "NNOMF" on July 14, 2025.

The Company has patented (Note 7) 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.

These condensed interim consolidated financial statements (the "financial statements") have been prepared on a going concern basis which contemplates that the Company will be able to continue its operations for at least twelve months from June 30, 2026, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at June 30, 2026, the Company had working capital of $17,609,481 (December 31, 2025 - $22,333,930), which is calculated as current assets minus current liabilities.

The Company has not historically generated revenue. The Company's operations to date have been financed by the issuance of common shares/units, government grants and loans, and disposals of property, plant and equipment including amongst other disposals the sale of land, and the sale and leaseback of land and building (February 2025). The Company's long-term plans and activities are dependent upon its ability to continue receiving grants and loans from contracted and future government programs, raise financing from capital markets, maintain sufficient working capital, and generate future revenue and operating cash flows from licensing its technology and/or production by executing customer offtakes. As at June 30, 2026, management has assessed that the Company will be able to realize its assets and discharge its liabilities for at least the next twelve months from the statement of financial position date. The Company continues to seek additional financing alternatives to support its future plans, however, in the event additional funding is not secured, certain planned expenditures could be curtailed or postponed in order for the Company to sufficiently cover all non-discretionary expenditures over the next twelve months.

Basis of preparation

These financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). These financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2025, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

These financial statements follow the same accounting policies and methods of application as the most recent audited annual consolidated financial statements of the Company except as noted below.

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

Functional and presentation currency

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

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND LIQUIDITY RISK (continued)

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

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 these financial statements.

2. NEW IFRS ACCOUNTING STANDARDS AND AMENDMENTS

New accounting policies

Certain pronouncements including, but not limited to, the below have been issued by the International Accounting Standards Board ("IASB") that were effective for the Company's accounting period beginning on January 1, 2026. The adoption of these standards has not had a material impact on disclosures or amounts reported in these financial statements.

In May 2024, the IASB issued amendments to the classification and measurement of financial instruments to address matters identified during the post-implementation review of the classification and measurement requirements of IFRS 9, *Financial Instruments* ("IFRS 9") and IFRS 7, *Financial Instruments: Disclosures*. The IASB clarified the recognition and derecognition date of certain financial assets and liabilities, and amended the requirements related to settling financial liabilities using an electronic payment system. It also clarified how to assess the contractual cash flow characteristics of financial assets in determining whether they meet the solely payments of principal and interest criterion, including financial assets that have environmental, social and corporate governance-linked features and other similar contingent features. The IASB added disclosure requirements for financial instruments with contingent features that do not relate directly to basic lending risks and costs and amended disclosures relating to equity instruments designated at fair value through other comprehensive income.

Standards issued but not yet effective

IFRS 18, *Presentation and Disclosure in Financial Statements* ("IFRS 18"), which will replace IAS 1, *Presentation of Financial Statements* aims to improve how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss, in particular additional defined subtotals, disclosures about management-defined performance measures and new principles for aggregation and disaggregation of information. IFRS 18 is accompanied by limited amendments to the requirements in IAS 7, *Statement of Cash Flows.* IFRS 18 is effective from January 1, 2027 with retrospective application required to comparative information.

Management is currently assessing the impact of these amendments on its financial statements.

(Expressed in Canadian Dollars)

3. RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER ASSETS

Receivables and prepayments consist of the following:

	June 30, 2026 $	December 31, 2025 $
Accrued refundable tax credits (Note 12)	2,248,259	1,848,285
Prepaid expenses	1,008,399	721,777
Sales tax recoverable and other	313,333	257,184
	3,569,991	2,827,246

Deposits and other assets

Deposits and other assets consist of the following:

	June 30, 2026 $	December 31, 2025 $
Spare parts and deposits on property, plant and equipment	324,692	380,132
Security and other deposits	782,649	796,904
	1,107,341	1,177,036

4. INVENTORY

Inventory is comprised of the following:

	June 30, 2026 $	December 31, 2025 $
Raw materials	227,020	291,353
Packaging	187,022	190,599
Inventory - work in progress	12,015	2,739
	426,057	484,691

5. LOAN RECEIVABLE

Pursuant to the sale and leaseback transaction (Note 6) which closed on February 28, 2025, $2,000,000 of the consideration received was in the form of a loan (deferred payment) to the Purchaser which bears interest at 4% per annum and is due $1,000,000 plus interest in February 2028, and $1,000,000 plus interest in February 2031. The loan is secured by an immovable hypothec.

A reconciliation of the carrying amount of the loan receivable as at June 30, 2026 and December 31, 2025, and changes during the period/year then ended is as follows:

	June 30, 2026 $	December 31, 2025 $
Beginning of period/year	2,067,069	-
Issuance	-	2,000,000
Accrued interest receivable	39,671	67,069
End of period/year	**2,106,740**	2,067,069

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Production and research equipment	Construction in progress	Building	Land	Right-of-use assets	Leasehold improvements	Information technology equipment	Total
	$	$	$	$	$	$	$	$
Cost								
December 31, 2024	10,984,096	-	4,874,961	2,004,531	2,425,890	996,538	634,148	21,920,164
Additions	757,561	-	-	-	5,871,316	97,007	771	6,726,655
Disposals	(322,774)	-	(4,874,961)	(2,004,531)	-	-	-	(7,202,266)
Impairment	(319,423)	-	-	-	-	-	-	(319,423)
December 31, 2025	11,099,460	-	-	-	8,297,206	1,093,545	634,919	21,125,130
Accumulated depreciation and impairment								
December 31, 2024	2,703,739	-	421,414	-	1,363,777	649,162	432,906	5,570,998
(1) Depreciation	794,825	-	16,250	-	756,776	313,745	77,181	1,958,777
Disposals	(67,485)	-	(437,664)	-	-	-	-	(505,149)
Impairment	(163,502)	-	-	-	-	-	-	(163,502)
December 31, 2025	3,267,577	-	-	-	2,120,553	962,907	510,087	6,861,124
Cost								
December 31, 2025	11,099,460	-	-	-	8,297,206	1,093,545	634,919	21,125,130
Additions	999,116	1,635,263	-	-	-	-	-	2,634,379
Disposals	(31,442)	-	-	-	-	-	-	(31,442)
Derecognition	-	-	-	-	(702,697)	-	-	(702,697)
June 30, 2026	**12,067,134**	**1,635,263**	**-**	**-**	**7,594,509**	**1,093,545**	**634,919**	**23,025,370**
Accumulated depreciation								
December 31, 2025	3,267,577	-	-	-	2,120,553	962,907	510,087	6,861,124
(1) Depreciation	413,614	-	-	-	393,134	16,265	44,572	867,585
Disposals	(7,861)	-	-	-	-	-	-	(7,861)
Derecognition	-	-	-	-	(450,362)	-	-	(450,362)
June 30, 2026	**3,673,330**	**-**	**-**	**-**	**2,063,325**	**979,172**	**554,659**	**7,270,486**
Net book value								
December 31, 2025	7,831,883	-	-	-	6,176,653	130,638	124,832	14,264,006
June 30, 2026	**8,393,804**	**1,635,263**	**-**	**-**	**5,531,184**	**114,373**	**80,260**	**15,754,884**

(1) Depreciation for six months ended June 30, 2026 and June 30, 2025, is allocated as follows:

	Depreciation expense	Research and operational expenses, net	Total
	$	$	$
Production and research equipment	-	397,598	397,598
Building	-	16,250	16,250
Right-of-use assets	71,927	273,888	345,815
Leasehold improvements	7,772	149,804	157,576
Information technology equipment	38,902	-	38,902
June 30, 2025	118,601	837,540	956,141
Production and research equipment	-	413,614	413,614
Right-of-use assets	53,254	339,880	393,134
Leasehold improvements	468	15,797	16,265
Information technology equipment	44,572	-	44,572
June 30, 2026	**98,294**	**769,291**	**867,585**

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment of equipment

During the year ended December 31, 2025, the Company recognized an impairment of $381,633 representing the net book value of certain equipment decommissioned upon management determining that there would be no future economic benefits through their use.

Sale and leaseback of land and building

On February 28, 2025, the Company closed a transaction to sell and lease back its land and building at the Candiac Facility to Candiac Industrial Properties (I) L.P. ("Purchaser") for gross consideration of $17,000,000 ($15,000,000 in cash, and a $2,000,000 loan receivable (Note 5)).

Net cash proceeds totaled $13,699,122 ($15,000,000 cash; less $636,105 six-month security deposit (included within security and other deposits in Note 3); less $664,773 closing costs).

Additionally, the Company entered into a lease agreement for the Property for an initial term of 15 years commencing on March 1, 2025, with three optional 5-year renewal periods. In addition, the Company has the right of first offer should the Purchaser decide to sell in the future. Basic rent for the first year of the lease to February 28, 2026, was $106,017 per month ($1,272,204 for the year). Basic rent increases at a fixed rate of 3% per year. Effective March 2026, basic rent is $1,310,370 per month ($15,724,440 for the year).

A significant judgment was made by management during the year ended December 31, 2025, whereby management determined that the sale and leaseback transaction met the requirements for a sale under IFRS 16 and IFRS 15 as it was determined that the criteria for the transfer of control of the assets to the Purchaser were met. This resulted in the recognition of a lease liability, a derecognition of the underlying assets representing the rights transferred to the Purchaser, the recognition of a right of use asset, and a gain on disposal.

Right-of-use assets and lease liabilities

The Company has agreements to lease certain facilities. The Company has determined that its lease contracts are leases as defined under IFRS 16. In analyzing the identified contracts, the Company applied the lessee accounting model pursuant to IFRS 16 and considered all 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 ranging between 8% to 12%.

The Company has identified the following leases:

Location	Asset	Type	Remaining lease term as at June 30, 2026
Burnaby, BC	Three (3) Units	Research and innovation offices and facilities	2.2 to 2.6 years
Candiac, QC	Building and Land	Demonstration and pre-commercialization facility and offices	13.6 years

During the three months ended June 30, 2026, the Company terminated one of its office facility leases in Burnaby, BC. Accordingly, the right-of-use asset and corresponding lease liability were derecognized and the resulting loss on derecognition of $22,378 is included in other expense (Note 16) and is inclusive of a termination fee payment of $83,782.

Short-term leases are leases with a lease term of twelve months or less. As at June 30, 2026 and December 31, 2025, the Company did not have any short-term leases. As at June 30, 2026, there were no leases with residual value guarantees.

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

A reconciliation of the carrying amount of the lease liabilities as at June 30, 2026 and December 31, 2025, and changes during the period/year then ended is as follows:

Lease liabilities	June 30, 2026 $	December 31, 2025 $
Beginning of period/year	15,110,562	1,344,146
Additions	-	14,429,361
Derecognized	(313,739)	-
Lease payments	(934,850)	(1,694,045)
Lease interest (finance costs) (Note 16)	673,398	1,031,100
End of period/year	**14,535,371**	15,110,562
Current portion of lease liabilities	**724,447**	779,949
Non-current portion of lease liabilities	**13,810,924**	14,330,613
Maturity analysis - contractual undiscounted cash flows		
Less than one year	1,830,214	1,953,435
One to five years	6,515,666	6,915,867
More than five years	15,373,972	16,148,716
Total undiscounted lease liabilities	**23,719,852**	25,018,018

7. INTANGIBLE ASSETS - PATENTS

As at June 30, 2026, intangible assets included various patents that were approved for issuance, or have been issued, associated with the Company's technology. These patents were issued by various jurisdictions including Canada, China, India, 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, 2024	63,996
Additions	12,070
December 31, 2025	76,066
Accumulated amortization	
December 31, 2024	14,099
Amortization	4,718
December 31, 2025	18,817
Cost	
December 31, 2025	76,066
Additions	3,005
June 30, 2026	**79,071**
Accumulated amortization	
December 31, 2025	18,817
Amortization	2,454
June 30, 2026	**21,271**
Net book value	
December 31, 2025	57,249
June 30, 2026	**57,800**

(Expressed in Canadian Dollars)

8. DEFERRED INCOME

A reconciliation of the carrying amount of deferred income as at June 30, 2026 and December 31, 2025, and changes during the period/year then ended are as follows:

	June 30, 2026	December 31, 2025
	$	$
Beginning of period/year	500,000	-
Additions - proceeds received (Technoclimat)	-	500,000
Recognized as a reduction to operating expenses	(500,000)	-
End of period/year	**-**	500,000

As at December 31, 2025, deferred income included amounts received from the Technoclimat grant (Note 12) relating to expenditures planned for future periods which were incurred during the six months ended June 30, 2026, and deducted against the related costs as incurred.

9. GOVERNMENT LOAN

On December 11, 2024, Nano Candiac executed an interest-free loan agreement (the “Loan”) with Investissement Québec (“IQ”) for funding up to $15,000,000 ($10,629,304 received to June 30, 2026), based on the terms and conditions of the Loan. The Loan is available solely for the purpose of expanding the production capacity of the Company’s Candiac Facility for lithium-iron-phosphate (LFP) cathode active materials (CAM) using the One-Pot process (the “Project”).

Repayment terms:

A portion of the Loan, up to a maximum amount equal to the lesser of (i) $10,000,000, and (ii) 66.67% of the amount disbursed, may be forgivable provided that the conditions of forgiveness set for the Loan are met to IQ’s full satisfaction. Loan forgiveness is contingent on completing the Project and constructing a One-Pot Commercial Plant in Québec (alone or through a joint venture), which must reach at least 75% of its production capacity (based on a 25,000 tpa maximum). If no such plant is built in Québec and one is instead built outside the province, all amounts disbursed will become immediately payable, plus 10% interest from the first disbursement date.

Nano Candiac will benefit from a moratorium of five years (60 months) from March 2025, (first Loan disbursement) before it must pay the non-forgivable capital on the Loan totaling $5,000,000 commencing in March 2030. At the end of the moratorium period, the capital on the Loan is due to be repaid in 60 monthly and consecutive payments for a total of $5,000,000 (approximately $83,333 each).

Default and security:

In the event of default by the Company, any amount owing by the Company to IQ will bear interest at Prime plus 5.00% from the date of the first disbursement of the loan (9.95%, March 2025) up to and including the date on which the amount owing to IQ is repaid in full. During the six months ended June 30, 2025, the Company had accrued interest expense (within finance costs in addition to accretion expense) of $214,769 in relation to this default provision, which was reversed in the subsequent fiscal quarter.

In order for Nano Candiac to secure its present and future obligations to IQ, it has granted IQ security interests (hypothec) on certain of its present and future tangible and intangible assets as well as a solidary guarantee from the Company. Certain prepayment provisions also apply to the Loan.

A reconciliation of the carrying amount of the government loan as at June 30, 2026 and December 31, 2025, and changes during the period/year then ended are as follows:

	June 30, 2026	December 31, 2025
	$	$
Beginning of period/year	3,012,925	-
Additions - proceeds received	3,125,991	7,503,313
Below-market interest rate benefit (government grant) (Note 16)	(1,786,107)	(4,717,758)
Finance costs - accretion (Note 16)	188,184	227,370
End of period/year	**4,540,993**	3,012,925

9. GOVERNMENT LOAN (continued)

During the six months ended June 30, 2026, upon receipt of $3,125,991 in proceeds, $1,339,884 was initially recognized as a government loan, and $1,786,107 was recognized as government grant income representing the below-market interest rate benefit (Note 12).

The below-market interest rate benefit was calculated based the face value of the loan ($3,125,991) using a discount rate of 9.45% (representing prime plus 5.00%). The interest rate benefit is accounted for as government grant income under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20") and was recognized as such on initial recognition with management having determined there to be reasonable assurance of compliance with the terms of the loan and in respect of the funds received being reimbursements of costs incurred in prior fiscal periods (2025).

During the year ended December 31, 2025, upon receipt of $7,503,313 in proceeds, $2,785,555 was initially recognized as a government loan, and $4,717,758 was recognized as government grant income representing the below-market interest rate benefit (Note 12).

The below-market interest rate benefit was calculated based the face value of the loan ($7,503,313) using a discount rate of 9.95% (representing prime plus 5.00% as stated within, and at the time of executing, the agreement). The interest rate benefit is accounted for as government grant income under IAS 20, and was recognized as such on initial recognition with management having determined there to be reasonable assurance of compliance with the terms of the loan and in respect of the funds received being reimbursements of costs incurred in prior fiscal periods (2023 and 2024).

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

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

Share capital

On June 29, 2026, the Company renewed and superseded an equity distribution agreement originally signed on September 5, 2025 (the "former EDA"), with Canaccord Genuity Corp. and Roth Canada Inc. (the "agents") for an at-the-market equity issuance program (the "ATM program"). Pursuant to the renewed program, the Company may distribute up to $20,000,000 of common shares through the agents. The former EDA concluded on April 26, 2026, and allowed for the distribution of $15,000,000 in common shares through the agents.

Transactions for the issuance of share capital during the six months ended June 30, 2026:

(a) The Company raised gross proceeds of $240,859 ($55,463 during the three months ended June 30, 2026) in connection with the ATM program from the issuance of 223,000 common shares at an average price of $1.08 per share. The Company incurred share issuance costs of $110,882 comprising $78,711 in legal and regulatory fees for the renewal of the equity distribution agreement and filing of the short form base shelf prospectus and supplement, and $32,171 directly associated with the ATM program which concluded on April 26, 2026, which includes broker's commissions (at 3% of the proceeds raised), and legal fees.

(b) Upon the exercise of RSUs and DSUs, a total of 923,436 common shares were issued for $nil proceeds. Additionally, $1,660,741 representing the fair value initially recognized, was re-allocated from contributed surplus to share capital.

Transactions for the issuance of share capital during the six months ended June 30, 2025:

(a) Upon the exercise of RSUs, a total of 85,129 common shares were issued for $nil proceeds. Additionally, $208,791 representing the fair value initially recognized, was re-allocated from contributed surplus to share capital.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

Contributed surplus

The Company has an Omnibus Equity Incentive Plan which was approved by shareholders in 2021 (the "Equity Plan"). The Equity Plan provides for the grant of stock options, restricted share units ("RSUs"), deferred share units ("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 recipient retires or departs. The following provides a reconciliation of share-based payments expense for the six months ended June 30, 2026 and June 30, 2025:

	June 30, 2026	June 30, 2025
	$	$
Share-based payments - non-cash vesting expensed		
Share-based payments - stock options vesting and cancelled	272,843	1,065,888
Share-based payments - RSUs/DSUs vesting and cancelled	294,627	624,938
Share-based payments - PSUs vesting	262,045	221,491
Share-based payments added to contributed surplus	**829,515**	1,912,317
Fair value reversal of share-based payments (forfeiture of unvested RSUs)	(5,053)	-
Share-based payments expensed	**824,462**	1,912,317

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.

RSUs, DSUs, PSUs (collectively, "Share Units")

In accordance with the Equity Plan, Share Units 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 Share Units, 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 Share Units 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, Share Units 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 Share Units outstanding are considered equity-settled. Additionally, upon vesting of RSUs and PSUs, the Company has a commitment to settle vested RSUs and PSUs in the form of issuing common shares to the holders in equity-settled arrangements.

Pursuant to the underlying agreements, all Share Units granted to the date of approval of these financial statements are expected to be equity-settled in the form of common shares. The partial cash settlement that occurred during the year ended December 31, 2025, was a one-time event determined by the Company. There is presently no expectation that future settlements will occur in the form of cash. The form of future settlements is based on the Company's determination.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (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. Compensatory warrants may be issued to finders, brokers, or underwriters, as equity financing share issue costs or for other services and are valued using the Black-Scholes option pricing model.

Stock options

A summary of the status of the Company's stock options as at June 30, 2026 and December 31, 2025, and changes during the period/year then ended is as follows:

	Period ended June 30, 2026		Year ended December 31, 2025	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of period/year	4,221,223	1.74	1,890,878	2.96
Granted	1,590,572	0.95	2,379,977	0.78
Cancelled	(68,910)	2.13	-	-
Expired/forfeited	(423,073)	4.86	(49,632)	2.39
Options outstanding, end of period/year	**5,319,812**	**1.25**	4,221,223	1.74

As at June 30, 2026, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise price $	Expiry date
97,158	97,158	2.88	February 4, 2027
9,100	9,100	2.88	June 13, 2027
339,435	339,435	3.28	March 17, 2028
200,000	133,333	1.94	January 19, 2029
743,948	662,632	1.91	January 23, 2031
774,160	774,160	0.79	January 23, 2032
801,206	267,069	0.79	January 23, 2032
277,483	277,483	0.79	January 23, 2032
300,000	300,000	0.79	January 23, 2032
125,000	125,000	0.70	May 13, 2028
61,750	20,583	0.70	May 13, 2032
429,326	-	0.95	May 4, 2033
375,000	-	0.95	May 4, 2029
786,246	-	0.95	May 4, 2033
5,319,812	**3,005,953**	**1.25**	

The following table summarizes the above information about the stock options outstanding as at June 30, 2026:

Exercise prices $	Options #	Weighted average remaining life (years)	Weighted average exercise price $
0.70 - 0.95	3,930,171	5.6	0.85
1.91 - 2.88	1,050,206	3.8	2.01
3.28	339,435	1.7	3.28
	5,319,812	**5.0**	**1.25**

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

Stock options (continued)

The Company recorded the fair value of the stock options granted during the six months ended June 30, 2026 and year ended December 31, 2025, 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:

	June 30, 2026	December 31, 2025
Risk-free interest rate	**3.3%**	3.2%
Expected life of stock options (years)	**6.1**	6.8
Historical volatility	**73.8%**	75.1%
Dividend rate	**0.0%**	0%
Weighted average fair value per stock option granted	**$ 0.63**	$ 0.55

During the six months ended June 30, 2026, 423,073 stock options had either expired or were forfeited upon certain individuals leaving employment of the Company. As a result, the original share-based payments expense of $1,204,379 was reversed from contributed surplus and credited to deficit.

During the six months ended June 30, 2026, 68,910 stock options were cancelled upon the termination of certain employees from the Company. Accordingly, the remaining share-based payments expense that would have been recognized over time was accelerated and recognized upon cancellation.

During the year ended December 31, 2025, 49,632 stock options were forfeited upon certain individuals leaving employment of the Company. As a result, the original share-based payments expense of $68,412 was reversed from contributed surplus and credited to deficit.

RSUs and DSUs

A summary of the status of the Company's RSUs and DSUs as at June 30, 2026 and December 31, 2025, and changes during the period/year then ended is as follows:

	Period ended June 30, 2026	Year ended December 31, 2025
	RSUs and DSUs #	RSUs and DSUs #
RSUs/DSUs outstanding, beginning of period/year	3,236,935	1,888,436
Granted - RSUs	-	1,362,878
Granted - DSUs	-	351,563
Exercised	(923,436)	(223,880)
Cancelled	(81,274)	-
Forfeited/expired	(14,541)	(142,062)
RSUs/DSUs outstanding, end of period/year	**2,217,684**	3,236,935

The value of the RSUs granted during the year ended December 31, 2025, was based on the closing market price of the Company's common shares on the date preceding the date of grant which was a fair value of $0.85 each for a total value of $1,448,939. The expense is recognized within share-based payment expense over the vesting periods.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

RSUs and DSUs (continued)

As at June 30, 2026, 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	Expiry date
-	-	8,626	4.17	August 27, 2024	n/a
64,499	64,499	-	3.28	March 17, 2026	December 31, 2026
-	-	20,122	3.28	March 17, 2026	n/a
3,767	-	-	2.92	October 10, 2026	December 31, 2026
-	-	22,602	2.92	October 10, 2023	n/a
158,165	57,379	-	1.95	January 22, 2027	December 31, 2027
90,520	33,043	-	1.91	January 23, 2027	December 31, 2027
28,985	-	-	1.15	August 1, 2027	December 31, 2027
-	-	130,434	1.15	August 1, 2024	n/a
300,000	200,000	-	1.15	October 1, 2027	December 31, 2027
-	-	108,696	1.15	October 1, 2024	n/a
-	-	11,644	1.02	October 10, 2025	n/a
1,940	-	-	1.02	October 23, 2026	December 31, 2027
837,996	140,875	-	0.79	January 23, 2028	December 31, 2028
78,125	-	-	1.01	August 12, 2028	December 31, 2028
-	-	351,563	1.01	August 12, 2025	n/a
1,563,997	**495,796**	**653,687**	**1.39**		

<u>Activity during the six months ended June 30, 2026:</u>

- 14,541 RSUs were forfeited upon certain individuals leaving employment of the Company. As a result, the original share-based payments expense of $8,982 was reversed from contributed surplus and credited between share-based payments expense ($5,053) and deficit ($3,929).
- 81,274 RSUs were cancelled upon the termination of certain individuals from the Company. As a result, $14,522 in share-based payments expense relating to unvested RSUs was accelerated and recognized upon cancellation.

<u>Activity during the year ended December 31, 2025:</u>

- On January 23, 2025, the Company granted 1,284,753 RSUs to officers, employees, and consultants of the Company which vest in three annual instalments through to January 23, 2028.
- On August 12, 2025, the Company granted 78,125 RSUs and 351,563 DSUs in aggregate to directors of the Company. The 351,563 DSUs vested immediately on grant, and the 78,125 RSUs vest in three annual instalments through to August 12, 2028.
- 142,062 RSUs were forfeited upon certain individuals leaving employment of the Company. As a result, the original share-based payments expense of $87,409 was reversed from contributed surplus and credited to deficit.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

PSUs

A summary of the status of the Company's PSUs as at June 30, 2026 and December 31, 2025, and changes during the period/year then ended is as follows:

	Period ended June 30, 2026	Year ended December 31, 2025
	PSUs #	PSUs #
PSUs outstanding, beginning of period/year	1,359,071	-
Granted	1,704,788	1,760,470
Exercised	-	(361,268)
Forfeited	-	(40,131)
PSUs outstanding, end of period/year	**3,063,859**	**1,359,071**

Activity during the six months ended June 30, 2026:

- On May 4, 2026, the Company granted an aggregate of 1,704,788 PSUs to officers of the Company and one employee which vest upon certain performance goals being achieved within a three-year period.

Activity during the year ended December 31, 2025:

- On January 23, 2025, the Company granted an aggregate of 1,733,255 PSUs to officers of the Company and one employee which vest upon certain performance goals being achieved within a three-year period from the date of grant by January 23, 2028.
- On May 13, 2025, the Company granted an aggregate of 21,215 PSUs to an officer of the Company which vest under the same terms as the PSUs granted on January 23, 2025, but with an expiry date of May 13, 2028.
- On August 12, 2025, the Company granted an aggregate of 6,000 PSUs to an officer of the Company which vest under the same terms as the PSUs granted on January 23, 2025, but with an expiry date of August 12, 2028.
- On November 27, 2025, 361,268 PSUs vested upon the Tranche 1 (see below) performance target being met. Accordingly, the value of the settlement was $539,130 which was settled partially in shares ($249,497) and partially in cash ($289,633).
- During the year ended December 31, 2025, 40,131 unvested PSUs were forfeited upon the resignation of an officer (Corporate Secretary, Note 11).

Valuation of PSUs:

The Company recorded the fair value of the PSUs granted during the six months ended June 30, 2026 and the year ended December 31, 2025, using a combination of the barrier option valuation model, a weighted probability analysis, and a Monte Carlo Simulation depending on the Tranche. The vesting conditions (performance goals) for the various tranches for all of the Company's historical grants are based on the Company's traded share price on the TSX meeting or exceeding specific targets; and the Company meeting certain operating and commercialization targets by the Expiry Date.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

PSUs (continued)

During the six months ended June 30, 2026 and the year ended December 31, 2025, the fair value of PSUs granted was determined using the following assumptions.

	June 30, 2026	December 31, 2025
Share price	**$ 0.95**	$ 0.79
Volatility	**67.0%**	73.0%
Dividend yield	**0.0%**	0.0%
Risk-free rate	**3.2%**	2.9%
Time to expiry (years)	**3.7**	3.0

See table presented above under heading, “Contributed Surplus” for share-based payments expense recognized for PSUs during the six months ended June 30, 2026 and June 30, 2025.

Warrants

A summary of the Company’s common share purchase warrants as at June 30, 2026 and December 31, 2025, and changes during the period/year then ended is as follows:

	Period ended June 30, 2026		Year ended December 31, 2025	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of period/year	2,780,480	1.75	-	-
Issued	-	-	2,780,480	1.75
Warrants outstanding, end of period/year	**2,780,480**	**1.75**	2,780,480	1.75

As at June 30, 2026, the Company has warrants outstanding and exercisable as follows:

Warrants oustanding #	Exercise price $	Expiry date	Weighted average remaining life (years)
2,780,480	**1.75**	**December 10, 2027**	**1.40**

During the year ended December 31, 2025, the Company issued 295,230 compensatory warrants to the underwriters in connection with the overnight marketed unit offering completed on December 10, 2025. The Company recorded the fair value of these warrants issued during year ended December 31, 2025, 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, 2025
Risk-free interest rate	2.6%
Expected life of warrants (years)	2.0
Historical volatility	77.9%
Dividend rate	0.0%
Weighted average fair value per warrant issued	$ 0.42

(Expressed in Canadian Dollars)

11. 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 which key management controls or has significant influence. The Company considers all directors and officers of the Company to be key management.

The following transactions involved key management:

	Transactions six months ended June 30, 2026 $	Transactions six months ended June 30, 2025 $	**Balances outstanding June 30, 2026 $**	Balances outstanding December 31, 2025 $
Directors' fees (amounts within wages, benefits and fees)	135,000	185,820	-	-
Expense reimbursements (officers)	-	-	1,575	2,320
Wages, benefits and fees (officers) (1)	1,647,145	1,347,500	538,349	390,011
Share-based payments (directors and officers)	651,477	1,172,526	-	-
PFS (professional and consulting; and intangible assets)	59,949	188,939	-	15,734
	2,493,571	2,894,785	**539,924**	408,065

(1) As at June 30, 2026, $253,349 was accrued as short-term incentive (STI) compensation to key management relating to 2026 performance (December 31, 2025 - $390,011 relating to 2025 performance).

During the year ended December 31, 2025, stock options were granted to key management (as disclosed in (c) below) in lieu of cash in settling STI compensation accrued during the year ended December 31, 2024.

During the six months ended June 30, 2026, a total of $585,553 was incurred with the former CEO as additional compensation upon his retirement on June 12, 2026. $300,553 of this amount was paid during the period then ended, and a further $285,000 is included within accounts payable and accrued liabilities and will be paid on January 1, 2027.

In accordance with executive employment agreements the Company has in place with certain of its executive officers, in case of termination by the Company without cause, they are entitled to six (6) weeks' base pay (or notice) for every year of service to a maximum of twenty-four (24) months. In the case of resignation after a Change of Control and for 'Good Reason', they are entitled to twenty-four (24) months' base salary.

(a) Professional and consulting:

- Includes the services of Patent Filing Specialists Inc. ("PFS"), 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 for patent filings, maintenance and related which the Company incurs at market rates.

  During the six months ended June 30, 2026, Joseph Guy retired from providing patent services. Accordingly, PFS no longer provides the Company with such services. Joseph Guy remains a Company Director.

(b) Wages, benefits and fees, net:

- Includes salaries and short-term incentive cash-based compensation paid to Dan Blondal, CEO (retired June 12, 2026 as CEO and Director); Stephen Campbell, CTO (retired June 30, 2025); Alex Holmes, CEO (title change effective February 17, 2026 to President and Chief Strategy Officer from COO, then became CEO and Director effective June 12, 2026); Carlo Valente, CFO; Denis Geoffroy, Chief Commercialization Officer (CCO) (title change effective February 17, 2026 to COO); Adam Johnson, Senior Vice-President of External Affairs; Kelli Forster, Senior Vice-President of People & Culture; and Leanne Swanson, Corporate Secretary (from January 15, 2024 to resigning effective October 1, 2025, at which time Carlo Valente assumed the role in addition to being Company CFO).
- Includes the services of Anthony Tse, Chairman (non-Executive) of the Company. The Company entered into an Advisory Agreement with Bedrock Capital, a company controlled by Paul Matysek, former Executive Chairman and Director (until resigning effective October 1, 2024) for a term of six months to March 31, 2025 (expired), at a monthly fee of $12,500 ($75,000 over the term of the agreement).
- Includes compensation to non-executive directors of the Company and committee chairpersons.

(Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS (continued)

(c) Share-based payments:

- Includes amounts recognized on vesting of stock options and Equity Incentives granted to directors and officers.
- During the six months ended June 30, 2026, the Company granted 261,255 any stock options to Company officers (2025 – 1,695,547 stock options were granted to Company officers).
- During the six months ended June 30, 2026, the Company granted 1,704,788 PSUs to Company officers and directors (2025 – 1,754,470 PSUs were granted to Company officers).

12. GOVERNMENT PROGRAMS

During the six months ended June 30, 2026 and June 30, 2025, the following proceeds from government assistance were received and allocated within the financial statements as follows:

	June 30, 2026	June 30, 2025
Proceeds received:	**$**	$
Department of Defense (DoD)	4,064,504	4,452,595
Investissement Québec (IQ)	3,125,991	7,503,313
Next Generation Manufacturing Canada (NGen)	174,666	833,008
Industrial Research Assistance Program (NRC-IRAP) including SDTC	1,323,990	1,453,891
Other Grants	22,920	-
Scientific Research and Experimental Development (SR&ED)	-	-
Technoclimat	450,000	2,200,000
NRCan	3,118,188	-
	12,280,259	16,442,807
Allocation of proceeds received:		
Deferred liabilities	-	500,000
Reduction to operating expenses	624,666	-
Government grant income (Note 16)	10,315,709	13,097,447
Government loan (Note 9)	1,339,884	2,785,555
	12,280,259	16,383,002
Prior period Government grant income accrual	-	59,805
Total proceeds received	**12,280,259**	16,442,807

Of the total proceeds received per above, $4,428,677 was received during the three months ended June 30, 2026.

DoD (Department of Defense of the United States of America)

On September 25, 2024, the Company executed a Technology Investment Agreement for an award of US$12,879,426 from the DoD (approximately $17,800,000 equivalent as of the date of the agreement execution) in support of capacity expansion at its Candiac and Burnaby facilities through the Defense Production Act Investments (DPAI) office's Title III program. The term of this agreement is through to December 2027 which includes a six month period for completing the final program report.

IQ (Investissement Québec)

On December 11, 2024, Nano Candiac executed an interest-free loan agreement with IQ for funding up to $15,000,000, based on the terms and conditions of the loan (Note 9). The project time period is from January 1, 2023, to December 31, 2026.

NGen (Next Generation Manufacturing Canada)

Effective July 16, 2024, the Company and Worley Chemetics (a wholly owned Canadian subsidiary of Worley Limited) were awarded approximately $2,072,000 and $888,000 respectively in non-dilutive and non-repayable funding by NGen through its Electric Vehicle Manufacturing Program (EVMP). The funding stream is through to March 31, 2028.

On May 1, 2024, the Company executed a Strategic Alliance Agreement with Worley Chemetics under which the parties will jointly develop, market, and license a process engineering design package for the development of CAM production facilities with potential customers in the lithium-ion battery materials sector.

12. GOVERNMENT PROGRAMS (continued)

NRC-IRAP (National Research Council of Canada's Industrial Research Assistance Program)

Sustainable Development Technology Canada ("SDTC"):

In February 2025, the SDTC program transitioned to the National Research Council (the "NRC"), and assignment of the February 2023 funding agreement (see below) and any and all amendments thereto was concurrently completed.

IRAP Novated Project Funding Agreement (formerly, SDTC Pre-Commercial Trial and Multi Cathode Piloting Hub Project) (active):

NRC will provide the Company with staged funding up to $6,735,987. The revised funding amount is due to the modification and reduction to the project's scope in accordance with the amendment. The funds are non-dilutive, and non-repayable and are intended to support pre-commercial activities in Candiac.

In April 2026, the Company received the Milestone 3 payment of $1,323,990 (Note 19).

Technoclimat

Pursuant to a December 2024 agreement, Nano Candiac was awarded a grant of up to $3,000,000 from the Government of Quebec's Ministry of the Environment, the Fight against Climate Change, Wildlife and Parks (MELCCFP), through its Technoclimat program (the "Grant"). Of this Grant, $2,200,000 was received during the year ended December 31, 2025, with $500,000 of which included within deferred income (Note 8) as at December 31, 2025.

The Grant partially related to a reimbursement for eligible expenditures incurred at the Candiac plant ($1,700,000), and partially for expenditures on expansion activities ($500,000, incurred during the six months ended June 30, 2026 and recognized as a reduction to operating expenses). Amounts under the program may be subject to adjustment or repayment in full by the Company to Technoclimat in the event of non-compliance with the terms of the agreement. The agreement has a duration through to 2031.

NRCan (Natural Resources Canada, *Energy Innovation Program*)

On October 29, 2025, the Company announced an award of $5,000,000 in a non-repayable contribution from NRCan under the Energy Innovation Program for expansion of the Candiac Facility, scale production of One-Pot LFP CAM, and advance commercialization. The funding covers a period through to March 31, 2027. During the six months ended June 30, 2026, the Company executed an amendment to the program agreement to increase the award to $9,310,000 (an increase of $4,310,000).

On March 3, 2026, the Company announced a $3,000,000 award from NRCan to support ongoing process optimization, supply chain diversification and enhanced commercial offerings for the One-Pot production of lithium iron phosphate (LFP) cathode active materials. The program time period runs to March 31, 2028.

In July 2026, the Company received grant proceeds from NRCan of $990,000 (Note 18).

(Expressed in Canadian Dollars)

12. GOVERNMENT PROGRAMS (continued)

Refundable tax credits

SR&ED (Scientific Research and Experimental Development):

As at June 30, 2026, $666,082 (Note 3) was accrued for refundable SR&ED amounts receivable in relation to 2025 and 2024 amounts claimed by Nano Candiac. Of this amount, $399,974 was accrued during the three months ended June 30, 2026.

As at December 31, 2025, $266,108 (Note 3) was accrued for refundable SR&ED amounts receivable in relation to 2024 claimed by Nano Candiac during the year ended December 31, 2025.

SR&ED claims are subject to review, and potential adjustment, by tax authorities.

C3I Investment and Innovative ("C3i")

As at June 30, 2026 and December 31, 2025, the Company had $1,582,177 (Note 3) in refundable amounts receivable in relation to 2024 and 2023, which were accrued during the year ended December 31, 2025.

C3i claims are subject to review, and potential adjustment, by tax authorities.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital during the six months ended June 30, 2026 and June 30, 2025, were comprised of the following:

	June 30, 2026 $	June 30, 2025 $
Receivables and prepayments	(782,416)	(2,027,654)
Inventory	58,634	(272,579)
Accounts payable and accrued liabilities	1,333,077	99,630
Deferred liabilities	(500,000)	500,000
Net change	**109,295**	(1,700,603)

During the six months ended June 30, 2026, the Company incurred $261,521 in share issue costs inclusive of $188,766 in payables as at December 31, 2025.

The Company incurred non-cash investing and financing activities during the six months ended June 30, 2026 and June 30, 2025, as follows:

	June 30, 2026 $	June 30, 2025 $
Non-cash investing activities:		
Property, plant and equipment included in accounts payable and accrued liabilities	526,233	20,047
Non-cash financing activities:		
Equipment finance liability recognized on equipment addition (Note 6)	-	127,701
Lease liability derecognition	252,336	-
Share issue costs included in accounts payable and accrued liabilities	38,127	-

During the six months ended June 30, 2026 and June 30, 2025, no amounts were paid for income taxes. The Company made payments for interest expenses on its facility and equipment finance liabilities during the six months ended June 30, 2026 and June 30, 2025, as presented on the statements of cash flows under interest on lease liabilities.

14. 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, as well as generating returns on excess funds while maintaining liquidity/accessibility to such funds. 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 licensing and production. 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 six months ended June 30, 2026.

The Company currently has no source of revenues, though it receives funding from government programs (Note 12) and has historically relied upon equity financing (strategic partners and capital markets) to fund its activities and will continue to spend its existing working capital to fund ongoing activities until additional capital sources are required.

The Company may invest excess capital in high-interest savings accounts ("HISAs") and/or HISA funds which bear interest at variable rates (cash equivalents), as well as in guaranteed investment certificates ("GICs") bearing fixed rates of interest that are liquid and redeemable on demand (cash equivalents) and have original terms not exceeding 90 days.

15. 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	Amortized cost
Receivables	Amortized cost
Deposits	Amortized cost
Loan receivable	Amortized cost

Financial liabilities:	Classification and measurement:
Accounts payable and accrued liabilities	Amortized cost
Equipment finance liability	Amortized cost
Deferred income	Amortized cost
Lease liabilities	Amortized cost
Government loan	Amortized cost

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.

(Expressed in Canadian Dollars)

15. FINANCIAL INSTRUMENTS (continued)

Financial instruments – risk (continued)

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 various sources of capital as described in Note 1 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 generates profitability and positive operating cash flows.

As at June 30, 2026	Carrying amount $	Contractual cash flows $	Under 1 year $	1-5 years $	More than 5 years $
Accounts payable and accrued liabilities	4,950,864	4,950,864	4,950,864	-	-
Equipment finance liability	89,739	98,986	51,645	47,341	-
Lease liabilities	14,535,371	23,719,852	1,830,214	6,515,666	15,373,972
Government loan	4,540,993	10,629,304	-	-	10,629,304
Total	**24,116,967**	**39,399,006**	**6,832,723**	**6,563,007**	**26,003,276**

Refer to Note 9 for details of the repayment terms and amounts that may be forgiven under the terms of the Government loan involving IQ.

b) Interest rate risk

The Company is exposed to interest rate risk because of fluctuating interest rates. The Company is exposed to variable interest rates on cash and cash equivalents held in accounts bearing variable rates, GIC deposits held as collateral with a Canadian chartered bank on the Company's corporate credit cards, and its government loan.

For the six months ended June 30, 2026, every 1% fluctuation in interest rates would have impacted profit or loss and comprehensive profit or loss for the period by approximately $89,000 (2025 – $81,000).

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, certain of its receivables, deposits, and loan receivable.

The Company minimizes its credit risk on its cash and cash equivalents by holding treasury with high-credit quality Canadian chartered banks. Holdings are liquid (accessible on demand or cashable). 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. Additionally, management believes the risk to be low on its loan receivable due to the counterparty being of strong creditworthiness. The Company's deposits and loan receivable are subject to the expected credit loss model for impairment testing. The Company applies the IFRS 9, *Financial Instruments* simplified approach to the deposits to measure expected credit loss which uses a lifetime expected loss allowance. The deposits and loan receivable 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.

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.

15. FINANCIAL INSTRUMENTS (continued)

Financial instruments – risk (continued)

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, the Euro, and the British Pound. Additionally, as at June 30, 2026, the Company held certain financial assets and liabilities that were denominated in these foreign currencies. Based on the June 30, 2026 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 profit or loss and comprehensive profit or loss for the period by approximately $683,000 (2025 - $66,000).

16. SUPPLEMENTAL PROFIT (LOSS) AND COMPREHENSIVE PROFIT (LOSS) INFORMATION

Certain amounts in profit or loss and comprehensive profit or loss are comprised of the following for the six months June 30, 2026 and June 30, 2025:

	Three months ended		**Six months ended**	
	June 30, 2026	June 30, 2025	**June 30, 2026**	June 30, 2025
Finance costs	**$**	$	**$**	$
Lease liabilities - interest paid (Note 6)	286,123	301,660	673,398	429,566
Government loan - interest accrued (Note 9)	-	186,133	-	214,769
Government loan - accretion (Note 9)	109,149	69,940	188,184	80,571
Financial liability - interest paid	2,095	1,066	4,670	1,066
Total	**397,367**	558,799	**866,252**	725,972

	Three months ended		**Six months ended**	
	June 30, 2026	June 30, 2025	**June 30, 2026**	June 30, 2025
Gain (loss) on disposal of property, plant and equipment	**$**	$	**$**	$
Gain on sale and leaseback transaction - non-cash	-	-	-	1,305,777
Other disposals - cash	-	18,703	-	18,703
Other disposals - non-cash	(23,584)	(233)	(23,584)	(233)
Total	**(23,584)**	18,470	**(23,584)**	1,324,247

	Three months ended		**Six months ended**	
	June 30, 2026	June 30, 2025	**June 30, 2026**	June 30, 2025
Government grant income	**$**	$	**$**	$
Cash grants received	4,254,011	3,685,385	8,529,602	8,379,689
Cash grant portion of loan received (below-market interest benefit) (Note 9)	-	-	1,786,107	4,717,758
Cash received (Note 12)	**4,254,011**	3,685,385	**10,315,709**	13,097,447
Refundable tax credits accrued (Note 3)	399,974	1,848,286	399,974	1,848,286
Total	**4,653,985**	5,533,671	**10,715,683**	14,945,733

	Three months ended		**Six months ended**	
	June 30, 2026	June 30, 2025	**June 30, 2026**	June 30, 2025
Other income (expense)	**$**	$	**$**	$
Amortization of administration fee on government grants	(7,934)	-	(7,934)	-
Loss on derecognition of lease liability	(22,378)	-	(22,378)	-
Other income (expense)	4,751	(57,557)	21,634	(72,569)
Total	**(25,561)**	(57,557)	**(8,678)**	(72,569)

(Expressed in Canadian Dollars)

16. SUPPLEMENTAL PROFIT (LOSS) AND COMPREHENSIVE PROFIT (LOSS) INFORMATION

	Three months ended		**Six months ended**	
	June 30, 2026	June 30, 2025	**June 30, 2026**	June 30, 2025
Research and operational expenses, net	**$**	$	**$**	$
Cash costs paid or accrued	1,594,165	1,412,060	2,264,718	2,577,665
Depreciation expense	376,185	290,130	759,350	837,541
Recoveries - grants and other	(506,483)	-	(593,332)	-
Total	**1,463,867**	1,702,190	**2,430,736**	3,415,206

17. SEGMENTED INFORMATION

The Company operates in a single operating segment being the research, piloting, and pre-production demonstration of a patented process to produce LFP CAM for lithium-ion battery applications. The Company's non-current assets are located in Canada with the exception of certain patents (intangible assets) issued from patent regulators in foreign jurisdictions (Note 7).

The Company formerly disclosed additional operating segments within its interim and annual financial statements for the six months ended June 30, 2024, through the nine months ended September 30, 2025. These segments were disclosed as (i) corporate and other; (ii) research and innovation; and (iii) demonstration and pre-commercialization. Management has determined that the Company's operating segments meet the IFRS 8, *Operating Segments* criteria for aggregation into a single operating segment.

18. SUBSEQUENT EVENTS

On July 2, 2026, the Company entered into a contract to sell Off Spec LFP CAM to a third-party buyer. The value of the contract on such date was approximately $299,000 (US$210,000). During July 2026, the Company received a prepayment from the buyer of $65,168 (US$46,370) which constitutes a recovery against research and operational expenses.

In July 2026, the Company received grant proceeds from NRCan of $990,000 (Note 12).