Nano One Materials Corp.

Consolidated Financial Statements

December 31, 2024

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nano One Materials Corp.

Opinion

We have audited the accompanying consolidated financial statements of Nano One Materials Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2024 and 2023, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Key Audit Matters

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

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

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

As described in Note 5 to the consolidated financial statements, the carrying amount of the Company's PP&E was $16,349,166 as of December 31, 2024. As more fully described in Note 2 to the consolidated financial statements, management assesses PP&E for indicators of impairment at each reporting period or more frequently if facts and circumstances arise.

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

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

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

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

March 25, 2025

Nano One Materials Corp.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at December 31, 2024 and December 31, 2023

	Note	**December 31, 2024 $**	December 31, 2023 $
Assets			
Current assets			
Cash and cash equivalents	11	7,160,529	31,868,882
Restricted cash	11	-	575,000
Receivables and prepayments	3	1,354,360	1,130,043
Inventory	4	338,252	705,278
		8,853,141	34,279,203
Non-current assets			
Deposits and other assets	3	415,057	295,411
Property, plant and equipment	5	16,349,166	18,362,255
Intangible assets - patents	6	49,897	37,899
		16,814,120	18,695,565
Total assets		**25,667,261**	52,974,768
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	10	2,894,482	3,769,726
Lease liabilities - current portion	5	449,885	374,242
		3,344,367	4,143,968
Non-current liabilities			
Lease liabilities	5	894,261	1,344,144
Total liabilities		**4,238,628**	5,488,112
Shareholders' equity			
Share capital	9	125,582,347	125,042,258
Reserves	9	5,738,196	7,171,841
Deficit		(109,891,910)	(84,727,443)
Total shareholders' equity		**21,428,633**	47,486,656
Total liabilities and shareholders' equity		**25,667,261**	52,974,768
Nature of operations and going concern	1		
Subsequent events	16		

Approved on behalf of the Board of Directors on March 25, 2025:

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

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

Nano One Materials Corp.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

For the years ended December 31, 2024 and December 31, 2023

	Note	**December 31, 2024 $**	December 31, 2023 $
Expenses			
Amortization	6	3,983	3,007
Business development and investor relations		556,367	661,807
Depreciation	5	258,352	254,052
Finance costs	5	185,447	160,332
General and administrative expenses		2,608,191	2,509,027
Professional and consulting	10	2,308,114	2,719,748
Research and operational expenses, net	7	7,908,652	8,369,064
Share-based payments	9,10	3,161,999	1,745,926
Wages, benefits and fees, net	7,10	16,709,841	16,745,071
Loss from operating expenses		**(33,700,946)**	(33,168,034)
Interest income		756,461	1,654,412
Gain (loss) on disposal of property, plant and equipment	5	3,537,531	(301,261)
Other income		186,932	-
Loss and comprehensive loss for the year		**(29,220,022)**	(31,814,883)
Loss per share			
Weighted average number of common shares outstanding			
- basic		**111,303,413**	105,078,258
- diluted		**111,303,413**	105,078,258
Basic loss per common share		**(0.26)**	(0.30)
Diluted loss per common share		**(0.26)**	(0.30)

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

Nano One Materials Corp.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended December 31, 2024 and December 31, 2023

	Note	**December 31, 2024 $**	December 31, 2023 $
Operating activities			
Loss for the year		(29,220,022)	(31,814,883)
Adjustments for:			
Amortization		3,983	3,007
Depreciation	5	1,808,052	1,503,393
Finance costs		185,447	160,332
Share-based payments		3,161,999	1,745,926
Interest income		(756,461)	(1,654,412)
(Gain) loss on disposal of property, plant and equipment		(3,537,531)	301,261
Net change in non-cash working capital items	11	30,626	2,696,323
		(28,323,907)	(27,059,053)
Investing activities			
Interest income received on cash and cash equivalents		756,461	1,654,412
Deposits and other assets		-	(180,386)
Purchases of property, plant and equipment, net		(1,974,789)	(5,056,560)
Disposal of land, net	5	4,834,550	-
Payments for intangible assets	6	(15,981)	(9,169)
Standby letter of credit	11	575,000	(575,000)
		4,175,241	(4,166,703)
Financing activities			
Issuance of common shares for cash		-	24,143,072
Share issue costs		-	(36,828)
Payments of lease liabilities	5	(559,687)	(457,001)
		(559,687)	23,649,243
Change in cash and cash equivalents		**(24,708,353)**	(7,576,513)
Cash and cash equivalents, beginning of year		**31,868,882**	39,445,395
Cash and cash equivalents, end of year		**7,160,529**	31,868,882
Supplemental cash flow information	11		

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

Nano One Materials Corp.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

For the years ended December 31, 2024 and December 31, 2023

	Number of common shares	Share capital $	Shares committed for issuance $	Reserves $	Deficit $	Total $
December 31, 2022	100,516,495	96,704,471	171,000	10,209,880	(53,635,982)	53,449,369
Issue of common shares - private placement	5,498,355	16,879,950	-	-	-	16,879,950
Share issue costs - cash	-	(36,828)	-	-	-	(36,828)
Exercise of RSUs	131,564	491,008	-	(491,008)	-	-
Exercise of stock options	1,742,821	3,783,020	(171,000)	-	-	3,612,020
Exercise of stock options - cashless net exercise	1,095,603	-	-	-	-	-
Re-allocated on exercise of stock options	-	3,546,613	-	(3,546,613)	-	-
Re-allocated on cancellation of stock options	-	-	-	(128,422)	128,422	-
Exercise of warrants	2,281,939	3,651,102	-	-	-	3,651,102
Re-allocated on exercise of warrants	-	22,013	-	(22,013)	-	-
Re-allocated on expiry of warrants	-	909	-	(595,909)	595,000	-
Share-based payments	-	-	-	1,745,926	-	1,745,926
Loss and comprehensive loss for the year	-	-	-	-	(31,814,883)	(31,814,883)
December 31, 2023	111,266,777	125,042,258	-	7,171,841	(84,727,443)	47,486,656
December 31, 2023	111,266,777	125,042,258	-	7,171,841	(84,727,443)	47,486,656
Exercise of RSUs	144,245	540,089	-	(540,089)	-	-
Re-allocated on cancellation/expiry of stock options	-	-	-	(3,986,513)	3,986,513	-
Re-allocated on cancellation of RSUs	-	-	-	(69,042)	69,042	-
Share-based payments	-	-	-	3,161,999	-	3,161,999
Loss and comprehensive loss for the year	-	-	-	-	(29,220,022)	(29,220,022)
December 31, 2024	**111,411,022**	**125,582,347**	**-**	**5,738,196**	**(109,891,910)**	**21,428,633**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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".

The Company has patented (Note 6) 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 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 December 31, 2024, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As of December 31, 2024, the Company had cash and cash equivalents of $7,160,529 (December 31, 2023 - $31,868,882) and working capital of $5,508,774 (December 31, 2023 - $30,135,235), which is calculated as current assets minus current liabilities. For the year ended December 31, 2024, the Company used cash in operating activities of $28,323,907 (2023 - $27,059,053).

The Company has not historically generated revenue. The Company's operations to date have been financed by the issuance of common shares, and various government funding. The continuing operations of the Company are dependent upon its ability to continue receiving grants and loans from contracted and future government programs, raise financing from public markets, maintain sufficient working capital, and generate future revenue and operating cash flows from licensing its technology and executing customer offtakes. Subsequent to December 31, 2024, the Company generated proceeds from closing a transaction to sell and leaseback its land and building, as well as government grants and loans (Note 16). As at December 31, 2024, management has assessed that the Company's financial position is sufficient to cover operating expenses and non-discretionary expenditures for the next fiscal year.

These financial statements do not give effect to any adjustments to the carrying values of the assets and liabilities, the reported expenses, and the statements of financial position classifications used that would be necessary should the Company be unable to continue as going concern. Such adjustments could be material.

2. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of presentation

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

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

Functional and presentation currency

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

2. MATERIAL ACCOUNTING POLICY INFORMATION (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.

Material accounting estimates and judgments

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

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

Fair value of equity incentives (stock options, restricted share units, deferred share units, performance share units) and compensatory warrants

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

Impairment of long lived-assets and useful lives of property, plant and equipment

The Company reviews long-lived assets for indicators of impairment at the end of each reporting period which involves estimation regarding internal and external factors that may impact the significance of any indicators should they exist.

The estimated useful lives of property, plant and equipment are reviewed by management and adjusted if necessary. To estimate property, plant and equipment’s useful life, management may use its past experience, review engineering estimates and industry practices for similar items of property, plant and equipment to assist in its determination of useful life. The information about significant areas of judgment considered by management in preparing these financial statements is as follows:

Research and operational expenses

The determination of whether expenditures on research and development activities meet the criteria for capitalization as internally generated intangible assets is subject to estimation and uncertainty. The Company has determined that until such time that it has a commercial-scale plant in the condition and location necessary to commence commercial production, that it will remain in the research phase and accordingly expenditures will be recognized within expenses on the consolidated statements of loss and comprehensive loss

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of raw materials, and packaging and parts is comprised of initial third-party acquisition costs. As at December 31, 2024, costs of work in progress are comprised only of raw materials costs within production equipment. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Raw materials, packaging, and consumable parts, are initially valued at cost and subsequently at the lower of cost and net realizable value.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Government assistance

Government assistance ("grants") are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. The Company accounts for grants depending on the nature of the grant program, as follows:

(a) Grants received pursuant to programs designed to reimburse wages for internships or other, are accrued and/or recognized as a deduction against wages, benefits and fees, or research and operational expenses.

(b) Government grants received in advance that relate to expenditures in future periods are deferred on the statement of financial position within deferred liabilities and subsequently deducted against either the related expense or the related asset as incurred to match the grant on a systematic basis to the costs that it is intended to compensate.

(c) Grants received pursuant to programs with retroactive reimbursement conditions as well as those designed to reimburse past expenses and costs of non-current assets are recorded as other income when received.

Through to December 31, 2024, the Company has only received government grants in the manner described in (a) and (b) above.

Research and development

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

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

For the years presented, expenditures on research and operational expenses are presented net of government assistance received, and net of other cost recoveries. Additionally, no development costs have been capitalized to the reporting date of these financial statements.

Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from shareholders' equity, as share issue costs. Common shares issued for consideration other than cash, are valued based on their fair value on the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to units in private placement and prospectus offerings (collectively, "equity offerings"). The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in equity offerings to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any value attributed to the warrants is recorded within reserves and such value is reversed and credited to share capital upon the exercise or expiry of warrants.

Foreign currency translation

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Cash and cash equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents are high-interest savings accounts (see details on the management of capital in Note 12), and short-term (maturities with twelve months or less), interest bearing, redeemable instruments such as guaranteed investment certificates ("GICs") that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in values.

Share-based payments

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

Stock options

The fair value of the stock options are measured on grant date and is recognized as an expense with a corresponding increase in reserves as the stock options vest. Stock options granted to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model considering the terms and conditions upon which the stock options were granted. The amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Stock options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

Over the vesting period, share-based payments are recorded as an expense and as reserves. When stock options are exercised, the consideration received is recorded as share capital and the related share-based payments originally recorded as reserves are transferred to share capital. When stock options are cancelled or expire, the initial recorded value is reversed from reserves and credited to deficit.

Restricted share units

Restricted share units ("RSUs") are granted to eligible directors, employees, and consultants of the Company. RSUs are classified as equity settled share-based payment transactions as the participations will receive either common shares of the Company or payment of cash, or any combination of the foregoing, as determined by the Company in its sole discretion, following a redemption event.

As such, the Company measures the share-based payment expense based on the quoted market price of the Company's common shares on the grant date and recognizes the expense over the vesting period, with a corresponding increase in reserves. When RSUs are exercised, the initial recorded value is reversed from reserves and credited to share capital.

Deferred share units

Deferred share units ("DSUs") are granted to directors of the Company. DSUs are classified as equity settled share-based payment transactions as the participations will receive either common shares of the Company or payment of cash, or any combination of the foregoing, as determined by the Company in its sole discretion, following a redemption event. As such, the Company measures the share-based payment expense based on the quoted market price of the Company's common shares on the grant date and recognizes the expense over vesting period, if any, with a corresponding increase in reserves. When DSUs are exercised, the initial recorded value is reversed from reserves and credited to share capital. DSUs vest immediately unless otherwise determined by the Company.

(Expressed in Canadian Dollars)

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

Intangible assets

Intangible assets with finite lives are measured at cost less accumulated amortization and impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives. Useful lives, residual values, and amortization methods for intangible assets with finite useful lives are reviewed at least annually.

Indefinite life intangible assets are measured at cost less any impairment charges. These intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that intangible assets may be impaired.

The Company amortizes its finite life intangible assets over their estimated useful lives which are estimated to be the term of the underlying patents. The Company does not hold any indefinite life intangible assets as at the dates presented in these financial statements.

Property, plant and equipment

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

During the year end ended December 31, 2024, the Company changed certain estimates over the depreciation of property, plant and equipment on a prospective basis. Effective January 1, 2024, certain of the Company's production and research equipment are being depreciated on a straight-line basis between five (5) and ten (10) years (formerly 20% declining balance basis); and certain information technology equipment are being depreciated on a straight-line basis over three (3) and five (5) years (formerly 30% declining balance basis).

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

Production and research equipment:	
• Plant and machinery	10 to 14 years straight-line
• Research and development equipment	5 to 10 years straight-line
Building	25 years straight-line
Land	N/A
Right-of-use assets	Over the terms of the leases
Leasehold improvements	Over the terms of the leases
Information technology equipment	3 to 5 years straight-line

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Critical replacement parts to be used for repairs and replacements within items of property, plant and equipment are classified as non-current other assets (deposits and other assets). Repairs and maintenance costs are charged to profit or loss during the period they are incurred. Any gain or loss on the disposal or retirement of property, plant and equipment is recognized in profit or loss. Amounts received from selling items produced while preparing the asset for its intended use are prohibited from being deducted from the cost of property, plant and equipment. Instead, the Company will recognize such sale proceeds and related cost in profit or loss.

2. MATERIAL ACCOUNTING POLICY INFORMATION (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.

Leases

The Company leases offices and research facilities which are included within property, plant and equipment. Under IFRS 16 *Leases* ("IFRS 16"), the Company assesses whether a contract to lease facilities is, or contains, a lease. For contracts that are, or contain leases, the Company recognizes a right-of-use asset (within property, plant and equipment) and a lease liability at the commencement date of the contract.

Pursuant to the IFRS 16 lessee accounting model, right-of-use assets are initially measured at cost, which includes the initial amount of the liabilities adjusted for any lease payments made at or before the commencement date of the contract, plus any initial direct costs incurred and estimates of costs to remove or dismantle the underlying asset or to restore the underlying asset or site on which the asset is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the term of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid as of the commencement date of the contract, discounted using the rate implicit in the lease or, if the implicit rate cannot be readily determined, the Company's incremental borrowing rate.

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

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

Lease liabilities are remeasured in the following circumstances:

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

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments

All financial instruments are recognized initially at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument. The classification of the Company's financial assets and financial liabilities are detailed in Note 13.

Classification and measurement of financial assets and liabilities

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

Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured at FVTPL (an irrevocable election at the time of recognition). Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method. Interest expense (finance costs) is recorded to profit or loss. For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income (loss). The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Impairment of financial assets

An 'expected credit loss' ("ECL") model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to the ECL model are shown in Note 13. The Company has no history of default on receivables.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case it is recognized in shareholders' equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting year, applicable to the year of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potential dilutive common shares related to outstanding stock options and warrants issued by the Company for the years presented, except if their inclusion proves to be anti-dilutive.

(Expressed in Canadian Dollars)

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

New accounting policies

Certain pronouncements have been issued by the IASB that were effective for the Company's accounting period beginning on January 1, 2024. The adoption of these standards has not had a material impact on disclosures or amounts reported in these financial statements.

Standards issued but not yet effective

In June 2023, the International Sustainability Standards Board ("ISSB") issued the following IFRS Sustainability Disclosure Standards: *General Requirements for Disclosure of Sustainability-related Information* (IFRS S1); and *Climate-related Disclosure* (IFRS S2), which are effective for accounting periods beginning on or after January 1, 2024 but are not currently mandated in Canada. IFRS S1 sets out general reporting requirements for disclosing sustainability-related financial information. IFRS S2 requires an entity to disclose information about climate-related risks and opportunities and the impac t on an entity's financial position, performance, cash flows, strategy, and business model.

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. Companies are permitted to apply IFRS 18 before that date.

The Company has not yet determined the impact of these amendments on its financial statements.

3. RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER ASSETS

Receivables and prepayments consist of the following:

	December 31, 2024	December 31, 2023
	$	$
Accrued government assistance (Note 7)	59,805	10,833
Prepaid expenses	951,866	738,333
Sales tax recoverable and other	342,689	380,877
	1,354,360	1,130,043

Deposits and other assets

Deposits and other assets consist of the following:

	December 31, 2024	December 31, 2023
	$	$
Spare parts and deposits on property, plant and equipment	222,484	102,838
Security and other deposits	192,573	192,573
	415,057	295,411

4. INVENTORY

Inventory is comprised of the following:

	December 31, 2024	December 31, 2023
	$	$
Raw materials	317,299	701,932
Packaging	6,663	-
Inventory - work in progress	14,290	3,346
	338,252	705,278

(Expressed in Canadian Dollars)

5. PROPERTY, PLANT AND EQUIPMENT

	Production and research equipment	Building(1)	Land(1)	Right-of-use assets	Leasehold improvements	Construction in progress	Information technology equipment	Total
	$	$	$	$	$	$	$	$
Cost								
December 31, 2022	5,045,390	4,874,961	3,263,658	1,184,752	265,083	220,338	472,142	15,326,324
Additions, net	2,805,836	-	-	1,241,138	579,244	2,382,186	136,009	7,144,413
Reclassification	2,602,524	-	-	-	-	(2,602,524)	-	-
Disposal	(341,468)	-	-	-	-	-	(1,014)	(342,482)
December 31, 2023	10,112,282	4,874,961	3,263,658	2,425,890	844,327	-	607,137	22,128,255
Accumulated depreciation								
December 31, 2022	1,339,711	31,418	-	534,779	163,741	-	215,565	2,285,214
(2) Depreciation	668,791	194,998	-	371,192	147,308	-	121,104	1,503,393
Disposal	(22,560)	-	-	-	-	-	(47)	(22,607)
December 31, 2023	1,985,942	226,416	-	905,971	311,049	-	336,622	3,766,000
Cost								
December 31, 2023	10,112,282	4,874,961	3,263,658	2,425,890	844,327	-	607,137	22,128,255
Additions, net	912,878	-	-	-	152,211	-	27,011	1,092,100
Disposals	(41,064)	-	(1,259,127)	-	-	-	-	(1,300,191)
December 31, 2024	**10,984,096**	**4,874,961**	**2,004,531**	**2,425,890**	**996,538**	**-**	**634,148**	**21,920,164**
Accumulated depreciation								
December 31, 2023	1,985,942	226,416	-	905,971	311,049	-	336,622	3,766,000
(2) Depreciation	720,851	194,998	-	457,806	338,113	-	96,284	1,808,052
Disposals	(3,054)	-	-	-	-	-	-	(3,054)
December 31, 2024	**2,703,739**	**421,414**	**-**	**1,363,777**	**649,162**	**-**	**432,906**	**5,570,998**
Net book value								
December 31, 2023	8,126,340	4,648,545	3,263,658	1,519,919	533,278	-	270,515	18,362,255
December 31, 2024	**8,280,357**	**4,453,547**	**2,004,531**	**1,062,113**	**347,376**	**-**	**201,242**	**16,349,166**

(1) Subsequent to December 31, 2024, the Company closed a transaction to sell and leaseback its land and building (Note 16(c)).

(2) Depreciation for the years ended December 31, 2024 and December 31, 2023, is allocated as follows:

	Depreciation expense	Research and operational expenses, net	Total
	$	$	$
Production and research equipment	-	668,791	668,791
Building	-	194,998	194,998
Right-of-use assets	113,418	257,774	371,192
Leasehold improvements	19,530	127,778	147,308
Information technology equipment	121,104	-	121,104
December 31, 2023	254,052	1,249,341	1,503,393
Production and research equipment	-	720,851	720,851
Building	-	194,998	194,998
Right-of-use assets	143,816	313,990	457,806
Leasehold improvements	18,252	319,861	338,113
Information technology equipment	96,284	-	96,284
December 31, 2024	**258,352**	**1,549,700**	**1,808,052**

(Expressed in Canadian Dollars)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

On September 12, 2024, the Company completed the sale of a vacant parcel of its land in Candiac for $5,000,000 in gross proceeds ($4,834,550, net). At the time of sale, the net book value of the land was $1,259,127 resulting in a gain on disposal of $3,575,423 after incurring commission and closing costs.

During the year ended December 31, 2024, the Company recorded a net gain on disposal of property, plant and equipment of $3,537,531 which includes the gain on disposal of land (per above), partially offset by losses on disposal of other items of equipment. During the year ended December 31, 2023, the Company recorded a loss on disposal of property, plant and equipment of $301,261.

Net additions to property, plant and equipment include amounts amortized from deferred government assistance which reduces gross additions. For the years ended December 31, 2024 and December 31, 2023, these amounts were allocated within property, plant and equipment as follows:

	December 31, 2024 $	December 31, 2023 $
Production and research equipment	**-**	2,217,832

Right-of-use assets and Lease liabilities

The Company has agreements to lease certain of its offices and research facilities. The Company has determined that its lease contracts are leases as defined under IFRS 16. 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 of either 9% or 12%.

The Company has identified the following leases:

Location	**Asset**	**Type**	**Term of lease at December 31, 2024 inluding extensions (years)**
Burnaby, BC	Building	Corporate head office (extension)	3.7
Burnaby, BC	Building	Research facilities	3.7
Burnaby, BC	Building	Warehouse and office	1.1
Burnaby, BC	Building	Corporate head office (main)	0.7

A reconciliation of the carrying amount of the lease liabilities as at December 31, 2024 and December 31, 2023, and changes during the years then ended is as follows:

Lease liabilities	**December 31, 2024 $**	December 31, 2023 $
Beginning of year	1,718,386	773,917
Addition or extension	-	1,241,138
Lease payments	(559,687)	(457,001)
Lease interest (finance costs)	185,447	160,332
End of year	**1,344,146**	1,718,386
Current portion of lease liabilities	**449,885**	**374,242**
Non-current portion of lease liabilities	**894,261**	**1,344,144**
Maturity analysis - contractual undiscounted cash flows		
Less than one year	588,279	559,687
One to five years	1,053,089	989,809
More than five years	-	651,560
Total undiscounted lease liabilities	**1,641,368**	2,201,056

(Expressed in Canadian Dollars)

5. **PROPERTY, PLANT AND EQUIPMENT** (continued)

Short-term leases are leases with a lease term of twelve months or less. As at December 31, 2024 and December 31, 2023, the Company did not have any short-term leases. As at December 31, 2024, the Company included the available extension options on its leases within the measurement of the lease liabilities, and there were no leases with residual value guarantees.

6. **INTANGIBLE ASSETS - PATENTS**

As at December 31, 2024, intangible assets included various patents that were approved for issuance, or have 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, 2022	38,846
Additions	9,169
December 31, 2023	48,015
Accumulated amortization	
December 31, 2022	7,109
Amortization	3,007
December 31, 2023	10,116
Cost	
December 31, 2023	48,015
Additions	15,981
December 31, 2024	**63,996**
Accumulated amortization	
December 31, 2023	10,116
Amortization	3,983
December 31, 2024	**14,099**
Net book value	
December 31, 2023	37,899
December 31, 2024	**49,897**

(Expressed in Canadian Dollars)

7. GOVERNMENT ASSISTANCE

The Company receives funding from various Canadian federal and provincial government programs. During the years ended December 31, 2024 and December 31, 2023, the following amounts were received:

	Amounts received:	**December 31, 2024 $**	December 31, 2023 $
	Next Generation Manufacturing Canada (NGen)	13,024	-
(1)	Industrial Research Assistance Program (NRC-IRAP)	18,334	143,073
(1)	Other Grants	83,417	62,865
(2)	Scientific Research and Experimental Development (SR&ED)	310,879	-
(3)	Sustainable Development Technology Canada (SDTC)	-	4,087,807
		425,654	4,293,745

(1) Proceeds are recorded within research and operational expenses, net.
(2) Proceeds are recorded within wages, benefits and fees, net.
(3) See deferred government assistance below for allocation of SDTC proceeds for the year ended December 31, 2023.

Deferred government assistance (deferred liabilities):

During the year ended December 31, 2023, deferred liabilities included amounts for deferred government assistance in relation to NRC-IRAP (formerly SDTC) projects. A reconciliation of the carrying amount of the deferred government assistance as at December 31, 2024 and December 31, 2023, and changes during the years then ended are as follows:

Deferred government assistance	**December 31, 2024 $**	December 31, 2023 $
Beginning of year	-	-
Additions - proceeds received	-	3,284,507
Amortization	-	(3,284,507)
End of year	**-**	-

Amortization of deferred government assistance for the years ended December 31, 2024 and December 31, 2023, is allocated as follows:

	December 31, 2024 $	December 31, 2023 $
Property, plant and equipment	-	2,217,832
Research and operational expenses, net	-	731,530
Wages, benefits and fees, net	-	335,145
	-	3,284,507

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

Youth Internship Contribution Agreement (active):

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

M2CAM Program (completed):

In 2021, the Company executed an agreement with NRC-IRAP for non-repayable contributions to the Company totaling $439,000 over the course of the program through to June 2023 (completed). The scope of the program was research into cost optimization of the Company's patented process for the manufacture of cathode active materials and specifically the use of metal feedstocks and thermal processing methods (M2CAM). Under the terms of the agreement, NRC-IRAP reimbursed the Company for 80% of salaries paid to employees involved in this project.

7. GOVERNMENT ASSISTANCE (continued)

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

<u>Sustainable Development Technology Canada ("SDTC"):</u>

On June 4, 2024, the Government of Canada announced that SDTC programming will transition from SDTC to the National Research Council (the "NRC"), and assignment of the February 2023 funding agreement (see below) and any and all amendments thereto was completed in February 2025.

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

On November 6, 2024, the Company executed a First Modification (the "amendment") which superseded the Project Funding Agreement signed with SDTC on February 13, 2023. NRC will provide the Company with staged funding up to $6,735,987 (formerly $10,000,000). The revised funding amount is due to the modification and reduction to the project's scope in accordance with the amendment.

The funds from NRC will be paid to the Company in three (3) instalments at the beginning of each of the three (3) Milestones (formerly four (4) instalments over four milestones) plus the release of a final 10% hold-back upon satisfactory review and approval of the project by NRC. Instalments will be initially recognized within deferred liabilities when received. The funds are non-dilutive, and non-repayable and are intended to support pre-commercial activities in Candiac. The final milestone is forecast to be completed by October 31, 2025.

The Company did not receive any proceeds from NRC-IRAP (SDTC) during the year ended December 31, 2024. During the year ended December 31, 2023, the Company received Milestone 1 funds of $3,284,507.

As at December 31, 2024 and December 31, 2023, $3,284,507 had be received representing the first instalment payment for Milestone 1. Subsequent to December 31, 2024, $1,453,891 was received (Note 16(d)) for an accumulated total of $4,738,398, leaving $1,997,589 in contributions remaining to be paid by the NRC.

<u>SDTC Scaling Project (completed):</u>

In 2019, the Company executed a contribution agreement with SDTC for a non-repayable grant for $8,545,500 (received) and included British Columbia Innovative Clean Energy, Mines and Petroleum Resources ("BC-ICE") contributions.

As at December 31, 2023, all proceeds had been received including the final holdback of $803,300 received during the year then ended. Additionally, the Company had completed this project along with its reporting obligations to SDTC.

Next Generation Manufacturing Canada (NGen)

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.

During the year ended December 31, 2024, the Company received $13,024 from NGen. As at December 31, 2024, the Company accrued $59,805 (Note 3) which was subsequently received from NGen.

(Expressed in Canadian Dollars)

7. GOVERNMENT ASSISTANCE (continued)

Scientific Research and Experimental Development ("SR&ED"):

During the year ended December 31, 2024, the Company claimed refundable SR&ED amounts in relation to Nano Candiac for the year ended December 31, 2023 and the period from November 1, 2022 to December 31, 2022. During the year ended December 31, 2024, $310,879 was received (2023 - $nil) with offsetting credits recorded against subcontractor costs and employee wages which are aggregated within wages, benefits and fees.

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

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

On September 25, 2024, the Company executed a Technology Investment Agreement for an award of approximately $17,800,000 (Canadian dollar equivalent as of the date of the agreement execution) (US$12,879,426) from the DoD in support of capacity expansion at its Candiac and Burnaby facilities through the Defense Production Act Investments (DPAI) office's Title III program. The program is effective from July 1, 2024 through 2027.

The Company did not receive any proceeds from the DoD during the year ended December 31, 2024. Subsequent to December 31, 2024, the Company received $1,223,281 (US$849,501) from the DoD (Note 16(d)).

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

	December 31, 2024	December 31, 2023
	$	$
NGen	13,024	-
NRC-IRAP[1]	1,585,331	1,566,997
Other Grants	2,177,293	2,093,876
SDTC and BC-ICE	13,911,314	13,911,314
SR&ED	409,540	98,661
	18,096,502	17,670,848

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

8. LOAN PAYABLE

On December 11, 2024, Nano Candiac executed an interest-free loan agreement (the "Loan") with Investissement Quebec ("IQ") for funding up to $15,000,000, based on the terms and conditions of the Loan.

The Loan is available solely for the purpose of converting the Company's Candiac Facility to reach a production capacity of between 1,000 and 2,000 tonnes per year (tpa) of lithium-iron-phosphate (LFP) cathode active materials (CAM) using its One-Pot process (the "Project"). The Project includes adding and modifying equipment, testing the facility, expanding capacity, developing a commercial product, and maintaining operations and employees at the Candiac plant.

The Project time period is from January 1, 2023, to December 31, 2026.

Nano Candiac will benefit from a moratorium of 60 months from the date of the first Loan disbursement before it must pay the capital on the Loan. At the end of the moratorium period, the capital on the Loan is due to be repaid in 60 monthly and consecutive payments as follows:

- Fifty-nine (59) monthly installment payments of $83,335; and
- One (1) monthly installment payment of $83,235.

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.

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.

As at December 31, 2024, no funds in respect to the loan have been received and no accruals for amounts receivable have been recorded. Subsequent to December 31, 2024, the Company received $7,503,313 from IQ (Note 16(d)).

Technoclimat

In addition to the IQ Loan (per above), 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"). The Grant is structured as a reimbursement for eligible expenditures incurred at the Candiac plant, subject to compliance with the terms and conditions of the agreement.

As at December 31, 2024, no funds in respect to the Technoclimat grant have been received and no accruals for amounts receivable have been recorded. Subsequent to December 31, 2024, the Company received $2,200,000 from Technoclimat (Note 16(d)).

9. SHARE CAPITAL AND RESERVES

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

Share capital

Transactions for the issuance of share capital during the year ended December 31, 2024:

a) Upon the exercise of RSUs, a total of 144,245 common shares were issued for $nil proceeds. Additionally, $540,089 representing the fair value initially recognized, was re-allocated from reserves to share capital.

Transactions for the issuance of share capital during the year ended December 31, 2023:

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

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

   Additionally, the Company issued 1,095,603 common shares on the net exercise of 2,212,500 stock options which were exercisable at $2.52 each and 2,115,000 stock options which were exercisable at $1.28 each. The re-allocation of the fair value initially recognized is combined within the amount disclosed below.

   In addition, $3,546,613 representing the fair value initially recognized, was re-allocated from reserves to share capital.

c) Upon the exercise of warrants, a total of 2,281,939 common shares were issued at $1.60 each for proceeds of $3,651,102. Additionally, $22,013 representing the fair value initially recognized, was re-allocated from reserves to share capital.

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

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

   Further, the parties entered into a Collaboration Agreement, and an Investor Rights Agreement, providing Sumitomo Metal Mining Co., Ltd., with participation rights in any future equity financings to maintain a pro rata ownership interest for a period of three years to October 5, 2026.

Reserves

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, RSUs, DSUs, performance share units (“PSUs”) and other share-based awards subject to TSX approval. Under the Equity Plan, the maximum number of equity-based awards issued cannot exceed 10% of the Company’s currently issued and outstanding common shares. Additionally, RSUs are required to be settled by December 31 in the third year following the year of grant (“Expiry date”), whereas DSUs are settled once the awardee retires or departs.

Stock options

In accordance with the Equity Plan, the exercise price of each stock option shall not be less than the market price of the Company's common shares as calculated at the close of the trading session on the date immediately prior to the date of grant. Stock options can be granted for a maximum term of ten years, and vest at the discretion of the Board of Directors. Stock options outstanding under the Company’s former stock option plan are governed by the Equity Plan unless the former stock option plan is more beneficial, in which case the terms of the stock option plan will apply for the benefit of the option holder. The Company’s Equity Plan permits the holder of stock options to exercise cashless (net exercise) by surrendering a portion of the underlying stock option shares to pay for the exercise cost.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

A summary of the status of the Company's stock options as at December 31, 2024 and December 31, 2023, and changes during the years then ended is as follows:

	Year ended December 31, 2024		Year ended December 31, 2023	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of year	2,688,565	4.48	6,269,863	2.80
Granted	943,948	1.92	452,418	3.28
Exercised	-	-	(3,955,321)	1.70
Forfeited/expired	(1,741,635)	4.74	(78,395)	3.28
Options outstanding, end of year	**1,890,878**	**2.96**	2,688,565	4.48

As at December 31, 2024, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise price $	Expiry date
400,000	400,000	5.10	February 1, 2026
123,483	82,322	2.88	February 4, 2027
9,100	9,100	2.88	June 13, 2027
414,347	138,543	3.28	March 17, 2028
200,000	-	1.94	January 19, 2029
743,948	500,000	1.91	January 23, 2031
1,890,878	**1,129,965**	**2.96**	

The following table summarizes the above information about the stock options outstanding as at December 31, 2024:

Exercise prices $	Options #	Weighted average remaining life (years)	Weighted average exercise price $
1.91 - 2.88	1,076,531	5.2	2.04
3.28	414,347	3.2	3.28
5.10	400,000	1.1	5.10
	1,890,878	**3.9**	**2.96**

The Company recorded the fair value of the stock options granted during the years ended December 31, 2024 and December 31, 2023, 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, 2024	December 31, 2023
Risk-free interest rate	3.5%	2.9%
Expected life of stock options (years)	6.6	5.0
Historical volatility	74.0%	77.2%
Dividend rate	0.0%	0.0%
Weighted average fair value per stock option granted	$ 1.33	$ 2.10

The total share-based payments expense for the year ended December 31, 2024, was $3,161,999 (2023 - $1,745,926), of which $1,329,453 (2023 – $612,911) was attributable to vesting of stock options during the year then ended.

During the year ended December 31, 2024, 1,741,635 (2023 – 78,395) stock options were forfeited upon certain individuals leaving employment of the Company or expired unexercised. As a result, the original share-based payments expense of $3,986,513 (2023 - $128,422) was reversed from reserves and credited to deficit.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

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

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

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

Since the Company controls the settlement, the RSUs and DSUs are considered equity settled. Additionally, upon vesting of RSUs, the Company has a commitment to settle vested RSUs in the form of issuing common shares to the holders in equity settled arrangements.

Pursuant to the underlying agreements, all Equity Incentives granted to the date of approval of these financial statements are expected to be settled in common shares.

A summary of the status of the Company's Equity Incentives as at December 31, 2024 and December 31, 2023, and changes during the years then ended is as follows:

	Year ended December 31, 2024	Year ended December 31, 2023
	Equity Incentives #	Equity Incentives #
Equity Incentives outstanding, beginning of year	667,774	379,679
Granted - RSUs	972,038	237,109
Granted - DSUs	466,632	182,550
Exercised	(144,245)	(131,564)
Cancelled	(73,763)	-
Equity Incentives outstanding, end of year	**1,888,436**	667,774

As at December 31, 2024, 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
(1)	115,764	52,625	-	2.88	February 4, 2025	December 31, 2025
	210,996	60,457	-	3.28	March 17, 2026	December 31, 2026
	-	-	85,976	3.28	March 17, 2026	n/a
	7,534	-	-	2.92	October 10, 2026	December 31, 2026
	-	-	96,574	2.92	October 10, 2023	n/a
	373,540	-	-	1.95	January 22, 2027	December 31, 2027
(2)	175,435	-	-	1.91	January 23, 2027	December 31, 2027
	43,478	-	-	1.15	August 1, 2027	December 31, 2027
	-	-	326,086	1.15	August 1, 2024	n/a
	300,000	100,000	-	1.15	October 1, 2027	December 31, 2027
	-	-	108,696	1.15	October 1, 2024	n/a
	-	-	31,850	1.02	October 10, 2025	n/a
	3,881	-	-	1.02	October 23, 2026	December 31, 2027
	1,230,628	**213,082**	**657,808**	**2.16**		

(1) 17,421 RSUs were subsequently exercised.
(2) 15,083 RSUs were subsequently exercised.

9. SHARE CAPITAL AND RESERVES (continued)

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

Activity during the year ended December 31, 2024:

On January 22, 2024, the Company granted 447,303 RSUs to employees and consultants of the Company. The RSUs vest in three annual instalments (one-third (149,101) on January 22, 2025; one-third (149,101) on January 22, 2026; and the final one-third (149,101) on January 22, 2027).

On January 23, 2024, the Company granted 175,435 RSUs to officers of the Company. The RSUs vest in three annual instalments (one-third (58,478) on January 23, 2025; one-third (58,478) on January 23, 2026; and the final one-third (58,479) on January 23, 2027).

On August 1, 2024, the Company granted 369,564 RSUs and DSUs in aggregate to Directors of the Company following the results of the Annual General and Special Meeting held on August 1, 2024. The 326,086 DSUs vested immediately on grant, and the 43,478 RSUs vest in three annual instalments (one-third (14,493) on August 1, 2025; one-third (14,493) on August 1, 2026; and the final one-third (14,492) on August 1, 2027).

On October 1, 2024, the Company granted 300,000 RSUs, and 108,696 DSUs upon appointing a new Chairman. The 108,696 DSUs vested immediately on grant, and the 300,000 RSUs vest as follows: one-third (100,000) immediately on grant; one-third (100,000) on October 1, 2025; and the final one-third (100,000) on October 1, 2026.

On October 23, 2024, the Company granted 5,822 RSUs and 31,850 DSUs in aggregate to Directors of the Company. The 31,850 DSUs vested immediately on grant, and the 5,822 RSUs vest as follows: one-third (1,941) immediately on grant; one-third (1,941) on October 23, 2025; and the final one-third (1,940) on October 23, 2026.

During the year December 31, 2024, 73,763 RSUs were cancelled upon certain individuals leaving employment of the Company. As a result, the original share-based payments expense of $69,042 was reversed from reserves and credited to deficit.

In accordance with the Plan, the value of the Equity Incentives granted was based on the closing market price of the Company’s common shares on the date preceding the date of grant. During the year ended December 31, 2024, the Equity Incentives were granted at a weighted average fair value of $1.49 each for a total value of $2,140,746, which is being accrued within share-based payment expense over the vesting periods.

The total share-based payments expense for the year ended December 31, 2024, was $3,161,999, of which $1,832,546 represents the vesting of Equity Incentives with the remaining portion of share-based payment expense being attributable to stock options, as described above.

Activity during the year ended December 31, 2023:

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

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

During the year ended December 31, 2023, the Equity Incentives were granted at a weighted average fair value of $3.19 each for a total value of $1,337,647, which is being accrued within share-based payment expense over the vesting periods.

The total share-based payments expense for the year ended December 31, 2023, was $1,745,926, of which $1,133,015 represents the vesting of Equity Incentives with the remaining portion of share-based payment expense being attributable to stock options, as described above.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Warrants

As an incentive to complete equity financings, the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to warrants attached to units sold in equity financings. Finders' or brokers' warrants may be issued as equity financing share issue costs or for other services and are valued using the Black-Scholes option pricing model.

A summary of the Company's common share purchase warrants as at December 31, 2024 and December 31, 2023, and changes during the years then ended is as follows:

	Year ended December 31, 2024		Year ended December 31, 2023	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of year	-	-	3,288,479	2.33
Exercised	-	-	(2,281,939)	1.60
Expired	-	-	(1,006,540)	3.98
Warrants outstanding, end of year	**-**	**-**	-	-

During the year ended December 31, 2023, certain of the warrants that expired unexercised were issued as compensatory warrants and originally recorded against share capital. As a result, the original fair value on the portion that were compensatory warrants relating to an historical equity financing totaled $909 and was reversed from reserves and credited to share capital. In addition, 1,000,000 compensatory warrants expired unexercised and their fair value that was originally recorded to operating expenses of $595,000 was reversed from reserves and credited to deficit.

10. RELATED PARTY TRANSACTIONS

Key management personnel are the persons responsible for the planning, directing, and controlling the activities of the Company and includes both executive and non-executive directors, and entities which key management controls or has significant influence. The Company considers all directors and officers of the Company to be key management.

The Company had an arrangement with Paul Matysek, former Executive Chairman and Director (until his resignation effective October 1, 2024) for a monthly consulting fee of $12,500 ($150,000 annually), payable to Bedrock Capital Corporation, a company that he controls. Effective October 1, 2024, the Company entered into an Advisory Agreement with Bedrock Capital for a term of six months to March 31, 2025, at the same monthly fee of $12,500 ($75,000 over the term of the agreement).

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS (continued)

The following transactions involved key management (gross amounts):

	Transactions year ended December 31, 2024	Transactions year ended December 31, 2023	**Balances outstanding December 31, 2024**	Balances outstanding December 31, 2023
	$	$	**$**	$
Bedrock Capital	112,500	150,000	-	-
DBM CPA	7,500	220,000	-	11,550
Directors' fees	327,500	320,259	-	-
Management and directors' fees (within wages, benefits and fees)	447,500	690,259	-	11,550
Expense reimbursements (officer)	-	-	428	-
Wages, benefits and fees (officers) (1)	2,280,342	2,424,678	359,350	-
Share-based payments (directors and officers)	2,380,744	1,163,140	-	-
PFS (professional and consulting; and intangible assets)	266,065	451,166	11,528	34,911
	5,374,651	4,729,243	**371,306**	46,461

(1) As at December 31, 2024, $359,350 was accrued as short-term incentive compensation to key management relating to 2024 performance (December 31, 2023 - $nil relating to 2023 performance). Short-term incentive compensation is payable in cash or equity annually.

During the year ended December 31, 2024, there were no short-term incentive amounts to key management recorded in relation to the year ended December 31, 2023. During the year ended December 31, 2023, wages benefits, and fees included $599,758 in amounts paid for short-term incentive compensation in relation to 2022.

(a) Professional and consulting, net:

- 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, net for patent filings, maintenance and related.

(b) Wages, benefits and fees, net:

- Includes salaries and short-term incentive cash-based compensation paid to Dan Blondal, CEO; Stephen Campbell, CTO; Alex Holmes, COO; Carlo Valente, CFO (from January 15, 2024); Denis Geoffroy, Chief Commercialization Officer (CCO); 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).
- Includes the services of Bedrock Capital Corp. ("Bedrock Capital") a company controlled by Paul Matysek the former Executive Chairman and a Director of the Company until Mr. Matysek's resignation effective October 1, 2024. Anthony Tse became the new Chairman (non-Executive) of the Company effective October 1, 2024.
- Includes compensation to non-executive directors of the Company and committee chairpersons.
- Includes the services of Donaldson Brohman Martin, CPA Inc. ("DBM CPA") to January 15, 2024, a firm in which Dan Martino, former CFO, is a principal and has significant influence. On January 15, 2024, the Company announced the appointment of Carlo Valente as the new CFO. Dan Martino remains with the Company as Vice President of Finance providing services through DBM CPA.
- As of January 15, 2024, Pamela Kinsman, Corporate Secretary & Director of Sustainability resigned as Corporate Secretary and remains with the Company as Director of Sustainability. As of January 15, 2024, Leanne Swanson was appointed Corporate Secretary of the Company.

(Expressed in Canadian Dollars)

10. 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 year ended December 31, 2024, the Company granted 984,712 RSUs and DSUs to Company directors and officers (2023 – 419,659 RSUs and DSUs granted). See Note 9 for specifics on vesting terms.
- During the year ended December 31, 2024, the Company granted 943,948 stock options to Company officers (2023 – nil). See Note 9 for specifics on vesting terms.

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital during the years ended December 31, 2024 and December 31, 2023, were comprised of the following:

	December 31, 2024 $	December 31, 2023 $
Receivables and prepayments	(224,317)	1,735,242
Inventory	367,026	(387,999)
Accounts payable and accrued liabilities	(112,083)	1,349,080
Net change	**30,626**	2,696,323

The Company incurred non-cash investing and financing activities during the years ended December 31, 2024 and December 31, 2023, as follows:

	December 31, 2024 $	December 31, 2023 $
Non-cash investing activities:		
Property, plant and equipment included in accounts payable and accrued liabilities	38,587	801,748
Non-cash financing activities:		
Addition of right-of-use asset	-	1,241,138

During the years ended December 31, 2024 and December 31, 2023, no amounts were paid for interest or income taxes.

Cash and cash equivalents consist of the following:

	December 31, 2024 $	December 31, 2023 $
Cash	1,887,115	6,241,778
Cash equivalents	5,273,414	25,627,104
Cash and cash equivalents, end of year	**7,160,529**	31,868,882

Restricted cash

On December 12, 2023, the Company executed certain agreements with a Canadian chartered bank to purchase a standby letter of credit for $575,000 (the “letter of credit”). The letter of credit restricted the Company’s access to the cash in respect of an executed agreement with an arm’s length vendor for engineering services. The letter of credit was issued in the form of a redeemable guaranteed investment certificate (GIC) with a one-year term to December 6, 2024 and bearing interest at a rate of 4.9% per annum. The contract with the vendor concluded on August 31, 2024, and the Company redeemed the letter of credit plus accrued interest thereafter.

12. MANAGEMENT OF CAPITAL

The Company considers its capital structure to consist of its components of shareholders' equity. When managing capital, the Company's objective is to ensure that it continues as a going concern, to ensure it has sufficient capital to deploy on new and existing projects including its commercialization objectives, 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 production and licensing. Management reviews and adjusts its capital structure on an ongoing basis.

The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year ended December 31, 2024.

The Company currently has no source of revenues, though it receives funding from government programs (Note 7) and has historically relied upon equity financing (strategic partners and capital markets) to fund its activities. To fund ongoing capital and operating expenditures, the Company will spend its existing working capital and will require additional capital sources.

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

During the years ended December 31, 2024 and December 31, 2023, the Company invested excess capital in a HISA, a HISA fund, and GICs. The Company diversifies treasury amongst high-credit quality Canadian chartered banks. Holdings are liquid (accessible on demand or cashable).

13. FINANCIAL INSTRUMENTS

Financial instruments - fair value

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

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

Financial instruments - classification

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

Financial liabilities:	Classification and measurement:
Accounts payable and accrued liabilities	Amortized cost
Lease liabilities	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.

13. 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 government assistance programs, equity financings, and the exercise of convertible equity securities (options and warrants), to satisfy its capital requirements and will continue to depend upon these and other possible sources of capital to finance its activities until such time that the Company generates profitability and positive operating cash flows.

b) Interest rate risk

The Company is exposed to interest rate risk because of fluctuating interest rates. The Company's exposure to variable interest rates is limited to cash and cash equivalents held in its HISA and HISA fund, and deposits held as collateral with a Canadian chartered bank on the Company's corporate credit cards. The Company's GICs carry either fixed or variable rates of interest.

For the year ended December 31, 2024, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the year by approximately $176,000 (2023 – $313,000).

c) Credit risk

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

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

The Company is exposed to credit risk relating to its deposits (security deposits on facilities and other collateral), in which management believes the risk to be low. The Company's deposits are subject to the expected credit loss model for impairment testing. The Company applies the IFRS 9 *Financial Instruments* simplified approach to the deposits to measure expected credit loss which uses a lifetime expected loss allowance. The deposits have been assessed based on debtor circumstances and are considered to be low risk. The Company believes its exposure to credit risk is low with respect to accrued government assistance, and sales tax recoverable as these amounts are due from the Government of Canada.

d) Price risk

Equity price risk is defined as the potential adverse impact on the Company's results of operations and the ability to obtain equity financing, or the ability of holders of convertible equity securities (options and warrants) to exercise their securities, which affects proceeds to the Company on such exercises, due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements to determine the appropriate course of action to be taken by the Company.

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

e) Currency risk

Currency risk is the risk of fluctuation in profit or loss that arises from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company is exposed to currency risk as it incurs certain transactions in United States dollar, the Euro, and the British Pound. Additionally, as at December 31, 2024, the Company held certain financial assets and liabilities that were denominated in these foreign currencies. Based on the December 31, 2024 value of net assets denominated in foreign currencies, the impact of a 10% fluctuation in foreign exchange rates relative to the Canadian dollar would impact loss and comprehensive loss for the year by approximately $1,000 (2023 - $22,000).

(Expressed in Canadian Dollars)

14. SEGMENTED INFORMATION

The Company's cathode active materials (CAM) manufacturing business is organized into two operating segments being a research and innovation operation, and a demonstration and pre-commercialization operation. The Company's chief operating decision maker reviews the financial position, operating results, and cash flows, and assesses capital expenditure plans and forecasts and makes capital allocation decisions for each of the two operating segments.

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 6) carried at a net book value as at December 31, 2024 of $46,935 (December 31, 2023 - $35,364). Segment performance is evaluated based on various measures including assets and liabilities, operating expenses, and cash flows. Certain costs are managed on a consolidated basis and are therefore not reflected in segment loss (loss and comprehensive loss). Corporate and other includes activities which provide administrative, technical, financial, and other support to the Company's operating segments.

	Corporate and other	**Research and innovation**	**Demonstration and pre-commercialization**	**Total**
As at and for the year ended	**December 31, 2024 $**	**December 31, 2024 $**	**December 31, 2024 $**	**December 31, 2024 $**
Current assets	7,738,229	298,410	816,502	8,853,141
Property, plant and equipment	-	2,852,935	13,496,231	16,349,166
Total assets	7,880,126	3,205,918	14,581,217	25,667,261
Current liabilities	359,350	1,389,474	1,595,543	3,344,367
Total liabilities	359,350	2,283,735	1,595,543	4,238,628
Loss and comprehensive loss	8,338,577	10,447,247	10,434,198	29,220,022
Cash used in operating activities	(6,198,205)	(9,134,909)	(12,990,793)	(28,323,907)
Cash provided by (used in) investing activities	957,316	(237,715)	3,455,640	4,175,241
Cash used in financing activities	-	(559,687)	-	(559,687)

	Corporate and other	Research and innovation	Demonstration and pre-commercialization	Total
As at and for the year ended	December 31, 2023 $	December 31, 2023 $	December 31, 2023 $	December 31, 2023 $
Current assets	32,354,763	349,621	1,574,819	34,279,203
Property, plant and equipment	-	3,618,150	14,744,105	18,362,255
Total assets	32,484,662	4,022,344	16,467,762	52,974,768
Current liabilities	46,461	1,514,463	2,583,044	4,143,968
Total liabilities	46,461	2,858,607	2,583,044	5,488,112
Loss and comprehensive loss	6,895,028	11,616,202	13,303,653	31,814,883
Cash used in operating activities	(6,719,264)	(9,884,193)	(10,455,596)	(27,059,053)
Cash provided by (used in) investing activities	1,560,993	(1,367,057)	(4,360,639)	(4,166,703)
Cash provided by (used in) financing activities	24,106,244	(457,001)	-	23,649,243

(Expressed in Canadian Dollars)

15. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended December 31, 2024, and December 31, 2023, is as follows:

	December 31, 2024 $	December 31, 2023 $
Loss for the year	(29,220,022)	(31,814,883)
Expected income tax (recovery)	(7,889,000)	(8,590,000)
Change in tax resulting from:		
Permanent differences	393,000	509,000
Change in recognized deductible temporary differences and other	7,496,000	8,091,000
Share issue costs	-	(10,000)
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, 2024 and December 31, 2023, are as follows:

	December 31, 2024 $	**Expiry Date Range**	December 31, 2023 $	Expiry Date Range
Property, plant and equipment	11,217,000	No expiry	8,017,000	No expiry
Right-of-use asset / lease liability	282,000	No expiry	198,000	No expiry
Share issue costs	565,000	2044 to 2047	1,482,000	2044 to 2047
Investment tax credits (SR&ED)	1,230,000	No expiry	-	N/A
Investment tax credits (SR&ED) - Federal	322,000	2036 to 2043	-	N/A
Non-capital loss carry forwards	100,434,000	2026 to 2044	83,500,000	2026 to 2043

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

16. SUBSEQUENT EVENTS

(a) In January 2025, the Company granted an aggregate of 5,211,233 equity incentives as follows:

- 2,193,225 stock options to executive officers exercisable at $0.79 each for a period of seven years until January 23, 2032, with certain stock options vesting immediately and others vesting one-third annually to January 23, 2028.
- 1,733,255 PSUs to officers of the Company which vest upon certain performance goals being achieved within a three year period from the date of grant (by January 23, 2028).
- 1,284,753 RSUs to officers, employees, and consultants of the Company which vest one-third annually to January 23, 2028.

(b) Upon the exercise of RSUs, a total of 32,504 common shares were issued for $nil proceeds.

16. SUBSEQUENT EVENTS (continued)

(c) 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 $20,000,000 before a $3,000,000 reserve pursuant to a capital investment agreement to fund potential capital improvements (held in escrow), and a vendor loan of $2,000,000 (a deferred payment) secured by an immovable hypothec. The vendor loan incurs interest at 4% per annum and the deferred payment is due $1,000,000 plus interest in February 2028, and $1,000,000 plus interest in February 2031.

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, is $106,017 per month ($1,272,210 for the year).

As at December 31, 2024, the carrying value of the land and building subject to the sale and leaseback was $6,458,078.

(d) The Company received funding from certain government grant and loan programs totaling $12,758,577 as follows:

- $1,453,891 from NRC (formerly SDTC);
- $1,223,281 (US$849,501) from the DoD;
- $2,200,000 from Technoclimat;
- $7,503,313 from Investissement Quebec; and
- $378,092 ($59,805 accrued as at December 31, 2024) from NGen.