



Nano One Materials Corp.
Condensed Interim Consolidated Financial Statements
For the three months ended
March 31, 2022

(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

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

The accompanying condensed interim consolidated financial statements of Nano One Materials Corp. ("the Company") as at March 31, 2022, and for the three months ended March 31, 2022 and March 31, 2021, 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 consolidated 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 Consolidated Statements of Financial Position

Unaudited – Prepared by Management

As at March 31, 2022 and December 31, 2021

	Note	March 31, 2022 \$	December 31, 2021 \$
Assets			
Current assets			
Cash and cash equivalents		48,746,246	52,652,258
Receivables and prepayments	3	706,310	697,182
		49,452,556	53,349,440
Non-current assets			
Deposits	3	115,063	158,691
Property and equipment	4	1,854,113	1,824,058
Intangible assets - patents	5	26,736	25,708
		1,995,912	2,008,457
Total assets		51,448,468	55,357,897
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		658,750	759,014
Accounts payable to related parties	8	14,700	25,024
Deferred government assistance	6	-	18,958
Lease liabilities - current portion	4	143,966	143,740
		817,416	946,736
Non-current liabilities			
Lease liabilities	4	620,618	656,190
Total liabilities		1,438,034	1,602,926
Shareholders' equity			
Share capital	7	82,678,372	82,607,348
Reserves	7	9,473,760	8,977,007
Deficit		(42,141,698)	(37,829,384)
Total shareholders' equity		50,010,434	53,754,971
Total liabilities and shareholders' equity		51,448,468	55,357,897
Nature and continuance of operations	1		

Approved on behalf of the Board of Directors on May 12, 2022:

"Dan Blondal"
Director

"Lyle Brown"
Director

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

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

	Note	March 31, 2022 \$	March 31, 2021 \$
Expenses			
Amortization	5	493	410
Depreciation	4	37,907	22,921
Finance costs	4	17,228	19,157
General and administrative expenses		269,572	133,835
Investor relations and shareholder information		137,062	128,998
Management and directors' fees	8	135,879	84,000
Professional and consulting, net	6,8	509,267	252,599
Research expenses, net	6,8	1,875,123	44,158
Salaries and benefits, net	6,8	873,588	695,327
Share-based payments	7,8	508,245	3,070,497
Loss from operating expenses		(4,364,364)	(4,451,902)
Interest income		52,050	38,510
Bad debt		-	(130,780)
Loss and comprehensive loss for the period		(4,312,314)	(4,544,172)
Loss per share			
Weighted average number of common shares outstanding			
- basic		95,568,525	89,301,167
- diluted		95,568,525	89,301,167
Basic loss per common share		(0.05)	(0.05)
Diluted loss per common share		(0.05)	(0.05)

Nano One Materials Corp.

Condensed Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

	Note	March 31, 2022 \$	March 31, 2021 \$
Operating activities			
Loss for the period		(4,312,314)	(4,544,172)
Adjustments for:			
Amortization		493	410
Depreciation	4	230,408	87,147
Finance costs		17,228	19,157
Share-based payments		508,245	3,070,497
Interest income		(52,050)	(38,510)
Non-cash working capital items:			
Receivables and prepayments		(9,128)	(50,253)
Accounts payable and accrued liabilities		(80,241)	251,299
Accounts payable to related parties		(10,324)	341,303
Deferred government assistance		(18,958)	(799,834)
		(3,726,641)	(1,662,956)
Investing activities			
Interest income received on cash and cash equivalents		52,050	34,811
Deposits on property and equipment		(63,860)	(133,589)
Purchases of property and equipment, net		(172,998)	(250,939)
Payments for intangible assets	5	(1,521)	(838)
		(186,329)	(350,555)
Financing activities			
Issuance of common shares/units for cash		59,532	4,490,012
Payments of lease liabilities	4	(52,574)	(42,807)
		6,958	4,447,205
Change in cash and cash equivalents		(3,906,012)	2,433,694
Cash and cash equivalents, beginning of period		52,652,258	27,750,290
Cash and cash equivalents, end of period		48,746,246	30,183,984
Cash and cash equivalents comprise:			
Cash	10	193,236	26,142,822
Cash equivalents		48,553,010	4,041,162
Cash and cash equivalents, end of period		48,746,246	30,183,984
Supplemental cash flow information	9		

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

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

	Number of common shares	Share capital \$	Reserves \$	Deficit \$	Total \$
December 31, 2020	88,237,538	50,733,826	4,726,488	(26,561,978)	28,898,336
Exercise of stock options	283,250	337,590	-	-	337,590
Re-allocated on exercise of stock options	-	187,222	(187,222)	-	-
Re-allocated on cancellation of stock options	-	-	(39,644)	39,644	-
Exercise of warrants	1,356,740	4,152,422	-	-	4,152,422
Re-allocated on exercise of warrants	-	399,036	(399,036)	-	-
Share-based payments	-	-	3,070,497	-	3,070,497
Loss and comprehensive loss for the period	-	-	-	(4,544,172)	(4,544,172)
March 31, 2021	89,877,528	55,810,096	7,171,083	(31,066,506)	31,914,673
December 31, 2021	95,528,103	82,607,348	8,977,007	(37,829,384)	53,754,971
Exercise of stock options	25,000	17,500	-	-	17,500
Re-allocated on exercise of stock options	-	11,038	(11,038)	-	-
Exercise of warrants	26,270	42,032	-	-	42,032
Re-allocated on exercise of warrants	-	454	(454)	-	-
Share-based payments	-	-	508,245	-	508,245
Loss and comprehensive loss for the period	-	-	-	(4,312,314)	(4,312,314)
March 31, 2022	95,579,373	82,678,372	9,473,760	(42,141,698)	50,010,434

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

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

1. NATURE AND CONTINUANCE OF OPERATIONS

Nano One Materials Corp. (the “Company”) was incorporated under the laws of the Province of Alberta on November 5, 1987 and continued under the laws of the Province of British Columbia. The Company’s head office is located at Unit 101B - 8575 Government Street, Burnaby, BC, V3N 4V1, Canada. Its records office is located at Suite 2900 – 550 Burrard Street, Vancouver, BC, V6C 0A3, Canada. Effective June 8, 2021, the Company’s common shares commenced trading on the Toronto Stock Exchange (the “TSX”) under the symbol “NANO”. The Company’s common shares formerly traded on the TSX Venture Exchange under the symbol “NNO”.

The Company has developed, patented and scaled-up an innovative “One-Pot Process” for the production of cathode active materials (CAM) for lithium-ion battery applications in electric vehicles, energy storage systems, and consumer electronics. The Company has built a demonstration pilot plant (Note 4) and is establishing partnerships throughout the lithium-ion battery supply chain to improve the cost and durability of lithium-ion batteries and progress towards commercialization. As of the approval date of these financial statements, the Company holds twenty (21) patents (Note 5), with many others pending.

These condensed interim consolidated financial statements (the “financial statements”) have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has not yet commenced revenue generating activities by way of licensing, commercialization, or other and has historically incurred operating losses. As at March 31, 2022, the Company had working capital of \$48,635,140 (December 31, 2021 - \$52,402,704), which management assesses is sufficient for the Company to continue as a going concern beyond one year. The Company will utilize this working capital to execute on its research and strategic objectives and carry on as a going concern. The Company’s ability to continue as a going concern on a long-term basis is primarily dependent upon continued government assistance programs, the ability to raise additional capital from equity markets, and commencing commercialization efforts to generate profitable operations.

The Company continues to manage and respond to the COVID-19 pandemic within its internal policies, along with recommendations of health authorities and local and national requirements. The Company has implemented preventative measures to ensure the safety of its workforce and other key stakeholders.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

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, 2021, 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.

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.

Principles of consolidation

Subsidiaries are entities controlled by the Company and are included in the financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed where necessary to align them with the policies adopted by the Company. Inter-company balances and transactions, and any unrealized income (loss) and expenses arising from inter-company transactions, are eliminated in preparing the financial statements.

On February 22, 2022, the Company incorporated a wholly-owned subsidiary, Nano One Materials Québec Inc. (“Nano Quebec”), in Quebec, Canada.

Significant accounting policies

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 consolidated financial statements and are those the Company expects to adopt in its annual consolidated financial statements for the year ended December 31, 2022. Accordingly, these financial statements should be read in conjunction with the Company’s most recent annual audited financial statements.

Standards issued but not yet effective

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2022. The Company has reviewed these updates and determined that none are applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies. Additionally, there were no new standards adopted by the Company during the three months ended March 31, 2022.

Nano One Materials Corp.**Notes to the Condensed Interim Consolidated Financial Statements**Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

3. RECEIVABLES, PREPAYMENTS, AND DEPOSITS

Receivables consist of the following:

	March 31, 2022	December 31, 2021
	\$	\$
Accrued government assistance	-	47,652
Prepaid expenses	281,716	285,697
Research cost recoveries	313,362	308,267
Sales tax recoverable and other	111,232	55,566
	706,310	697,182

Research cost recoveries and receivables

In December 2020, the Company entered into a Cathode Evaluation Agreement with an American-based multinational auto manufacturer (“USCo”) to jointly evaluate the performance and commercial benefit of the Company’s patented process for nickel-rich and cobalt-free cathode materials in lithium-ion batteries for electric vehicle applications. During the three months ended March 31, 2022, the Company recognized cost recoveries of \$5,095 (2021 - \$79,379) in connection with this arrangement. As at March 31, 2022, \$313,362 was receivable (subsequently collected) (December 31, 2021 - \$308,267). The parties continue to collaborate under this arrangement.

In May 2021, the Company entered into a Co-Development Agreement with CBMM Technology Suisse SA (“CBMM”), a niobium producer to co-develop niobium coated battery cathode materials with CBMM. There were no cost recoveries accrued or received during the three months ended March 31, 2022 and March 31, 2021. The parties continue to collaborate under this agreement.

During the three months ended March 31, 2022 and March 31, 2021, the Company accrued or received the following research cost recoveries within research expenses, net:

	March 31, 2022	March 31, 2021
	\$	\$
USCo	5,095	79,379

Deposits consist of the following:

	March 31, 2022	December 31, 2021
	\$	\$
Deposits on property and equipment	49,372	93,000
Security and other deposits	65,691	65,691
	115,063	158,691

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

4. PROPERTY AND EQUIPMENT

	Research and development equipment \$	Pilot plant \$	Right-of-use assets \$	Computer equipment and software \$	Leasehold improvements \$	Total \$
Cost						
December 31, 2020	1,123,699	2,049,930	852,452	163,291	76,617	4,265,989
(1) Additions, net	444,892	116,974	205,300	74,393	172,255	1,013,814
December 31, 2021	1,568,591	2,166,904	1,057,752	237,684	248,872	5,279,803
Accumulated depreciation						
December 31, 2020	609,869	1,864,228	196,310	106,009	4,617	2,781,033
Depreciation	295,516	114,516	166,964	38,839	58,877	674,712
December 31, 2021	905,385	1,978,744	363,274	144,848	63,494	3,455,745
Cost						
December 31, 2021	1,568,591	2,166,904	1,057,752	237,684	248,872	5,279,803
(1) Additions	232,757	26,441	-	1,265	-	260,463
March 31, 2022	1,801,348	2,193,345	1,057,752	238,949	248,872	5,540,266
Accumulated depreciation						
December 31, 2021	905,385	1,978,744	363,274	144,848	63,494	3,455,745
(2) Depreciation	83,872	65,670	42,571	11,770	26,525	230,408
March 31, 2022	989,257	2,044,414	405,845	156,618	90,019	3,686,153
Net book value						
December 31, 2021	663,206	188,160	694,478	92,836	185,378	1,824,058
March 31, 2022	812,091	148,931	651,907	82,331	158,853	1,854,113

- (1) Additions for the three months ended March 31, 2022 were not reduced by any amortization of deferred government assistance. Additions, net for the year ended December 31, 2021 were reduced by the amortization of deferred government assistance as follows:

	Research and development equipment \$	Pilot plant \$	Right-of-use assets \$	Computer equipment and software \$	Leasehold improvements \$	Total \$
Year ended December 31, 2021						
Deferred government assistance amortized (Note 6)	297,045	49,375	-	42,792	149,751	538,963

- (2) Depreciation for the three months ended March 31, 2022 and March 31, 2021 is allocated as follows:

	Depreciation expense \$	Research expenses, net \$	Total \$
March 31, 2021			
Research and development equipment	-	26,462	26,462
Pilot plant	-	12,874	12,874
Right-of-use assets	18,300	20,966	39,266
Corporate equipment and software	4,621	-	4,621
Leasehold improvements	-	3,924	3,924
	22,921	64,226	87,147
March 31, 2022			
Research and development equipment	-	83,872	83,872
Pilot plant	-	65,670	65,670
Right-of-use assets	21,606	20,965	42,571
Corporate equipment and software	11,770	-	11,770
Leasehold improvements	4,531	21,994	26,525
	37,907	192,501	230,408

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

4. PROPERTY AND EQUIPMENT (continued)

Right-of-use assets and Lease liabilities

The Company has agreements to lease office space, and laboratory facilities. The Company has determined that its lease contracts are leases as defined under IFRS 16 – Leases (“IFRS 16”). In analyzing the identified contracts, the Company applied the lessee accounting model pursuant to IFRS 16 and considered all of the facts and circumstances surrounding the inception of the contract (but not future events that are not likely to occur). Lease liabilities were calculated with a discount rate of 9%.

The Company has identified the following leases:

Location	Asset	Type	Term of lease at March 31, 2022 including extensions
Burnaby, BC	Building	Corporate head office (main)	0.5 Years
Burnaby, BC	Building	Corporate head office (expansion)	2.3 Years
Burnaby, BC	Building	Laboratory and pilot plant	6.4 Years
Burnaby, BC	Building	Laboratory	6.4 Years

A reconciliation of the carrying amount of the lease liabilities as at March 31, 2022 and December 31, 2021 and changes during the period/year then ended is as follows:

	March 31, 2022 \$	December 31, 2021 \$
Lease liabilities		
Beginning of period/year	799,930	710,073
Lease extension	-	205,300
Lease payments	(52,574)	(189,944)
Lease interest (finance costs)	17,228	74,501
End of period/year	764,584	799,930
Current portion of lease liabilities	143,966	143,740
Non-current portion of lease liabilities	620,618	656,190
Maturity analysis - contractual undiscounted cash flows		
Less than one year	204,657	207,724
One to five years	568,178	588,536
More than five years	165,179	194,328
Total undiscounted lease liabilities	938,014	990,588

Short-term leases are leases with a lease term of twelve months or less. As at March 31, 2022, and December 31, 2021, the Company did not have any short-term leases. As at March 31, 2022, 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.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

5. INTANGIBLE ASSETS

As at March 31, 2022, intangible assets include twenty-one (21) (December 31, 2021 – twenty (20)) issued patents associated with the Company's technology. These patents were issued by various jurisdictions including Canada, China, Japan, Korea, Taiwan, and the United States. The patents have expiries ranging between thirteen (13) 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 fees as incurred. The Company has many pending patent applications in which all associated costs have been expensed.

	Issued patents \$
<hr/>	
Cost	
December 31, 2020	25,514
Additions	4,893
<u>December 31, 2021</u>	<u>30,407</u>
Accumulated amortization	
December 31, 2020	2,811
Amortization	1,888
<u>December 31, 2021</u>	<u>4,699</u>
Cost	
December 31, 2021	30,407
Additions	1,521
March 31, 2022	31,928
Accumulated amortization	
December 31, 2021	4,699
Amortization	493
March 31, 2022	5,192
Net book value	
December 31, 2021	25,708
March 31, 2022	26,736

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

6. GOVERNMENT ASSISTANCE

The Company receives funding from the Government of Canada for its research activities through various programs. During the three months ended March 31, 2022 and March 31, 2021 the following amounts were received or accrued:

	March 31, 2022	March 31, 2021
	\$	\$
(1) Grant cash proceeds received (repaid):		
(2) Sustainable Development Technology Canada (SDTC)	-	262,500
Industrial Research Assistance Program (NRC-IRAP)	68,296	(8,394)
	68,296	254,106

- (1) Proceeds or repayments are recorded within research expenses, net.
(2) See deferred government assistance below for allocation of SDTC for the three months ended March 31, 2022 and March 31, 2021.

Deferred government assistance:

As at March 31, 2022 and December 31, 2021, the deferred government assistance balances were in relation to SDTC Program #2 (below). Under the SDTC Program, the government assistance is received by the Company in advance of each project phase ("Milestone") to be completed. The Company records the receipt of SDTC grant instalments initially as a liability and amortizes the liability based on the percentage of required expenditures incurred for each Milestone.

A reconciliation of the carrying amount of the deferred government assistance as at March 31, 2022 and December 31, 2021, and changes during the period/year then ended are as follows:

	March 31, 2022	December 31, 2021
	\$	\$
Deferred government assistance (SDTC Program #2)		
Beginning of period/year	18,958	821,256
Additions - SDTC grant proceeds received	-	1,652,859
(1) Amortization	(18,958)	(2,455,157)
End of period/year	-	18,958

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

	March 31, 2022	March 31, 2021
	\$	\$
Property and equipment	-	235,215
Professional fees, net	-	11,346
Salaries and benefits, net	-	66,319
Research expenses, net	18,958	486,954
	18,958	799,834

Effective March 31, 2022, the Company completed Milestone 3 and is in the process of reporting to SDTC.

During the year ended December 31, 2021, the Company commenced Milestone 3 and received the related funds totalling \$1,652,859 representing the aggregate of SDTC and British Columbia Innovative Clean Energy, Mines and Petroleum Resources ("BC-ICE") contributions.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

6. GOVERNMENT ASSISTANCE (continued)

Sustainable Development Technology Canada (“SDTC”):

SDTC Program #2 (active):

In 2019, the Company executed a contribution agreement with SDTC for a non-repayable grant in respect of the Company’s “Scaling Advanced Battery Materials” project. The SDTC Program #2 grant is for up to \$8,545,500 (\$5,944,376 received as at March 31, 2022 and December 31, 2021) which includes BC-ICE contributions (discussed below). SDTC Program #2 is estimated to conclude in June 2024. The funds are non-repayable.

The funds from SDTC Program #2 are payable to the Company in five (5) instalments including the release of a final 10% hold-back 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) Milestones. Each instalment payment is subject to the Company meeting the specific project Milestones and having available cash resources to match each instalment from SDTC.

As at March 31, 2022, the Company is in Milestone 3 (which concluded effective March 31, 2022). During the three months ended March 31, 2022, the Company received \$nil (2021 - \$262,500) in SDTC Program #2 grant proceeds.

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

Between the two programs detailed below, the Company received proceeds from NRC-IRAP during the three months ended March 31, 2022 of \$68,296 (2021 – repaid or reversed \$8,394).

Youth Internship Contribution Agreement (completed)

In May 2021, the Company entered into two Youth Internship Contribution Agreements with NRC-IRAP for non-repayable contributions to the Company totalling \$53,115 over the course of the program which concluded in January 2022. Under the terms of the agreement, this amount was for the reimbursement of certain salaries paid to employees of the Company.

During the three months ended March 31, 2022, the Company received \$9,519 (2021 - \$nil) in connection to the Youth Internship Contribution Agreement.

NRC-IRAP Program #6 (active):

In December 2021, the Company executed an agreement with NRC-IRAP for non-repayable contributions to the Company totaling up to \$404,000 (\$58,777 received through to March 31, 2022) over the course of the program through to June 2023. The scope of the program is 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. Under the terms of the agreement, NRC-IRAP will reimburse the Company for 80% of salaries paid to employees involved in this project.

During the three months ended March 31, 2022, the Company received \$58,777 (2021 - \$nil) in connection to the NRC-IRAP Program #6.

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

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

6. GOVERNMENT ASSISTANCE (continued)

The cumulative amounts of grant funding received since January 1, 2014 from the Government of Canada are as follows:

	March 31, 2022	December 31, 2021
	\$	\$
Sustainable Development Technology Canada (SDTC)	8,025,672	8,025,672
Automotive Supplier's Innovation Program (ASIP)	1,950,952	1,950,952
Industrial Research Assistance Program (NRC-IRAP)	896,634	828,338
Innovation Assistance Program (IAP) (from NRC-IRAP)	241,225	241,225
Scientific Research & Experimental Development (SR&ED)	98,661	98,661
Other Grants	80,059	80,059
	11,293,203	11,224,907

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.

Share capital**Transactions for the issuance of share capital during the three months ended March 31, 2022:**

- a) Upon the exercise of stock options, 25,000 common shares were issued at \$0.70 each for proceeds of \$17,500. In addition, \$11,038 representing the fair value initially recognized, was re-allocated from reserves to share capital.
- b) Upon the exercise of warrants, 26,270 common shares were issued at \$1.60 each for proceeds of \$42,032. In addition, \$454 representing the fair value initially recognized on the portion of these warrants which were issued as compensatory warrants, was re-allocated from reserves to share capital.

Transactions for the issuance of share capital during the three months ended March 31, 2021:

- c) Upon the exercise of stock options, 283,250 common shares were issued at prices between \$0.38 and \$2.81 each, for proceeds of \$337,590. In addition, \$187,222 representing the fair value initially recognized, was re-allocated from reserves to share capital.

Upon the exercise of warrants, 1,356,740 common shares were issued at prices between \$1.60 and \$3.55 each, for proceeds of \$4,152,422. In addition, \$399,036 representing the fair value initially recognized on the portion of these warrants which were issued as compensatory warrants, was re-allocated from reserves to share capital.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

7. SHARE CAPITAL AND RESERVES (continued)

Reserves

The Company has an Omnibus Equity Incentive Plan (the “Equity Plan”) effective October 2021, which superseded a previous stock option plan. The Equity Plan provides for the grant of stock options, RSUs, DSUs, and performance share units (“PSUs”). 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 discounted market price of the Company’s common shares as calculated on the date immediately prior to 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. These terms remain consistent from the former stock option plan.

A summary of the status of the Company’s stock options as at March 31, 2022 and December 31, 2021, and changes during the period/year then ended is as follows:

	Period ended March 31, 2022		Year ended December 31, 2021	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of period/year	6,337,050	2.76	4,604,075	1.66
Granted	175,307	2.88	2,143,950	4.85
Exercised	(25,000)	0.70	(369,125)	1.18
Cancelled	-	-	(41,850)	2.84
Options outstanding, end of period/year	6,487,357	2.77	6,337,050	2.76

As at March 31, 2022, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise price \$	Expiry date
50,000	50,000	1.08	September 13, 2022
150,000	150,000	1.14	January 3, 2023
210,575	210,575	1.57	July 12, 2023
1,347,625	1,347,625	2.52	July 20, 2023
25,000	25,000	2.81	September 8, 2023
2,375,000	2,375,000	1.28	November 12, 2023
15,000	15,000	3.05	December 4, 2023
1,366,750	1,253,375	5.10	February 1, 2024
52,100	26,050	5.26	February 25, 2024
40,000	10,000	4.90	June 7, 2024
40,000	10,000	3.62	October 5, 2024
240,000	-	3.14	December 2, 2024
400,000	200,000	5.10	February 1, 2026
175,307	-	2.88	February 4, 2027
6,487,357	5,672,625		

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

7. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

The following table summarizes the above information about the stock options outstanding as at March 31, 2022:

Exercise prices \$	Options #	Weighted average remaining life (years)	Weighted average exercise price \$
1.08 - 1.57	2,785,575	1.5	1.29
2.52 - 3.14	1,802,932	1.8	2.65
3.62 - 5.26	1,898,850	2.3	5.07
	6,487,357	1.8	2.77

The Company recorded the fair value of the stock options granted during the three months ended March 31, 2022 and March 31, 2021 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, 2022	March 31, 2021
Risk-free interest rate	1.7%	0.3%
Expected life of stock options (years)	5.0	3.4
Historical volatility	67.0%	73.5%
Dividend rate	0%	0%
Weighted average fair value per stock option granted	\$ 1.63	\$ 2.57

The total share-based payments expense for the three months ended March 31, 2022 was \$508,245 (2021 - \$3,070,497), of which \$323,320 (2021 - \$3,070,497) was attributable to accruals for and/or vesting of stock options during the period then ended.

There were no stock options cancelled or expiring during the three months ended March 31, 2022. During the three months ended March 31, 2021, 33,750 stock options were cancelled upon an individual leaving employment of the Company. As a result, the original share-based payments expense of \$39,644 was reversed from reserves and credited to deficit.

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

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

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

Pursuant to the underlying agreements, all Equity Incentives granted to date are to be settled in common shares.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

7. SHARE CAPITAL AND RESERVES (continued)

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

A summary of the status of the Company's Equity Incentives as at March 31, 2022 and December 31, 2021, and changes during the period/year then ended is as follows:

	Period ended March 31, 2022	Year ended December 31, 2021
	Equity Incentives #	Equity Incentives #
Equity Incentives outstanding, beginning of period/year	193,131	-
Granted - RSUs	189,423	184,505
Granted - DSUs	-	8,626
Equity Incentives outstanding, end of period/year	382,554	193,131

As at March 31, 2022, the Company has RSUs and DSUs outstanding as follows:

RSUs outstanding #	DSUs outstanding #	Vested #	Weighted average grant date fair value per Equity Incentive	Final vesting date	Expiry date
184,505	-	-	4.17	August 27, 2024	December 31, 2024
-	8,626	-	4.17	August 27, 2024	n/a
189,423	-	-	2.88	February 4, 2025	December 31, 2025
373,928	8,626	-	3.53		

During the three months ended March 31, 2022, the Company granted 189,423 RSUs to officers and directors of the Company which vest in three annual installments (one-third (63,141) on February 4, 2023; one-third (63,141) on February 4, 2024; and the final one-third (63,141) on February 4, 2025).

During the year ended December 31, 2021, the Company granted 184,505 RSUs and 8,626 DSUs to officers and directors of the Company which vest in three annual installments (one-third (64,377) on August 27, 2022; one-third (64,377) on August 27, 2023; and the final one-third (64,377) on August 27, 2024).

The value of the Equity Incentives granted was based on the fair value of the Company's common shares on the date of grant. During the three months ended March 31, 2022, the Equity Incentives were granted at a fair value of \$2.88 each for a total value of \$545,538 (Year ended December 31, 2021 - \$4.17 each for a total value of \$805,356) which is being recognized within share-based payment expense as the Equity Incentives vest.

The total share-based payments expense for the three months ended March 31, 2022 was \$508,245 (2021 - \$3,070,497), of which \$184,925 (2021 - \$nil) represents the accrual for future vesting of Equity Incentives with the remaining portion of share-based payment expense being attributable to accruals for and/or vesting of stock options, as described above.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

7. 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 and are valued using the Black-Scholes option pricing model.

A summary of the Company's common share purchase warrants as at March 31, 2022 and December 31, 2021, and changes during the period/year then ended is as follows:

	Period ended March 31, 2022		Year ended December 31, 2021	
	Warrants #	Weighted exercise price \$	Warrants #	Weighted exercise price \$
Warrants outstanding, beginning of period/year	4,369,187	2.59	5,561,328	2.52
Issued - underwriters'/finders' warrants	-	-	324,299	5.35
Exercised	(26,270)	1.60	(1,516,440)	2.93
Warrants outstanding, end of period/year	4,342,917	2.60	4,369,187	2.59

As at March 31, 2022, the Company has warrants outstanding and exercisable as follows:

	Warrants #	Weighted average exercise price \$	Expiry Date
(1)	324,299	5.35	April 1, 2022
	31,316	2.72	October 29, 2022
	1,583,100	3.55	October 29, 2022
	2,328,879	1.60	February 21, 2023
	75,323	1.60	February 21, 2023
	4,342,917	2.60	

(1) Subsequently expired unexercised.

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 key management (gross before applicable government assistance recoveries):

	Transactions three months ended March 31, 2022 \$	Transactions three months ended March 31, 2021 \$	Balances outstanding March 31, 2022 \$	Balances outstanding December 31, 2021 \$
Bedrock Capital	37,500	37,500	-	-
DBM CPA	40,650	33,000	14,700	8,400
Directors' fees	57,729	13,500	-	-
Management and directors' fees	135,879	84,000	14,700	8,400
Officers (salaries and benefits; and research expenses)	571,890	561,715	-	631
Directors and officers (share-based payments)	474,946	2,933,297	-	-
Patent Filing Specialists (professional and consulting)	63,953	43,678	-	15,993
	1,246,668	3,622,690	14,700	25,024

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

8. RELATED PARTY TRANSACTIONS (continued)

(a) Management and directors' fees:

- Includes the services of Bedrock Capital Corp. ("Bedrock Capital") a company controlled by Paul Matysek the Chairman and a Company Director;
- Includes the services of Donaldson Brohman Martin, CPA Inc. ("DBM CPA"), a firm in which Dan Martino, CFO is a principal; and
- Includes fees paid to the Company's directors for their positions as non-executive directors and/or board committee members or chairpersons.

(b) Professional and consulting, net:

- Includes the services of Patent Filing Specialists Inc. ("Patent Filing Specialists"), a company controlled by Joseph Guy, a Company Director. Transactions are included within both intangible assets (for capitalized patent issue costs) and professional fees for patent filings, maintenance and related.

(c) Salaries and benefits (including allocations to research expenses, net):

- Includes salaries and short-term variable cash-based compensation incentives paid to Dan Blondal, CEO, Stephen Campbell, CTO, John Lando, Former President until November 30, 2021, Alex Holmes, COO, and Pamela Kinsman, Corporate Secretary and Director of Sustainability and Corporate Affairs. Expense reimbursements outstanding as at December 31, 2021 related to Alex Holmes.

In accordance with an executive employment agreement the Company has in place with Dan Blondal, in case of termination by the Company without cause, he is entitled to six (6) weeks' base pay (or notice) for every year of service to a maximum of twenty-four (24) months. He would not be entitled to further bonus payments after termination. In the case of resignation after a Change of Control and for 'Good Reason', Dan Blondal is entitled to twenty-four (24) months' base salary.

(d) Share-based payments:

- Includes amounts recognized on vesting of stock options and Equity Incentives granted to directors and officers.
- During the three months ended March 31, 2022, the Company granted 189,423 RSUs to various directors and officers (2021 – none were granted). See Note 7 for specifics on vesting terms.
- During the three months ended March 31, 2021, 1,540,000 stock options were granted to directors and officers which are exercisable at \$5.10 each. 400,000 of these stock options have a five year term expiring in February 2026, with the remainder having three year terms expiring in February 2024. The stock options have varying vesting terms.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

9. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash investing and financing activities during the three months ended March 31, 2022 and March 31, 2021 as follows:

	March 31, 2022 \$	March 31, 2021 \$
Non-cash investing activities:		
Property and equipment included in accounts payable and accrued liabilities	-	129,464
Non-cash financing activity:		
Extension of term on right-of-use asset	-	205,300

During the three months ended March 31, 2022 and March 31, 2021, no amounts were paid for interest or income taxes.

10. 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 the requirement for matching funds relating to SDTC programs) (Note 6), as well as generating returns on excess funds while maintaining liquidity/accessibility to such funds. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment, growth of its workforce, 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. 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 three months ended March 31, 2022.

The Company currently has no source of revenues, though it receives funding from government programs (Note 6), and certain research cost recoveries (Note 3) from strategic partners. Additionally, the Company has historically relied upon equity financing to fund its activities. In order to fund ongoing research activities and pay for operating expenses, the Company will spend its existing working capital and may complete additional equity financings to facilitate the management of its capital requirements.

Additionally, the Company may seek to invest excess capital in guaranteed investment certificates ("GICs") bearing fixed rates of interest that are either redeemable (cash equivalents) or non-redeemable (short-term investments) and have terms not exceeding 24 months. The Company will also hold excess capital in high-interest savings accounts ("HISAs") and/or HISA funds which bear interest at variable rates (cash equivalents).

As at March 31, 2022 and December 31, 2021, the Company had excess capital invested in a HISA and a HISA fund which facilitates the diversification of treasury amongst high-credit quality Canadian chartered banks. These amounts are accessible on demand. Additionally, the Company did not have any GIC or other short-term investment holdings.

Interest income earned during the three months ended March 31, 2022 and the primary source earned during the year ended December 31, 2021, was from the HISA fund.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

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.

Financial instruments - classification

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

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

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.

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 upon these sources to finance its activities until such time that the Company commences generating profitable operations.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2022 and March 31, 2021

11. FINANCIAL INSTRUMENTS (continued)

Financial instruments - risk (continued)

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, 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 also exposed to credit risk relating to its deposits (security deposits on facilities, corporate credit card collateral, and deposits on equipment purchases) 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. The Company's exposure to variable interest rates is limited to cash equivalents held in HISAs, and a deposit held as collateral with a Canadian chartered bank on the Company's corporate credit cards.

For the three months ended March 31, 2022, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the period by approximately \$126,000 (2021 – \$70,000).

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 United States dollar, and occasional transactions in the Euro, and the British Pound. Additionally, as at March 31, 2022, the Company held certain financial assets and liabilities that were denominated in these foreign currencies.

Based on the March 31, 2022 value of net assets denominated in foreign currencies, the impact of a 10% fluctuation in foreign exchange rates relative to the Canadian dollar would be insignificant to the Company's financial position and results of operations.

12. SEGMENTED INFORMATION

The Company operates in one business segment being the development of a patented process for the production of cathode active materials (CAM) for lithium-ion battery applications in electric vehicles, energy storage systems, and consumer electronics (Note 1). The Company's non-current assets are located in Canada with the exception of certain patents (intangible assets) that are issued from patent regulators in foreign jurisdictions (Note 5).