NANO ONE MATERIALS CORP.

FINANCIAL STATEMENTS

DECEMBER 31, 2019

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nano One Materials Corp.

Opinion

We have audited the accompanying financial statements of Nano One Materials Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is David Harris.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 27, 2020

Nano One Materials Corp.

Statements of Financial Position

(Expressed in Canadian Dollars)

As at December 31, 2019 and December 31, 2018

	Note	**December 31, 2019 $**	December 31, 2018 $
Assets			
Current assets			
Cash and cash equivalents		1,747,514	3,153,369
Short-term investment	9	198,911	-
Receivables	3	147,662	347,499
Prepaid expenses		25,198	44,265
		2,119,285	3,545,133
Non-current assets			
Deposits		21,360	-
Property and equipment	4	767,988	728,607
Intangible assets	5	24,279	13,877
		813,627	742,484
Total assets		**2,932,912**	4,287,617
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		109,844	158,635
Accounts payable to related parties	8	24,864	16,046
Deferred government assistance	6	676,373	-
Current portion of lease liabilities	4	101,719	-
		912,800	174,681
Non-current liabilities			
Lease liabilities	4	151,676	-
Total liabilities		**1,064,476**	174,681
Shareholders' equity			
Share capital	7	20,068,795	18,843,555
Reserves	7	3,163,224	2,911,595
Deficit		(21,363,583)	(17,642,214)
Total shareholders' equity		**1,868,436**	4,112,936
Total liabilities and shareholders' equity		**2,932,912**	4,287,617
Nature of operations and going concern	1		
Commitments	12		
Subsequent events	15		

Approved on behalf of the Board of Directors on April 27, 2020:

"Dan Blondal"	*"Lyle Brown"*
Director	**Director**

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

Nano One Materials Corp.

Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

For the years ended December 31,

	Note	**2019** **$**	2018 $
Expenses			
Amortization	5	1,235	-
Consulting fees		129,360	100,699
Depreciation	4	54,448	23,129
Finance costs	4	31,706	-
General and administrative expenses	8	132,839	100,263
Investor relations and shareholder information		804,974	478,617
Management fees	8	60,000	60,000
Professional fees	8	220,887	325,338
Rent		25,703	48,892
Research expenses, net	3,4,6,8	1,069,523	1,075,304
Salaries and benefits	8	786,462	653,037
Share-based payments	7,8	427,600	2,116,856
Transfer agent and filing fees		70,445	42,485
Loss from operating expenses		**(3,815,182)**	(5,024,620)
Interest income		34,002	28,021
Loss on sale of property and equipment		-	(1,116)
		34,002	26,905
Loss and comprehensive loss for the year		**(3,781,180)**	(4,997,715)
Weighted average number of common shares outstanding - basic and diluted number		**66,623,836**	65,392,205
Basic and diluted loss per common share		**(0.06)**	(0.08)

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

Nano One Materials Corp.

Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended December 31,

	Note	**2019** **$**	2018 $
Operating activities			
Loss and comprehensive loss for the year		(3,781,180)	(4,997,715)
Adjustments for:			
Amortization		1,235	-
Depreciation	4	479,631	1,015,990
Finance costs		31,706	-
Share-based payments		427,600	2,116,856
Interest income accrued on short-term investment		(2,162)	-
Loss on sale of property and equipment		-	1,116
Non-cash working capital items:			
Receivables		199,837	(311,786)
Prepaid expenses		19,067	26,779
Deposits		(21,360)	-
Accounts payable and accrued liabilities		(49,475)	36,907
Accounts payable to related parties		8,818	2,189
Deferred government assistance		676,373	-
		(2,009,910)	(2,109,664)
Investing activities			
Purchase of short-term investment		(196,749)	-
Purchases of property and equipment		(233,460)	(205,773)
Proceeds from sale of property and equipment		-	6,375
Payments for intangible assets		(10,953)	(11,027)
Lease payments		(95,506)	-
		(536,668)	(210,425)
Financing activities			
Issuance of common shares for cash		1,146,606	800,157
Share issue costs		(5,883)	-
		1,140,723	800,157
Change in cash and cash equivalents		**(1,405,855)**	(1,519,932)
Cash and cash equivalents, beginning of year		**3,153,369**	4,673,301
Cash and cash equivalents, end of year		**1,747,514**	3,153,369
Cash and cash equivalents comprise:			
Cash		393,155	2,837,496
Cash equivalents		1,354,359	315,873
Cash and cash equivalents, end of year		**1,747,514**	3,153,369
Supplemental cash flow information	9		

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

Nano One Materials Corp.

Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

For the years ended December 31, 2019 and December 31, 2018

	Number of common shares	Share capital $	Reserves $	Deficit $	Total $
December 31, 2017	64,594,312	17,690,844	1,147,293	(12,644,499)	6,193,638
Exercise of stock options	1,205,000	354,750	-	-	354,750
Re-allocated on exercise of stock options	-	339,275	(339,275)	-	-
Exercise of warrants	356,325	445,407	-	-	445,407
Re-allocated on exercise of warrants	-	13,279	(13,279)	-	-
Share-based payments	-	-	2,116,856	-	2,116,856
Loss and comprehensive loss for the year	-	-	-	(4,997,715)	(4,997,715)
December 31, 2018	66,155,637	18,843,555	2,911,595	(17,642,214)	4,112,936
January 1, 2019, as previously reported	66,155,637	18,843,555	2,911,595	(17,642,214)	4,112,936
Impact of change in accounting policy (IFRS 16)	-	-	-	(31,643)	(31,643)
January 1, 2019, adjusted balance	66,155,637	18,843,555	2,911,595	(17,673,857)	4,081,293
Exercise of stock options	177,500	75,775	-	-	75,775
Re-allocated on exercise of stock options	-	58,120	(58,120)	-	-
Re-allocated on cancellation of stock options	-	-	(91,454)	91,454	-
Exercise of warrants	856,665	1,070,831	-	-	1,070,831
Share issue costs on exercise of warrants - cash	-	(5,883)	-	-	(5,883)
Re-allocated on exercise of warrants	-	4,370	(4,370)	-	-
Re-allocated on expiry of warrants	-	22,027	(22,027)	-	-
Share-based payments	-	-	427,600	-	427,600
Loss and comprehensive loss for the year	-	-	-	(3,781,180)	(3,781,180)
December 31, 2019	**67,189,802**	**20,068,795**	**3,163,224**	**(21,363,583)**	**1,868,436**

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Nano One Materials Corp. (the "Company") was incorporated under the laws of the Province of Alberta on November 5, 1987 and continued under the laws of the Province of British Columbia on September 8, 2004. The Company'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 has developed a patented technology for the low-cost production of high performance lithium ion battery cathode materials used in electric vehicles, energy storage, and consumer electronics. The Company has built a demonstration pilot plant (Note 4) and is partnering with global leaders in the lithium ion battery supply chain. The Company's common shares trade on the TSX Venture Exchange under the symbol "NNO.V".

These financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company has not yet realized profitable operations and has primarily relied on equity financing and government assistance programs to fund operations. The ability of the Company to achieve its objectives and meet its ongoing obligations will depend on management's ability to successfully execute its business plan, achieve profitable operations and obtain additional financing, if or when required. There is no assurance that these initiatives will be successful. As at December 31, 2019, the Company had working capital of $1,206,485. Management has assessed that its working capital as at December 31, 2019, in conjunction with the equity financing completed subsequent to December 31, 2019 (Note 15(a)), is sufficient for the Company to continue as a going concern beyond one year. If the going concern assumption were not appropriate for these financial statements, it could be necessary to restate the Company's assets and liabilities on a liquidation basis.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

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

The Company adopted IFRS 16 - *Leases* ("IFRS 16") on January 1, 2019. Changes to significant accounting policies are described below.

Functional and presentation currency

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

Comparative figures

Certain comparative figures within operating expenses on the statement of loss and comprehensive loss have been reclassified to conform to the current year's presentation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards

The Company adopted the following accounting standards that were effective for accounting periods beginning on or after January 1, 2019:

IFRS 16 - *Leases*

IFRS 16 specifies how to recognize, measure, present and disclose leases. The new standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance. Adoption of IFRS 16 is required for annual periods beginning on or after January 1, 2019. The Company has elected to adopt IFRS 16 using the modified retrospective approach. The most significant effect of the new standard is the lessee's recognition of the initial present value of unavoidable future lease payments as right-of-use ("ROU") assets and lease liabilities on the statements of financial position, including those for most leases that would formerly have been accounted for as operating leases.

As at December 31, 2019, the Company had two lease agreements in effect which commenced during the year ended December 31, 2016. The Company's two lease agreements are for its office space, and its warehouse/laboratory facility ("facility"). In the context of IFRS 16, aggregate ROU assets of $285,552 and lease liabilities of $317,195 were recognized as at January 1, 2019, representative of the cumulative impact of the two leases as if they had been accounted for under IFRS 16 from their inceptions (Note 4). The lease liabilities were measured at the present value of the lease payments, discounted using the Company's weighted average incremental borrowing rate of approximately 9% on January 1, 2019. The ROU assets (recognized within property and equipment) were measured at amounts equal to the corresponding initial lease liabilities.

The adoption of IFRS 16 requires the Company to make judgments that affect the valuation of the lease liabilities and the valuation of the ROU assets. These include: determining contracts that are within the scope of IFRS 16; determining the contract term; and determining the interest rate used for the discounting of future cash flows.

The Company's significant accounting policy for its leases is described below.

New Interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments*

On June 7, 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

There was no impact to the Company's financial statements as a result of adopting this new standard.

Leases

The Company leases some items of property and equipment. Under IFRS 16, the Company assesses whether a contract to rent an item of property and equipment is, or contains, a lease. For contracts that are, or contain, leases, the Company recognizes a right-of-use asset (within property and equipment) and a lease liability at the commencement date.

Pursuant to the IFRS 16 lessee accounting model, the right-of-use asset is initially measured at cost, which includes the initial amount of the liability adjusted for any lease payments made at or before the commencement date, 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 lease commencement date, discounted using the rate implicit in the lease or, if the implicit rate cannot be readily determined, the Company's incremental borrowing rate.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The measurement of lease liabilities includes the following types of lease payments:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as of the commencement date;
- Amounts expected to be payable under any residual value guarantees; and
- Exercise price for options that the Company is reasonably certain to exercise for an extension or option to buy, and penalties for early termination of a lease unless the Company is reasonably certain that it will not terminate the lease early. The lease liability is measured at amortized cost using the effective interest method.

Lease liabilities are remeasured in the following circumstances:

- If there is a change in the future lease payments resulting from a change in index or rate;
- If there is a change in the Company's estimation of the amount expected to be payable under a residual value guarantee; and
- If the Company changes its assessment of whether it will exercise an option to purchase, extend or terminate.

Financial instruments

All financial instruments are recognized initially at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument. The classification of the Company's financial assets and financial liabilities are detailed in Note 11.

Classification and measurement of financial assets and liabilities

The Company classifies its financial instruments based on the purpose for which they were acquired, in one of the following categories: amortized cost; fair value through other comprehensive income (loss) ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured at FVTPL (an irrevocable election at the time of recognition). Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method. Interest expense is recorded to profit or loss.

For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income (loss). The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Impairment of financial assets

An 'expected credit loss' ("ECL") model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to the ECL model are shown in Note 11. The adoption of the ECL impairment model had no impact on the carrying amounts of the Company's financial assets on the transition date given the receivables are substantially all current or due from a credit-worthy company. Additionally, there is no history of default on receivables.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during each reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

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

Fair value of stock options and finders' warrants

Determining the fair value of compensatory warrants (finders' warrants) and stock options requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the fair value of the Company's common shares, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity.

Property and equipment

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

The estimated useful life of the Company's pilot plant within property and equipment is subject to specific estimation uncertainty as to the duration of use. The use of the pilot plant has historically been driven by securing government funding to perform research activity that utilizes the pilot plant. Accordingly, the Company has historically depreciated the pilot plant over the term of the government assistance program. Future determinations of the expected life of the pilot plant may differ from historical experience.

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

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Going concern

The assessment of the Company's ability to continue as a going concern, as discussed in Note 1, involves judgment regarding future funding available for its operations and working capital requirements.

Research expenses

The determination of whether expenditures on research and development activities meet the criteria for capitalization as internally generated intangible assets is subject to estimation and uncertainty.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized over the following terms, intended to depreciate the cost of property and equipment, less its residual values, if any, over its estimated useful lives:

Computer software	50%
Computer equipment	30%
Research and development equipment	20%
Office equipment	20%
Pilot plant	Over the term of research funding provided by related government assistance programs
Right-of-use assets	Over the term of the leases

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the period they are incurred. Any gain or loss on the disposal or retirement of property and equipment is recognized in profit or loss.

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 for the years presented.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Government assistance

Government assistance ("grants") are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as a deduction against the related expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. Government grants received in advance that relate to expenses to be incurred in future periods are deferred on the statements of financial position as deferred government assistance and deducted against the related expenditures as incurred.

For the years presented, government grants received by the Company have been deducted as applicable against research expenses on the statements of loss and comprehensive loss.

Research and development

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss (research expenses, net) as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Upon a determination that the criteria to capitalize development expenditures have been met, the expenditures capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred. Capitalized development expenditures will be measured at cost less accumulated amortization and impairment losses.

For the years presented, research expenses are presented net of government assistance received, and net of other cost recoveries. Additionally, no development costs have been capitalized to date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 private placement units. 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 the private placements to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded within reserves.

Share-based payments

The Company has a stock option plan that provides for the granting of stock options to Officers, Directors, employees and consultants to acquire common shares of the Company. 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 taking into account 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 a stock option is cancelled or expires, the initial recorded value is reversed from reserves and credited to deficit.

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 and cash equivalents are comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in values. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Short-term investments are non-redeemable investments with originally maturities of twelve months or less. Short-term investments are not readily converted into cash, and are held for investment purposes.

2. SIGNIFICANT ACCOUNTING POLICIES (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 following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 date of the statement of financial position.

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 year. 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.

(Expressed in Canadian Dollars)

3. RECEIVABLES

Receivables consist of the following:

	December 31, 2019 **$**	December 31, 2018 $
Receivable from Global OEM partner (1)	139,738	-
Sales tax recoverable	7,924	12,401
Government assistance receivable	-	277,865
Other receivables	-	57,233
	147,662	347,499

(1) Cost recoveries

On June 20, 2019, the Company entered into an agreement with a Global OEM (Original Equipment Manufacturer) to jointly evaluate processes and innovative cathode materials for high energy density lithium ion batteries in automotive applications (the "Work Program"). The research activity under the Work Program is a direct component of the research efforts under the Company's SDTC Program #2 (Note 6).

In connection with the Work Program, the Company provides staffing and utilizes its property and equipment to perform research under the specifications of the Work Program, and recovers these costs from the Global OEM. During the year ended December 31, 2019, the Company recognized cost recoveries within research expenses of $356,344 in connection with the Work Program. Of this amount, $139,738 was recorded within receivables as at December 31, 2019, and was collected in full subsequent thereto.

4. PROPERTY AND EQUIPMENT

	Computer software $	Computer equipment $	Research and development equipment $	Office equipment $	Pilot plant $	Right-of-use assets $	Total $
Cost							
December 31, 2017	7,424	75,668	696,585	5,283	1,802,395	-	2,587,355
Additions	-	33,573	135,387	-	36,813	-	205,773
Disposals	-	-	-	-	(35,960)	-	(35,960)
December 31, 2018	7,424	109,241	831,972	5,283	1,803,248	-	2,757,168
Accumulated depreciation							
December 31, 2017	5,800	26,539	356,265	942	651,494	-	1,041,040
Depreciation	812	21,449	86,366	868	906,495	-	1,015,990
Disposals	-	-	-	-	(28,469)	-	(28,469)
December 31, 2018	6,612	47,988	442,631	1,810	1,529,520	-	2,028,561
Cost							
December 31, 2018	7,424	109,241	831,972	5,283	1,803,248	-	2,757,168
Adoption of IFRS 16, January 1, 2019 (Note 2)	-	-	-	-	-	285,552	285,552
Additions	-	24,438	51,348	2,258	155,416	-	233,460
December 31, 2019	**7,424**	**133,679**	**883,320**	**7,541**	**1,958,664**	**285,552**	**3,276,180**
Accumulated depreciation							
December 31, 2018	6,612	47,988	442,631	1,810	1,529,520	-	2,028,561
Depreciation	405	22,448	81,156	995	298,494	76,133	479,631
December 31, 2019	**7,017**	**70,436**	**523,787**	**2,805**	**1,828,014**	**76,133**	**2,508,192**
Net book value							
December 31, 2018	812	61,253	389,341	3,473	273,728	-	728,607
December 31, 2019	**407**	**63,243**	**359,533**	**4,736**	**130,650**	**209,419**	**767,988**

(Expressed in Canadian Dollars)

4. PROPERTY AND EQUIPMENT (continued)

Depreciation for the years ended December 31, 2019 and December 31, 2018 was allocated as follows:

	Depreciation expense $	Research and development $	Total $
December 31, 2018			
Computer software	812	-	812
Computer equipment	21,449	-	21,449
Research and development equipment	-	86,366	86,366
Office equipment	868	-	868
Pilot plant	-	906,495	906,495
	23,129	992,861	1,015,990
December 31, 2019			
Computer software	405	-	405
Computer equipment	22,448	-	22,448
Research and development equipment	-	81,156	81,156
Office equipment	995	-	995
Pilot plant	-	298,494	298,494
Right-of-use assets	30,600	45,533	76,133
	54,448	**425,183**	**479,631**

Right-of-use assets and Lease liabilities

The Company has identified two contracts that 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 of the facts and circumstances surrounding the inception of the contract (but not future events that are not likely to occur). Lease liabilities were calculated with a discount rate of 9%. Based on all the facts and circumstances at the inception of the contract, the Company determined that its office and facility leases (Note 2) located in Burnaby, BC contain leases as defined by IFRS 16. Each lease has an estimated useful life from inception of the lease contract of six years which includes a three-year renewal option that the Company is reasonably certain that will be exercised.

A reconciliation of the carrying amount of the lease liabilities recognized on initial adoption of IFRS 16 on January 1, 2019, and for the year ended December 31, 2019 is as follows:

Lease liabilities	**December 31, 2019 $**
January 1, 2019 (Note 2)	317,195
Lease payments	(95,506)
Lease interest (finance costs)	31,706
December 31, 2019	**253,395**
Current portion of lease liabilities	**101,719**
Non-current portion of lease liabilities	**151,676**
Maturity analysis - contractual undiscounted cash flows	
Less than one year	101,719
One to five years	182,669
More than five years	-
Total undiscounted lease liabilities	**284,388**

Short-term leases are leases with a lease term of twelve months or less. As at December 31, 2019, and December 31, 2018, the Company did not have any short-term leases. As at December 31, 2019, the Company included the available three-year extension options on both leases within the measurement of the lease liabilities as described above, and there were no leases with residual value guarantees.

(Expressed in Canadian Dollars)

5. INTANGIBLE ASSETS

Intangible assets include issued patents associated with the Company's technology (Note 1) issued by various jurisdictions including: Canada, United States, China, Korea, and Japan. The patents have expiries ranging between fourteen (14) to nineteen (19) years from the patent issuance date.

The capitalized amount represents only the patent issue costs. Application and other costs are expensed to research expenses as incurred. The Company has several outstanding patent applications in which all associated costs have been expensed.

	Issued patents $
Cost	
December 31, 2017	3,534
Additions	10,343
December 31, 2018	13,877
Cost	
December 31, 2018	13,877
Additions	11,637
December 31, 2019	**25,514**
Accumulated amortization	
December 31, 2017 and 2018	-
Amortization	1,235
December 31, 2019	**1,235**
Net book value	
December 31, 2018	13,877
December 31, 2019	**24,279**

No amortization was taken on the patents for the year ended December 31, 2018 and prior thereto, as the amounts were determined to be immaterial.

6. GOVERNMENT ASSISTANCE

Amounts accrued or received from Government assistance programs with the Government of Canada comprise the following:

		December 31, 2019 $	December 31, 2018 $
	Industrial Research Assistance Program (NRC-IRAP)	84,516	61,862
(1)	Sustainable Development Technology Canada (SDTC)	1,181,944	760,145
(2)	Automotive Supplier's Innovation Program (ASIP)	168,691	569,594
	Other Grants	20,400	36,376
		1,455,551	1,427,977

(1) $676,373 was recorded within deferred government assistance as at December 31, 2019 (2018 - $nil).
(2) $277,865 was recorded within receivables as at December 31, 2018 (Note 3).

Government assistance amounts are offset against research and development expense on the statements of loss and comprehensive loss. During the year ended December 31, 2019, $779,178 in government assistance was offset against research expenses (2018 - $1,427,946).

6. GOVERNMENT ASSISTANCE (continued)

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

NRC-IRAP Program #4 (completed):

Effective June 1, 2016, the Company executed an agreement with NRC-IRAP which provided the Company with a non-repayable contribution (the "grant") of $222,857 for the development of high voltage cobalt free cathode materials. Under the terms of the agreement, NRC-IRAP reimbursed the Company for 80% of salaries paid to Company employees and 50% of supported contractor fees involved in the pilot facility.

During the year ended December 31, 2018, the Company received the final payment from NRC-IRAP for this grant in the amount of $15,408. For the duration of this program, the Company received the full $222,857 in connection with this grant.

As the NRC-IRAP Program #4 was completed before December 31, 2018, no amounts were received by the Company for this grant during the year ended December 31, 2019.

NRC-IRAP Program #5 (active):

Effective August 1, 2018, the Company executed an agreement with NRC-IRAP which provides the Company with a non-repayable contribution of up to $349,000 (the "grant") for the development of coatings for high durability lithium ion battery cathodes. Under the terms of the agreement, NRC-IRAP will reimburse the Company for 80% of salaries paid to Company employees involved in this project.

During the year ended December 31, 2019, the Company received a total of $84,516 (2018 - $46,454) in connection with this grant.

Sustainable Development Technology Canada ("SDTC"):

SDTC Program #1 (completed):

Effective June 1, 2016, the Company executed a contribution agreement with SDTC for a non-repayable technology commercialization grant of up to $2,081,297 (the "grant") for a lithium ion battery materials pilot plant project.

During the year ended December 31, 2019, the Company received the final payment of $208,130 (2018 – a payment of $760,145 was received by the Company). As at December 31, 2019, the Company had received the entire grant amount of $2,081,297.

6. GOVERNMENT ASSISTANCE (continued)

Sustainable Development Technology Canada ("SDTC") (continued)**:**

SDTC Program #2 (active):

Effective July 1, 2019, the Company executed a contribution agreement with SDTC for a non-repayable grant of up to $5,000,000 (the "grant") in respect of the Company's "Scaling Advanced Battery Materials" project.

The funds are payable to the Company in five instalments including the release of a final 10% hold-back of $500,000 to the Company upon satisfactory review and approval of the project by SDTC. The instalments from SDTC are to be paid to the Company at the beginning of each of the four project phases ("Milestones") to June 30, 2024. Each instalment payment is subject to the Company meeting the specific project Milestones and having available cash resources to match each instalment from SDTC.

During the year ended December 31, 2019, the Company received the instalment for Milestone 1 in the amount of $973,814. From the project start date of July 1, 2019, to December 31, 2019, the Company incurred $819,452 of the budgeted costs pursuant to the Milestone 1 project phase (Note 12), which were recorded within research expenses.

As at December 31, 2019, $676,373 is recorded within deferred government assistance on the statements of financial position. The Company records the receipt of grant instalments initially as deferred government assistance and recognizes the amount into research expenses on a pro rata basis upon incurring the required expenditures associated with the active Milestone project phase (Note 12).

Subsequent to December 31, 2019, the Company received an additional one-time non-repayable grant of $250,000 from SDTC in the form of an additional milestone payment in relation to COVID-19 pandemic relief, thereby increasing the SDTC Program #2 contribution to $5,250,000.

Automotive Supplier's Innovation Program – a program of Innovation, Science and Economic Development Canada (ISED) ("ASIP") (completed):

Effective June 1, 2016, the Company executed an agreement with ASIP which provided the Company with a non-repayable contribution (the "grant") of up to $1,950,522. During the duration of this program, the Company received $1,733,506 in connection with this grant. The proceeds from the grant were incurred by the Company in relation to the preparation, design, construction, optimization and operation of its pilot plant.

During the year ended December 31, 2019, the Company received a total of $168,691 (2018 - $291,729 received, plus $277,865 accrued within receivables) in connection with this grant.

Other Grants:

During the year ended December 31, 2019, the Company received additional government grants for training and employment totaling $20,400 (2018 - $36,376).

(Expressed in Canadian Dollars)

7. SHARE CAPITAL AND RESERVES

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

Transactions for the issue of share capital during the year ended December 31, 2019:

a) The Company issued 177,500 common shares on the exercise of stock options at prices ranging between $0.25 and $0.70 per share, for proceeds of $75,775. In addition, $58,120 representing the fair value of the stock options on initial vesting was re-allocated from reserves to share capital.

b) The Company issued 856,665 common shares on the exercise of warrants at a price of $1.25 per share, for proceeds of $1,070,831. In addition, $4,370 representing the fair value of certain of the warrants (finders' warrants) on initial issuance was re-allocated from reserves to share capital.

   In connection with the common shares issued on the exercise of warrants, 676,500 warrants were exercised for proceeds of $845,625 in connection with the Company's early warrant exercise program effective between August 8 to 23, 2019 (see further details below). In connection with this program, the Company incurred legal fees of $5,883 which were recorded as a share issue cost and deducted from share capital.

Transactions for the issue of share capital during the year ended December 31, 2018:

c) The Company issued 1,205,000 common shares on the exercise of stock options at prices ranging between $0.25 and $0.70 per share, for proceeds of $354,750. In addition, $339,275 representing the fair value of the stock options on initial vesting was re-allocated from reserves to share capital.

d) The Company issued 356,325 common shares on the exercise of warrants at a price of $1.25 per share, for proceeds of $445,407. In addition, $13,279 representing the fair value of certain of the warrants on initial issuance was re-allocated from reserves to share capital.

Stock options

The Company has a stock option plan under which the maximum number of stock options issued cannot exceed 10% of the Company's currently issued and outstanding common shares. The exercise price of each stock option shall not be less than the discounted market price of the Company's common shares as calculated on the date of grant. The stock options can be granted for a maximum term of ten years, and vest at the discretion of the Board of Directors.

A summary of the status of the Company's stock options as at December 31, 2019 and December 31, 2018 and changes during the years then ended is as follows:

	Year ended December 31, 2019		Year ended December 31, 2018	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of year	5,937,500	0.84	4,067,500	0.33
Granted	195,000	1.34	3,075,000	1.30
Exercised	(177,500)	0.43	(1,205,000)	0.29
Cancelled	(111,575)	1.48	-	-
Options outstanding, end of year	**5,843,425**	**0.86**	5,937,500	0.84

(Expressed in Canadian Dollars)

7. SHARE CAPITAL AND RESERVES (continued)

Stock options

As at December 31, 2019, the Company has stock options outstanding and exercisable as follows:

	Options outstanding #	Options exercisable #	Exercise price $	Expiry date
(1)	1,982,500	1,982,500	0.25	March 5, 2020
(2)	17,500	17,500	1.25	March 31, 2020
	10,000	10,000	1.57	September 30, 2020
	15,000	15,000	1.28	September 30, 2020
	25,000	25,000	0.74	November 30, 2020
	17,850	17,850	1.57	November 30, 2020
	20,000	20,000	1.28	November 30, 2020
	225,000	225,000	0.25	January 19, 2021
	60,000	60,000	1.37	January 24, 2021
	100,000	100,000	0.38	April 8, 2021
	50,000	50,000	0.50	September 13, 2021
(3)	77,500	77,500	0.70	March 10, 2022
	25,000	25,000	0.67	June 5, 2022
	150,000	150,000	1.15	August 11, 2022
	50,000	50,000	1.08	September 13, 2022
	150,000	150,000	1.14	January 3, 2023
	100,000	100,000	1.19	January 9, 2023
	233,075	233,075	1.57	July 12, 2023
	25,000	25,000	1.08	September 10, 2023
	2,410,000	2,410,000	1.28	November 12, 2023
	100,000	100,000	1.35	March 21, 2024
	5,843,425	**5,843,425**		

(1) These stock options were exercised subsequent to December 31, 2019 (Note 15).
(2) These stock options expired unexercised subsequent to December 31, 2019.
(3) 2,500 of these options were exercised subsequent to December 31, 2019 (Note 15).

Stock options

The Company recorded the fair value of all stock options granted 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, 2019	December 31, 2018
Risk-free interest rate	1.6%	2.3%
Expected life of stock options (years)	4.1	5.0
Volatility	80.0%	71.0%
Dividend rate	0%	0%
Weighted average fair value per stock option granted	$ 0.78	$ 0.77

Total share-based payments expense for the year ended December 31, 2019 was $427,600 (2018 - $2,116,856), which includes only those stock options that vested during the years then ended.

During the year ended December 31, 2019, 111,575 stock options were cancelled (2018 – nil). As a result, the original share-based payments expense of $91,454 (2018 - $nil) was reversed from reserves and credited to deficit.

(Expressed in Canadian Dollars)

7. SHARE CAPITAL AND RESERVES (continued)

Warrants

As an incentive to complete private placements, 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 private placements. Finders' warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model.

A summary of the Company's common share purchase warrants as at December 31, 2019 and December 31, 2018 and changes during the years then ended is as follows:

	Year ended December 31, 2019		Year ended December 31, 2018	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of year	1,879,555	1.25	2,235,880	1.25
Issued - attached to units	676,500	1.60	-	-
Exercised	(856,665)	1.25	(356,325)	1.25
Expired	(1,022,890)	1.25	-	-
Warrants outstanding, end of year	**676,500**	**0.69**	1,879,555	1.25

As at December 31, 2019, the Company has warrants outstanding and exercisable as follows:

Warrants #	Weighted average exercise price $	Expiry Date	Weighted average remaining life (years)
676,500	**1.60**	**October 23, 2020**	**0.81**

During the year ended December 31, 2019, the Company completed a warrant exercise incentive program which facilitated the early exercise of outstanding warrants which had an expiry of September 8, 2019. The program commenced on August 8, 2019 and completed on August 23, 2019. Under the program, 676,500 warrants were exercised into common shares at a price of $1.25 each for proceeds of $845,625. Additionally, the Company issued one warrant (the "incentive warrant") for every warrant exercised under the program. The incentive warrants are exercisable into common shares at a price of $1.60 each until October 23, 2020. The incentive warrants are subject to accelerated expiry terms. There was no value recognized on issuance of the incentive warrants.

During the year ended December 31, 2019, 1,022,890 warrants expired unexercised (2018 – nil). As a result, the original fair value recognized of $22,027 (2018 - $nil) in connection with the portion of these warrants that were issued as finders' warrants, was reversed from reserves and credited to share capital.

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS

Key management personnel are the persons responsible for the planning, directing and controlling the activities of the Company and includes both executive and non-executive Directors, and entities controlled by such persons. The Company considers all Directors and Officers of the Company to be key management personnel.

The following transactions were carried out with related parties:

Services	Nature of relationship	Transactions year ended December 31, 2019 $	Transactions year ended December 31, 2018 $	Balances outstanding December 31, 2019 $	Balances outstanding December 31, 2018 $
General and administrative	A company with a common Director/Officer	-	4,321	-	-
Legal fees (1)	A company with a common Director/Officer	118,433	170,763	16,883	16,046
Management fees	A company controlled by a Director (*)	60,000	60,000	5,250	-
Salaries and benefits	Former Officer (*)	-	53,682	-	-
Salaries and benefits / Research expenses	Officers/Directors (*)	335,712	207,590	-	-
Share-based payments	Officers/Directors (*)	-	1,585,686	-	-
Expense reimbursements	Officer (*)	-	-	2,731	-
		514,145	2,082,042	**24,864**	16,046

(*) Member of key management personnel.

(1) Legal fees are allocated to both professional fees and intangible assets.

9. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash investing and financing activities during the years ended December 31, 2019 and December 31, 2018 as follows:

	December 31, 2019 $	December 31, 2018 $
Non-cash investing activities:		
Initial recognitition of right-of-use asset (IFRS 16)	317,195	-
Intangible assets included in accounts payable to related parties	-	684
Non-cash financing activities:		
Re-allocation of reserves on stock options exercised	58,120	339,275
Re-allocation of reserves on stock options cancelled	91,454	-
Re-allocation of reserves on warrants exercised	4,370	13,279
Re-allocation of reserves on warrants expired	22,027	-

As at December 31, 2019, the Company's short-term investment included a non-redeemable guaranteed investment ("GIC") certificate originally purchased with a nine month term maturing on March 24, 2020, and bearing interest at 2.10% per annum. The Company invested $196,749 in the GIC, and accrued interest income thereon in the amount of $2,162 during the year ended December 31, 2019. As at December 31, 2018, the Company did not hold any short-term investments.

During the years ended December 31, 2019 and December 31, 2018, no amounts were paid for interest expense or income taxes.

10. MANAGEMENT OF CAPITAL

The Company considers items included in shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new common shares. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. The Company’s capital structure as at December 31, 2019, is comprised of its components of shareholders’ equity.

The Company currently has no source of revenues, though it receives proceeds from government assistance programs, and other cost recoveries pursuant to project agreements with third parties (Note 3). In order to fund future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company's ability to continue as a going concern on a long-term basis and realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation is primarily dependent upon its ability to generate future profitable operations and its ability to borrow or raise additional financing from equity markets.

11. FINANCIAL INSTRUMENTS

Financial instruments - fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Classification of financial instruments

Financial assets:	Classification:	Subsequent measurement:
Cash and cash equivalents	FVTPL	Fair value
Short-term investment	Amortized cost	Amortized cost
Receivables	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost

Financial liabilities:	Classification:	Subsequent measurement:
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Accounts payable to related parties	Amortized cost	Amortized cost
Lease liabilities	Amortized cost	Amortized cost

The Company’s financial instruments with the exception of cash and cash equivalents approximate their fair values. Cash and cash equivalents under the fair value hierarchy is based on Level 1 quoted prices in active markets for identical assets or liabilities. The carrying value of lease liabilities approximates its fair value due to being discounted with a rate of interest that approximates market rates.

11. FINANCIAL INSTRUMENTS (continued)

Financial instruments - risk

The Company's financial instruments can be exposed to certain financial risks including liquidity risk, credit risk, interest rate risk, price risk, and currency risk.

a) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources. The Company has historically relied upon equity financings and government assistance programs to satisfy its capital requirements and will continue to depend heavily upon these sources to finance its activities. The Company's going concern is discussed in Note 1. Details of a subsequent equity financing are discussed in Note 15(a).

b) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk on its cash and cash equivalents, short-term investment, receivables, and deposits.

The Company minimizes its credit risk on its cash and cash equivalents and short-term investment, by holding the funds with high-credit quality Canadian banks. The Company's credit risk attributable to its receivable from Global OEM partner is mitigated as the amount was collected in full subsequent to year end.

The Company is also exposed to credit risk relating to its deposits 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.

c) Interest rate risk

The Company is exposed to interest rate risk because of fluctuating interest rates. Fluctuations in market rates do not have a significant impact on the Company's operations due to the short-term to maturity and no penalty cashable features of its cash equivalents. Moreover, the Company's short-term investment is not subject to a variable rate of interest. For the year ended December 31, 2019, every 1% fluctuation in interest rates would have had an insignificant impact on loss and comprehensive loss for the year.

d) Price risk

Equity price risk is defined as the potential adverse impact on the Company's results of operations and the ability to obtain equity financing due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors the individual equity movements to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

e) Currency risk

Currency risk is the risk of fluctuation in profit or loss that arises from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company is exposed to currency risk as it incurs certain transactions in the United States dollar and the Euro. Additionally, as at December 31, 2019, the Company held certain financial assets and liabilities that were denominated in these foreign currencies. For the year ended December 31, 2019, every 10% fluctuation in foreign exchange rates would have had an insignificant impact on loss and comprehensive loss for the year.

(Expressed in Canadian Dollars)

12. COMMITMENTS

Government assistance program – SDTC Program #2:

In connection with the Company's active SDTC Program #2 (Note 6), the Company received an instalment payment from SDTC for Milestone 1 during the year ended December 31, 2019. Accordingly, the Company is required to incur the budgeted expenditures in connection with the underlying research project by the projected date of May 31, 2020. The Company's remaining commitment on Milestone 1 expenditures as at December 31, 2019, is as follows:

	Total commitment $
Budgeted expenditures for Milestone 1	2,909,656
Budgeted in-kind expenditures to be incurred by other partners	(226,791)
Expenditures incurred by the Company to December 31, 2019	(819,452)
Remaining expenditures to be incurred on Milestone 1	**1,863,413**

Leases:

The Company has an agreement to lease its office, and laboratory and warehouse facility. The lease is for the period from October 1, 2016 to September 30, 2022, which includes a three-year renewal option as the Company expects to exercise such option. The Company's minimum annual lease commitments are described in Note 4.

Royalty commitment (terminated):

On April 15, 2011, the Company entered into an Assignment and Royalty Agreement (the "Agreement") with Lithium Ion Power LLC ("LIP") and Teresita F. Kullberg ("Kullberg"). In accordance with the Agreement, Kullberg and LIP assigned to the Company all of its rights, title, and interest in and to certain technologies invented by Kullberg and LIP. The Company was required to pay a royalty of 3% on net revenues collected or received from the sale, licensing or other form of distribution relating to any goods manufactured with the use of any portion of the technologies. To the date of these financial statements, no such revenues have been generated by the Company.

Effective June 6, 2019, the Agreement was terminated by the Company having provided written notice of termination. Certain covenants and obligations of Kullberg and LIP were considered to be in breach and accordingly, the Agreement takes no further force and effect.

13. SEGMENTED INFORMATION

The Company operates in one business segment, being the development of a patented technology for the low-cost production of high performance lithium ion battery cathode materials. The Company's non-current assets are located in Canada with the exception of certain patents within intangible assets that are issued from patent regulators in foreign jurisdictions (Note 5).

(Expressed in Canadian Dollars)

14. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended December 31, 2019, and December 31, 2018, is as follows:

	2019 **$**	2018 $
Loss for the year	(3,781,180)	(4,997,715)
Expected income tax (recovery)	(1,021,000)	(1,349,000)
Change in tax resulting from:		
Permanent differences	153,000	575,000
Change in recognized deductible temporary differences	846,000	730,000
Share issue costs	(2,000)	-
Adjustment to prior year provision versus statutory tax returns and other	24,000	44,000
Total income tax expense (recovery)	-	-

The Company's unused temporary differences, unused tax credits, and unused tax losses that have not been included on the statements of financial position as at December 31, 2019 and December 31, 2018, are as follows:

	2019 **$**	**Expiry Date Range**	2018 $	Expiry Date Range
Property and equipment	3,182,000	No expiry	2,575,000	No expiry
Investment tax credits	29,000	2035	29,000	2035
Share issue costs	78,000	2040 to 2043	165,000	2039 to 2041
Non-capital loss carry forwards	13,874,000	2026 to 2039	11,259,000	2026 to 2038

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

15. SUBSEQUENT EVENTS

a) On February 21, 2020, the Company closed a non-brokered private placement of units comprising 9,565,000 units at $1.15 per unit for gross proceeds of $10,999,750. Each unit comprises one common share and one-half of a common share purchase warrant with each whole warrant exercisable into one common share at a price of $1.60 each until February 21, 2023.

   In connection with the placement, the Company issued 467,740 finders' warrants exercisable into common shares at $1.60 each until February 21, 2023. Additionally, the Company paid cash finders' fees of $557,221.

b) In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

c) The Company issued 1,985,000 common shares on the exercise of stock options at prices between $0.25 and $0.70 per share, for gross proceeds of $497,375.

d) On April 17, 2020, the Company received an additional one-time non-repayable grant of $250,000 from SDTC in relation to COVID-19 pandemic relief with respect to SDTC Program #2 (Note 6).