



Nano One Materials Corp.
Condensed Interim Financial Statements
For the three months ended
March 31, 2020
Unaudited – Prepared by Management
(Expressed in Canadian dollars)

**NOTICE OF NO AUDITOR REVIEW
OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**

The accompanying condensed interim financial statements of Nano One Materials Corp. (“the Company”) for the three months ended March 31, 2020 and March 31, 2019, have been prepared by the management of the Company and approved by the Company’s Audit Committee.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of the condensed interim financial statements by an entity’s auditor.

Nano One Materials Corp.
Condensed Interim Statements of Financial Position
 Unaudited – Prepared by Management

As at March 31, 2020 and December 31, 2019

	Note	March 31, 2020 \$	December 31, 2019 \$
Assets			
Current assets			
Cash and cash equivalents		11,316,022	1,747,514
Short-term investment	9	-	198,911
Receivables	3	74,102	147,662
Prepaid expenses		215,737	25,198
		11,605,861	2,119,285
Non-current assets			
Deposits	3	137,134	21,360
Property and equipment	4	757,361	767,988
Intangible assets	5	23,998	24,279
		918,493	813,627
Total assets		12,524,354	2,932,912
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		206,025	109,844
Accounts payable to related parties	8	11,550	24,864
Deferred government assistance	6	389,434	676,373
Current portion of lease liabilities	4	103,773	101,719
		710,782	912,800
Non-current liabilities			
Lease liabilities	4	129,215	151,676
Total liabilities		839,997	1,064,476
Shareholders' equity			
Share capital	7	31,159,224	20,068,795
Reserves	7	2,937,549	3,163,224
Deficit		(22,412,416)	(21,363,583)
Total shareholders' equity		11,684,357	1,868,436
Total liabilities and shareholders' equity		12,524,354	2,932,912
Nature and continuance of operations	1		
Subsequent event	13		

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

 "Dan Blondal"
 Director

 "Lyle Brown"
 Director

Nano One Materials Corp.**Condensed Interim Statements of Loss and Comprehensive Loss**

Unaudited – Prepared by Management

For the three months ended March 31,

	Note	2020 \$	2019 \$
Expenses			
Amortization	5	281	-
Business development fees		38,077	45,901
Consulting fees		96,078	28,284
Depreciation	4	13,029	13,458
Finance costs	4	5,410	7,086
General and administrative expenses		44,957	25,802
Investor relations and shareholder information		233,427	120,190
Management fees	8	367,000	15,000
Professional fees	8	94,173	47,857
Rent		7,567	3,000
Research (recoveries) expenses, net	4,6	(56,123)	633,680
Salaries and benefits	8	167,736	188,631
Share-based payments	7	-	200,899
Transfer agent and filing fees		19,396	1,774
Travel, meals and conferences		39,055	76,116
Loss from operating expenses		(1,070,063)	(1,407,678)
Interest income		7,217	8,765
Loss and comprehensive loss for the period		(1,062,846)	(1,398,913)
Weighted average number of common shares outstanding - basic and diluted		72,559,637	66,269,161
Basic and diluted loss per common share		(0.01)	(0.02)

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

Nano One Materials Corp.
Condensed Interim Statements of Cash Flows
 Unaudited – Prepared by Management

For the three months ended March 31,

	Note	2020 \$	2019 \$
Operating activities			
Loss and comprehensive loss for the period		(1,062,846)	(1,398,913)
Adjustments for:			
Amortization		281	-
Depreciation	4	51,001	270,185
Finance costs		5,410	7,086
Share-based payments		-	200,899
Interest income		(7,217)	(8,765)
Non-cash working capital items:			
Receivables		73,560	322,357
Prepaid expenses		(190,539)	21,929
Deposits		(115,774)	-
Accounts payable and accrued liabilities		32,922	(97,531)
Accounts payable to related parties		(13,314)	-
Deferred government assistance		(286,939)	-
		(1,513,455)	(682,753)
Investing activities			
Interest received on cash equivalents		6,277	8,765
Redemption of short-term investment		199,851	-
Purchases of property and equipment		(34,362)	(20,180)
Payments for intangible assets		(684)	-
		171,082	(11,415)
Financing activities			
Issuance of common shares and units for cash		11,497,125	220,706
Share issue costs		(560,427)	-
Payment of lease liabilities		(25,817)	(16,346)
		10,910,881	204,360
Change in cash and cash equivalents		9,568,508	(489,808)
Cash and cash equivalents, beginning of period		1,747,514	3,153,369
Cash and cash equivalents, end of period		11,316,022	2,663,561
Cash and cash equivalents comprise:			
Cash		10,203,704	419,329
Cash equivalents		1,112,318	2,244,232
Cash and cash equivalents, end of period		11,316,022	2,663,561

Supplemental cash flow information

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

Nano One Materials Corp.**Interim Condensed Statements of Changes in Shareholders' Equity**

Unaudited – Prepared by Management

For the three months ended March 31, 2020 and March 31, 2019

	Number of common shares	Share capital \$	Reserves \$	Deficit \$	Total \$
December 31, 2018	66,155,637	18,843,555	2,911,595	(17,642,214)	4,112,936
January 1, 2019, as previously reported	66,155,637	18,843,555	2,911,595	(17,642,214)	4,112,936
Impact of change in accounting policy (IFRS 16) (Note 4)	-	-	-	(31,643)	(31,643)
January 1, 2019, adjusted balance	66,155,637	18,843,555	2,911,595	(17,673,857)	4,081,293
Exercise of stock options	75,000	35,000	-	-	35,000
Re-allocated on exercise of stock options	-	27,757	(27,757)	-	-
Exercise of warrants	148,565	185,707	-	-	185,707
Re-allocated on exercise of warrants	-	4,368	(4,368)	-	-
Re-allocated on expiry of stock options	-	11,926	(11,926)	-	-
Share-based payments	-	-	200,899	-	200,899
Loss and comprehensive loss for the period	-	-	-	(1,398,913)	(1,398,913)
March 31, 2019	66,379,202	19,108,313	3,068,443	(19,072,770)	3,103,986
December 31, 2019	67,189,802	20,068,795	3,163,224	(21,363,583)	1,868,436
Exercise of stock options	1,985,000	497,375	-	-	497,375
Re-allocated on exercise of stock options	-	492,962	(492,962)	-	-
Re-allocated on cancellation of stock options	-	-	(14,013)	14,013	-
Issue of units - private placement	9,565,000	10,999,750	-	-	10,999,750
Share issue costs - cash	-	(618,358)	-	-	(618,358)
Share issue costs - non-cash	-	(281,300)	281,300	-	-
Loss and comprehensive loss for the period	-	-	-	(1,062,846)	(1,062,846)
March 31, 2020	78,739,802	31,159,224	2,937,549	(22,412,416)	11,684,357

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

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2020 and March 31, 2019

1. NATURE AND CONTINUANCE OF OPERATIONS

Nano One Materials Corp. (the “Company”) was incorporated under the laws of the Province of Alberta on November 5, 1987 and continued under the laws of the Province of British Columbia on September 8, 2004. The Company’s head office is located at Unit 101B, 8575 Government Street, Burnaby, BC, V3N 4V1, Canada. Its records office is located at Suite 2900 – 550 Burrard Street, Vancouver, BC V6C 0A3, Canada. The Company’s common shares trade on the TSX Venture Exchange under the symbol “NNO.V”.

The Company has developed a patented technology platform to improve the production and performance of cathode powders used in lithium-ion batteries. As of the date of these financial statements, the Company holds sixteen (16) patents (Note 5), with several others pending. The technology allows for the production of a wide range of lithium-based composite powders for different battery applications including electric vehicles, e-buses, power tools, renewable energy storage and consumer electronics, as well as next generation solid state batteries. The Company has built a demonstration pilot plant (Note 4) and is partnering with global leaders in the lithium-ion battery supply chain to improve the cost and durability of lithium-ion batteries, and to imbed its technologies for the manufacturing of materials used in electric vehicle, energy storage, and consumer electronic batteries.

These condensed interim financial statements (the “financial statements”) have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. As a Company presently focused on research activities, the Company does not have revenues and historically has recurring operating losses. As at March 31, 2020, the Company had working capital of \$10,895,079. The Company will utilize this working capital, and if necessary, seek additional funding through government assistance programs, contributions from industry partners, and/or equity financing to enable it to execute its research activities and carry on as a going concern.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations or on the Company’s industry partners who provide in-kind and/or financial contributions to the Company’s government programs (Note 6). There are travel restrictions and health and safety concerns that may delay the Company’s research activities. Operations depend on safeguarding all personnel during the outbreak, which may be prohibitive in certain aspects. Nonetheless, the Company has implemented prevention measures at its office and laboratory facilities including the facilitation of remote work programs. Unfortunately, the research nature of the Company’s activities do not qualify it for certain Government wage and loan subsidies. However, during the three months ended March 31, 2020, the Company received an additional \$250,000 from Sustainable Development Technology Canada in relation to COVID-19 pandemic relief (Note 6).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company’s annual audited financial statements for the year ended December 31, 2019, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2020 and March 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

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

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

Comparative figures

Certain comparative figures within operating expenses on the condensed interim statements of loss and comprehensive loss have been reclassified to conform to the current period's presentation.

Significant accounting policies

Except as set out below, the accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited financial statements and are those the Company expects to adopt in its financial statements for the year ended December 31, 2020. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited financial statements.

3. RECEIVABLES AND DEPOSITS

Receivables consist of the following:

	March 31, 2020	December 31, 2019
	\$	\$
Receivable from Global OEM partner (1)	-	139,738
Sales tax recoverable	28,102	7,924
Other receivable	46,000	-
	74,102	147,662

(1) Cost recoveries receivable from Global OEM partner

On June 20, 2019, the Company entered into an agreement with a Global OEM (Original Equipment Manufacturer) (the "OEM Partner") to jointly evaluate processes and innovative cathode materials for high energy density lithium-ion batteries in automotive applications (the "Work Program"). The research activity under the Work Program is a direct component of the research efforts under the Company's SDTC Program #2 (Note 6). Under the Work Program, the Company provided staffing and utilized its property and equipment to perform research under the specifications of the Work Program, and recovered these costs from the OEM Partner.

During the three months ended March 31, 2020, the Company did not recognize any cost recoveries within research expenses in connection with the Work Program. Additionally, during the period then ended, the Company collected \$139,738 from the OEM Partner which was recorded within receivables as at December 31, 2019.

Deposits consist of the following:

	March 31, 2020	December 31, 2019
	\$	\$
Security deposits	12,565	4,790
Deposits for purchases of property and equipment	124,569	16,570
	137,134	21,360

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Notes to the Condensed Interim Financial Statements

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For the three months ended March 31, 2020 and March 31, 2019

4. PROPERTY AND EQUIPMENT

	Computer software \$	Computer equipment \$	Research and development equipment \$	Office equipment \$	Pilot plant \$	Right-of-use assets \$	Total \$
Cost							
December 31, 2018	7,424	109,241	831,972	5,283	1,803,248	-	2,757,168
Adoption of IFRS 16, January 1, 2019	-	-	-	-	-	285,552	285,552
Additions	-	24,438	51,348	2,258	155,416	-	233,460
December 31, 2019	7,424	133,679	883,320	7,541	1,958,664	285,552	3,276,180
Accumulated depreciation							
December 31, 2018	6,612	47,988	442,631	1,810	1,529,520	-	2,028,561
Depreciation	405	22,448	81,156	995	298,494	76,133	479,631
December 31, 2019	7,017	70,436	523,787	2,805	1,828,014	76,133	2,508,192
Cost							
December 31, 2019	7,424	133,679	883,320	7,541	1,958,664	285,552	3,276,180
Additions	1,511	2,777	14,336	-	21,750	-	40,374
March 31, 2020	8,935	136,456	897,656	7,541	1,980,414	285,552	3,316,554
Accumulated depreciation							
December 31, 2019	7,017	70,436	523,787	2,805	1,828,014	76,133	2,508,192
Depreciation	208	4,934	18,552	237	8,037	19,033	51,001
March 31, 2020	7,225	75,370	542,339	3,042	1,836,051	95,166	2,559,193
Net book value							
December 31, 2019	407	63,243	359,533	4,736	130,650	209,419	767,988
March 31, 2020	1,710	61,086	355,317	4,499	144,363	190,386	757,361

Depreciation for the three months ended March 31, 2020 and March 31, 2019 was allocated as follows:

	Depreciation expense \$	Research and development \$	Total \$
March 31, 2019			
Computer software	101	-	101
Computer equipment	4,594	-	4,594
Research and development equipment	-	19,467	19,467
Office equipment	174	-	174
Pilot plant	-	224,494	224,494
Right-of-use assets	8,589	12,766	21,355
	13,458	256,727	270,185
March 31, 2020			
Computer software	208	-	208
Computer equipment	4,934	-	4,934
Research and development equipment	-	18,552	18,552
Office equipment	237	-	237
Pilot plant	-	8,037	8,037
Right-of-use assets	7,650	11,383	19,033
	13,029	37,972	51,001

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2020 and March 31, 2019

4. PROPERTY AND EQUIPMENT (continued)

Right-of-use assets and Lease liabilities

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

The Company has determined that these two lease contracts are leases as defined under IFRS 16 – *Leases* ("IFRS 16"). In analyzing the identified contracts, the Company applied the lessee accounting model pursuant to IFRS 16 and considered all of the facts and circumstances surrounding the inception of the contract (but not future events that are not likely to occur). Lease liabilities were calculated with a discount rate of 9%. Based on all the facts and circumstances at the inception of the contract, the Company determined that its office and laboratory facility leases located in Burnaby, BC contain leases as defined by IFRS 16. Each lease has an estimated useful life from inception of the lease contract of six years which includes a three-year renewal option that the Company is reasonably certain to exercise.

A reconciliation of the carrying amount of the lease liabilities as at March 31, 2020 and December 31, 2019 and changes during the period/year then ended is as follows:

	March 31, 2020 \$	December 31, 2019 \$
Lease liabilities		
Beginning of period/year	253,395	317,195
Lease payments	(25,817)	(95,506)
Lease interest (finance costs)	5,410	31,706
End of period/year	232,988	253,395
Current portion of lease liabilities	103,773	101,719
Non-current portion of lease liabilities	129,215	151,676
Maturity analysis - contractual undiscounted cash flows		
Less than one year	103,773	101,719
One to five years	156,573	182,669
More than five years	-	-
Total undiscounted lease liabilities	260,346	284,388

Short-term leases are leases with a lease term of twelve months or less. As at March 31, 2020, and December 31, 2019, the Company did not have any short-term leases. As at March 31, 2020 and December 31, 2019, the Company included the available three-year extension options on both leases within the measurement of the lease liabilities as described above, and there were no leases with residual value guarantees.

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

Unaudited – Prepared by Management

For the three months ended March 31, 2020 and March 31, 2019

5. INTANGIBLE ASSETS

Intangible assets include sixteen (16) issued patents associated with the Company's technology (Note 1). These patents were issued by various jurisdictions including: Canada, China, Japan, Korea, Taiwan, and the United States. The patents have expiries ranging between fourteen (14) to nineteen (19) years from the patent issuance date.

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

	Issued patents \$
Cost	
December 31, 2018	13,877
Additions	11,637
December 31, 2019	25,514
Accumulated amortization	
December 31, 2018	-
Amortization	1,235
December 31, 2019	1,235
Cost	
December 31, 2019 and March 31, 2020	25,514
Accumulated amortization	
December 31, 2019	1,235
Amortization	281
March 31, 2020	1,516
Net book value	
December 31, 2019	24,279
March 31, 2020	23,998

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2020 and March 31, 2019

6. GOVERNMENT ASSISTANCE

The Company receives Government assistance grants through various funding programs from the Government of Canada. For the three months ended March 31, 2020 and March 31, 2019, the following amounts were recognized as an offset within research expenses:

	March 31, 2020 \$	March 31, 2019 \$
Cash received:		
Industrial Research Assistance Program (NRC-IRAP)	62,733	20,222
Other Grants	2,700	15,000
Sustainable Development Technology Canada (SDTC)	250,000	-
	315,433	35,222
Non-cash amortization of deferred government assistance:		
(1) Sustainable Development Technology Canada (SDTC)	286,939	-
	602,372	35,222

- (1) The SDTC non-cash amortization recognized during the three months ended March 31, 2020, represents pro rata amortization of the deferred government assistance amount based on the expenditures incurred by the Company on SDTC Program #2 for the period.

Sustainable Development Technology Canada (“SDTC”):

SDTC Program #2 (active):

Effective July 1, 2019, the Company executed a contribution agreement with SDTC for a non-repayable grant of up to \$5,000,000 in respect of the Company’s “Scaling Advanced Battery Materials” project. During the three months ended March 31, 2020, the Company received an additional one-time non-repayable grant of \$250,000 from SDTC in the form of an additional Milestone 1 payment in relation to COVID-19 pandemic relief, thereby increasing the SDTC Program #2 contribution from SDTC to \$5,250,000 (collectively, the “grant”).

Subsequent to March 31, 2020, the Company announced that the Province of British Columbia will also be contributing \$3,033,000 to the Company’s SDTC Program #2 (Note 14).

The funds from SDTC are payable to the Company in five instalments including the release of a final 10% hold-back of \$500,000 to the Company upon satisfactory review and approval of the project by SDTC. The instalments from SDTC are to be paid to the Company at the beginning of each of the four (4) project phases (“Milestones”) to June 30, 2024. Each instalment payment is subject to the Company meeting the specific project Milestones and having available cash resources to match each instalment from SDTC.

During the year ended December 31, 2019, the Company received the instalment for Milestone 1 from SDTC in the amount of \$973,814. Accordingly, the Company expects to incur the budgeted expenditures in connection with the Milestone 1 within the current fiscal year. The Company’s remaining commitment on Milestone 1 as at March 31, 2020, is as follows:

	March 31, 2020 \$
Budgeted expenditures for Milestone 1	2,909,656
Budgeted in-kind expenditures (to be incurred by other partners)	(226,791)
Accumulated expenditures incurred by the Company	(1,609,973)
Remaining expenditures to be incurred on Milestone 1	1,072,892

As at December 31, 2019, the Company had incurred accumulated expenditures of \$819,452. Accordingly, \$790,521 was incurred by the Company during the three months ended March 31, 2020.

As at March 31, 2020, \$389,434 is recorded within deferred government assistance as at March 31, 2020 (December 31, 2019 - \$676,373). The Company records the receipt of SDTC grant instalments initially as deferred government assistance and recognizes the grant as an offset within research expenses on a pro rata basis upon incurring the required expenditures associated with the active Milestone project phase.

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

Unaudited – Prepared by Management

For the three months ended March 31, 2020 and March 31, 2019

6. GOVERNMENT ASSISTANCE (continued)**Sustainable Development Technology Canada (“SDTC”) (continued):**SDTC Program #1 (completed):

Effective June 1, 2016, the Company executed a contribution agreement with SDTC for a non-repayable technology commercialization grant of up to \$2,081,297 (the “grant”) for a lithium-ion battery materials pilot plant project. During the year ended December 31, 2019, the Company received the final payment of \$208,130. Accordingly, the Company had received the entire grant amount of \$2,081,297 by December 31, 2019.

National Research Council of Canada’s Industrial Research Assistance Program (“NRC-IRAP”):NRC-IRAP Program #5 (active):

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

During the three months ended March 31, 2020, the Company received a total of \$62,733 (2019 - \$20,222) in connection with this grant.

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

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

During the year ended December 31, 2019, the Company received a total of \$168,691 in connection with this grant.

Other Grants:

During the three months ended March 31, 2020, the Company received additional government grants for training and employment totalling \$2,700 (2019 - \$15,000).

The cumulative amounts received from Government assistance programs with the Government of Canada for all periods are as follows:

	March 31, 2020	December 31, 2019
	\$	\$
Industrial Research Assistance Program (NRC-IRAP)	675,414	612,681
Sustainable Development Technology Canada (SDTC)	3,305,111	3,055,111
Automotive Supplier’s Innovation Program (ASIP)	1,733,506	1,733,506
Other Grants	80,059	77,359
Scientific Research & Experimental Development (SR&ED)	98,661	98,661
	5,892,751	5,577,318

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

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For the three months ended March 31, 2020 and March 31, 2019

7. SHARE CAPITAL AND RESERVES

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

Transactions for the issue of share capital during the three months ended March 31, 2020:

- a) On February 21, 2020, the Company completed a non-brokered private placement consisting of the issue of 9,565,000 units at a price of \$1.15 per unit for gross proceeds of \$10,999,750. Each unit consists one common share and one-half of a common share purchase warrant with each whole warrant exercisable into one common share at an exercise price of \$1.60 until February 21, 2023. The residual value of the warrants attached to the units was determined to be \$nil.

Cash finders' fees totalling \$557,221 and legal fees of \$61,137, were incurred in respect of the placement. Additionally, the Company issued 467,740 finders' warrants having a fair value of \$281,300. These share issue costs were recorded as a reduction of share capital.

The Company recorded the fair value of the finders' warrants issued using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of warrants – three years, stock price volatility – 60.00%, no dividend yield, and a risk-free interest rate yield – 1.28%.

- b) The Company issued 1,985,000 common shares on the exercise of stock options at prices between \$0.25 and \$0.70 per share, for proceeds of \$497,375. In addition, \$492,962 representing the fair value of the stock options granted and vested was re-allocated from reserves to share capital.

Transactions for the issue of share capital during the three months ended March 31, 2019:

- c) The Company issued 75,000 common shares on the exercise of stock options at prices ranging between \$0.35 and \$0.70 per share, for proceeds of \$35,000. In addition, \$27,757 representing the fair value of the stock options on initial vesting was re-allocated from reserves to share capital.
- d) The Company issued 148,565 common shares on the exercise of warrants at a price of \$1.25 per share, for proceeds of \$185,707. In addition, \$4,368 representing the fair value of certain of the warrants (finders' warrants) on initial issuance was re-allocated from reserves to share capital.

Stock options

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

A summary of the status of the Company's stock options as at March 31, 2020 and December 31, 2019 and changes during the period/year then ended is as follows:

	Period ended March 31, 2020		Year ended December 31, 2019	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of period/year	5,843,425	0.86	5,937,500	0.84
Granted	-	-	195,000	1.34
Exercised	(1,985,000)	0.25	(177,500)	0.43
Cancelled	(17,500)	1.25	(111,575)	1.48
Options outstanding, end of period/year	3,840,925	1.17	5,843,425	0.86

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

Unaudited – Prepared by Management

For the three months ended March 31, 2020 and March 31, 2019

7. SHARE CAPITAL AND RESERVES (continued)**Stock options**

As at March 31, 2020, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise price \$	Expiry date
10,000	10,000	1.57	September 30, 2020
15,000	15,000	1.28	September 30, 2020
25,000	25,000	0.74	November 30, 2020
17,850	17,850	1.57	November 30, 2020
20,000	20,000	1.28	November 30, 2020
225,000	225,000	0.25	January 19, 2021
60,000	60,000	1.37	January 24, 2021
100,000	100,000	0.38	April 8, 2021
50,000	50,000	0.50	September 13, 2021
75,000	75,000	0.70	March 10, 2022
25,000	25,000	0.67	June 5, 2022
150,000	150,000	1.15	August 11, 2022
50,000	50,000	1.08	September 13, 2022
150,000	150,000	1.14	January 3, 2023
100,000	100,000	1.19	January 9, 2023
233,075	233,075	1.57	July 12, 2023
25,000	25,000	1.08	September 10, 2023
2,410,000	2,410,000	1.28	November 12, 2023
100,000	100,000	1.35	March 21, 2024
3,840,925	3,840,925		

There were no stock options granted during the three months ended March 31, 2020.

During the three months ended March 31, 2019, 160,000 stock options in aggregate with a weighted average exercise price of \$1.36, and expiry dates of either January 24, 2021, or March 21, 2024 were granted to an employee and a consultant. The Company recorded the fair value of the options granted using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair values were determined using the following weighted average assumptions:

	March 31, 2019
Risk-free interest rate	1.7%
Expected life of stock options (years)	3.9
Volatility	79.9%
Dividend rate	0%
Weighted average fair value per stock option granted	\$ 0.79

The total share-based payments expense for the three months ended March 31, 2019 was \$200,899, which includes only those stock options that vested during the period then ended pursuant to the new grant and those options continuing to vest from grants in prior periods.

During the three months ended March 31, 2020, 17,500 stock options were cancelled upon termination of a consulting contract. As a result, the original share-based payments expense of \$14,013 was reversed from reserves and credited to deficit.

During the three months ended March 31, 2019, 11,750 stock options expired unexercised. As a result, the original share-based payments expense of \$11,926 was reversed from reserves and credited to deficit.

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

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7. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

The following table summarizes information about the stock options outstanding at March 31, 2020:

Exercise prices \$	Options #	Weighted average remaining life (years)	Weighted average exercise price \$
0.25 - 0.74	500,000	1.15	0.41
1.08 - 1.28	2,920,000	3.46	1.26
1.35 - 1.57	420,925	3.10	1.49
	3,840,925	3.12	1.17

Warrants

As an incentive to complete private placements, the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to warrants attached to units sold in private placements. Finders' warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model.

A summary of the Company's common share purchase warrants as at March 31, 2020 and December 31, 2019 and changes during the period/year then ended is as follows:

	Period ended March 31, 2020		Year ended December 31, 2019	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of period/year	676,500	0.69	1,879,555	1.25
Issued - attached to units	4,782,500	1.60	676,500	1.60
Issued - finders' warrants	467,740	1.60	-	-
Exercised	-	-	(856,665)	1.25
Expired	-	-	(1,022,890)	1.25
Warrants outstanding, end of period/year	5,926,740	1.60	676,500	0.69

As at March 31, 2020, the Company has warrants outstanding and exercisable as follows:

Warrants #	Weighted average exercise price \$	Expiry Date	Weighted average remaining life (years)
676,500	1.60	October 23, 2020	0.56
5,250,240	1.60	February 21, 2023	2.90
5,926,740	1.60		2.63

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

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

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8. RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with related parties:

Nature of transaction or balance	Nature of relationship	Transactions 3 months ended March 31, 2020 \$	Transactions 3 months ended March 31, 2019 \$	Balances outstanding March 31, 2020 \$	Balances outstanding December 31, 2019 \$
Legal fees (1)	Company with a common Director/Officer	39,850	12,129	-	16,883
Management fees	Company controlled by a Director (*)	367,000	15,000	11,550	5,250
Salaries and benefits / Research expenses	Officers/Directors (*)	81,250	53,621	-	-
Expense reimbursements	Officer (*)	-	-	-	2,731
		488,100	80,750	11,550	24,864

(*) Member of key management personnel.

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

9. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash investing and financing activities during the three months ended March 31, 2020 and March 31, 2019 as follows:

	March 31, 2020 \$	March 31, 2019 \$
Non-cash investing activities:		
Initial recognition of right-of-use asset (IFRS 16)	-	317,195
Non-cash financing activities:		
Share issue costs included in accounts payable and accrued liabilities	57,931	-
Purchases of property and equipment included in accounts payable and accrued liabilities	6,012	-
Fair value of finders' warrants issued	281,300	-
Re-allocation of reserves on stock options exercised	492,962	27,757
Re-allocation of reserves on stock options cancelled/expired	14,013	11,926
Re-allocation of reserves on warrants exercised	-	4,368

As at March 31, 2020, the Company did not hold any short-term investments.

As at December 31, 2019, the Company's short-term investment included a non-redeemable guaranteed investment ("GIC") which matured on March 24, 2020 and bore interest at 2.10% per annum. The Company purchased the GIC in June 2019 for \$196,749, and recognized interest income of \$940 during the three months ended March 31, 2020 (2019 - \$nil). Total interest income received on this GIC at maturity was \$3,102.

During the three months ended March 31, 2020 and March 31, 2019, no amounts were paid for interest expense or income taxes.

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2020 and March 31, 2019

10. MANAGEMENT OF CAPITAL

The Company considers items included in shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new common shares. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. The Company's capital structure as at March 31, 2020, is comprised of its components of shareholders' equity. There were no changes to the Company's approach to capital management during the three months ended March 31, 2020.

The Company currently has no source of revenues, though it receives proceeds from government assistance programs (Note 6), and certain cost recoveries from partners. In order to fund future research activities and pay for operating expenses, the Company will spend its existing working capital and raise additional funds as needed. The Company's ability to continue as a going concern on a long-term basis and realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation is primarily dependent upon continued government assistance programs, financial support and/or contributions of its industry partners, the ability to raise additional financing from equity markets, and the ability to generate future profitable operations.

11. FINANCIAL INSTRUMENTS

Financial instruments - fair value

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

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

Classification of financial instruments

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

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

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

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

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For the three months ended March 31, 2020 and March 31, 2019

11. FINANCIAL INSTRUMENTS (continued)

Financial instruments - risk

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

a) Liquidity risk

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

b) Credit risk

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

The Company minimizes its credit risk on its cash and cash equivalents and short-term investment, by holding the funds with high-credit quality Canadian banks. The Company's credit risk attributable to its other receivable is negligible as the funds were collected subsequent to March 31, 2020.

The Company is also exposed to credit risk relating to its deposits in which management believes the risk to be low. The Company's deposits are subject to the expected credit loss model for impairment testing. The Company applies the IFRS 9 simplified approach to the deposits to measure expected credit loss which uses a lifetime expected loss allowance. The deposits have been assessed based on debtor circumstances and are considered to be low risk.

c) Interest rate risk

The Company is exposed to interest rate risk because of fluctuating interest rates. Fluctuations in market rates do not have a significant impact on the Company's operations due to the short-term to maturity and no penalty cashable features of its cash equivalents. For the three months ended March 31, 2020, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the period by approximately \$4,000 (2019 - \$7,000).

d) Price risk

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

e) Currency risk

Currency risk is the risk of fluctuation in profit or loss that arises from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company is exposed to currency risk as it incurs certain transactions in the United States dollar and the Euro. Additionally, as at March 31, 2020, the Company held certain financial assets and liabilities that were denominated in these foreign currencies. For the three months ended March 31, 2020, every 10% fluctuation in foreign exchange rates would have had an insignificant impact on loss and comprehensive loss for the period.

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

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12. SEGMENTED INFORMATION

The Company operates in one business segment being the development of a patented technology for the production of lithium-ion battery cathode materials (Note 1). The Company's non-current assets are located in Canada with the exception of certain patents within intangible assets that have been issued from patent regulators in foreign jurisdictions (Note 5).

13. SUBSEQUENT EVENT

- a) On May 6, 2020, the Company announced that the Ministry of Energy, Mines and Petroleum Resources of the Province of British Columbia will be contributing \$3,033,000 to the Company's "Scaling of Advanced Battery Materials Project" (SDTC Program #2) (Note 6). The funds are non-repayable.