



Nano One Materials Corp.
Condensed Interim Consolidated Financial Statements
For the three months ended
March 31, 2023

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

Nano One Materials Corp.**Condensed Interim Consolidated Statements of Financial Position**

Unaudited – Prepared by Management

As at March 31, 2023 and December 31, 2022

	Note	March 31, 2023 \$	December 31, 2022 \$
Assets			
Current assets			
Cash and cash equivalents		40,070,734	39,445,395
Receivables and prepayments	4	1,342,791	2,865,285
Inventory	5	976,271	317,279
		42,389,796	42,627,959
Non-current assets			
Deposits	4	715,503	375,554
Property, plant and equipment	6	13,773,004	13,041,110
Intangible assets - patents	7	32,991	31,737
		14,521,498	13,448,401
Total assets		56,911,294	56,076,360
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		3,310,827	1,829,435
Accounts payable to related parties	10	86,955	23,639
Deferred liabilities	4,8	2,951,252	-
Lease liabilities - current portion	6	314,155	186,795
		6,663,189	2,039,869
Non-current liabilities			
Lease liabilities	6	807,551	587,122
Total liabilities		7,470,740	2,626,991
Shareholders' equity			
Share capital	9	101,255,194	96,704,471
Shares committed for issuance	9	-	171,000
Reserves	9	9,851,136	10,209,880
Deficit		(61,665,776)	(53,635,982)
Total shareholders' equity		49,440,554	53,449,369
Total liabilities and shareholders' equity		56,911,294	56,076,360
Nature and continuance of operations	1		

Approved on behalf of the Board of Directors on May 10, 2023:

"Carla Matheson"

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, 2023 and March 31, 2022

	Note	March 31, 2023 \$	March 31, 2022 \$
Expenses			
Amortization	7	633	493
Business development and investor relations		145,347	137,062
Depreciation	6	58,187	37,907
Finance costs	6	24,656	17,228
General and administrative expenses		668,154	269,572
Professional and consulting, net	10	602,941	453,717
Research and operational expenses, net	8	1,945,076	513,717
Share-based payments	9,10	221,450	508,245
Wages, benefits and fees, net	10	4,817,919	2,426,423
Loss from operating expenses		(8,484,363)	(4,364,364)
Loss on disposal of equipment		(9,822)	-
Interest income	12	418,081	52,050
Loss and comprehensive loss for the period		(8,076,104)	(4,312,314)
Loss per share			
Weighted average number of common shares outstanding			
- basic		102,072,275	95,568,525
- diluted		102,072,275	95,568,525
Basic loss per common share		(0.08)	(0.05)
Diluted loss per common share		(0.08)	(0.05)

Nano One Materials Corp.**Condensed Interim Consolidated Statements of Cash Flows**

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

	Note	March 31, 2023 \$	March 31, 2022 \$
Operating activities			
Loss for the period		(8,076,104)	(4,312,314)
Adjustments for:			
Amortization		633	493
Depreciation	6	340,900	230,408
Finance costs		24,656	17,228
Share-based payments		221,450	508,245
Interest income		(418,081)	(52,050)
Loss on disposal of equipment		9,822	-
Net change in non-cash working capital items	11	5,098,483	(118,651)
		(2,798,241)	(3,726,641)
Investing activities			
Interest income received on cash and cash equivalents		418,081	52,050
Deposits		(188,607)	(63,860)
Purchases of property, plant and equipment, net		(561,179)	(172,998)
Payments for intangible assets	7	(1,887)	(1,521)
		(333,592)	(186,329)
Financing activities			
Issuance of common shares for cash		3,845,839	59,532
Payments of lease liabilities	6	(88,667)	(52,574)
		3,757,172	6,958
Change in cash and cash equivalents		625,339	(3,906,012)
Cash and cash equivalents, beginning of period		39,445,395	52,652,258
Cash and cash equivalents, end of period		40,070,734	48,746,246
Cash and cash equivalents comprise:			
Cash		6,748,516	193,236
Cash equivalents		33,322,218	48,553,010
Cash and cash equivalents, end of period		40,070,734	48,746,246

Supplemental cash flow information

11

Nano One Materials Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

	Number of common shares	Share capital \$	Shares committed for issuance \$	Reserves \$	Deficit \$	Total \$
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
December 31, 2022	100,516,495	96,704,471	171,000	10,209,880	(53,635,982)	53,449,369
Exercise of RSUs	86,409	302,712	-	(302,712)	-	-
Exercise of stock options	248,146	365,737	(171,000)	-	-	194,737
Re-allocated on exercise of stock options	-	208,250	-	(208,250)	-	-
Re-allocated on cancellation of stock options	-	-	-	(46,310)	46,310	-
Exercise of warrants	2,281,939	3,651,102	-	-	-	3,651,102
Re-allocated on exercise of warrants	-	22,013	-	(22,013)	-	-
Re-allocated on expiry of warrants	-	909	-	(909)	-	-
Share-based payments	-	-	-	221,450	-	221,450
Loss and comprehensive loss for the period	-	-	-	-	(8,076,104)	(8,076,104)
March 31, 2023	103,132,989	101,255,194	-	9,851,136	(61,665,776)	49,440,554

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

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. The Company’s common shares trade on the Toronto Stock Exchange (the “TSX”) under the symbol “NANO”.

On November 1, 2022, the Company through its subsidiary Nano One Materials Québec Inc. (Note 2), closed the transaction to acquire 100% of the shares of Johnson Matthey Battery Materials Ltd., a private Canadian company located in Candiac, Québec, for consideration of \$10,250,000, plus working capital items and transaction costs (legal fees) for total gross cash consideration of \$16,352,993 (Note 3).

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. As of the approval date of these consolidated financial statements (the “financial statements”), the Company holds twenty-seven (27) patents (Note 7), with other pending patent applications.

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 commercial operations and has historically incurred operating losses.

As at March 31, 2023, the Company had working capital of \$35,726,607 (December 31, 2022 - \$40,588,090), 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 strategic objectives towards commercialization 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 new and continued government assistance programs, the ability to raise additional capital from equity or other markets and commencing commercial operations to generate future profitability.

There are many external factors that can adversely affect general workforces, economies, and financial markets globally. Examples include, but are not limited to, the COVID-19 global pandemic and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of adverse results of such external factors and their effect on the Company’s business or ability to raise funds.

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, 2022, 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 consolidated 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 and its subsidiaries.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation

These financial statements include the financial information of the Company and its subsidiaries.

The financial statements include the following entities:

Nano One Materials Corp.	100%	Parent company
Nano One Materials Québec Inc. (“Nano Québec”)	100%	Holding company
Nano One Materials Candiac Inc. (“Nano Candiac”)	100%	Operating subsidiary

On February 22, 2022, the Company incorporated the wholly-owned subsidiary, Nano One Québec (Québec, Canada).

On November 1, 2022, the Company through its subsidiary Nano Québec, completed the acquisition of a 100% shareholding of Johnson Matthey Battery Materials Ltd., (Québec, Canada) and on the same date changed its name to Nano One Materials Candiac Inc.

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.

Comparative figures

Certain comparative figures within operating expenses on the consolidated statements of loss and comprehensive loss have been reclassified to conform to the current period’s presentation. This includes the reclassification of:

- Management and directors’ fees, into wages, benefits and fees;
- Amounts that were formerly within research and operational expenses, into wages, benefits and fees; and
- Other re-allocations from professional and consulting, into wages, benefits and fees

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 audited consolidated financial statements for the year ended December 31, 2023. 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, 2023. 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.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

3. ACQUISITION OF JOHNSON MATTHEY BATTERY MATERIALS LTD.

On November 1, 2022, the Company through its subsidiary Nano Québec, closed the transaction to acquire 100% of the shares of Johnson Matthey Battery Materials Ltd. (“JMBM Canada”) a private Canadian company located in Candiac, Québec, for cash consideration of \$10,250,000, plus working capital items totalling \$5,750,000, and transaction costs (legal fees) of \$352,993, as detailed below. In respect of this transaction, the Company signed a Definitive Agreement through its subsidiary Nano Québec on May 24, 2022.

As part of the acquisition, the Company acquired a lithium iron phosphate (“LFP”) production facility, land, and equipment. JMBM Canada was acquired for the purpose of expanding and accelerating the Company’s commercialization strategy for the production of cathode active materials (CAM) for lithium-ion battery applications.

The acquisition of JMBM Canada constitutes an asset acquisition and has been accounted for under the acquisition method in accordance with the guidance provided in IFRS 3, *Business Combinations* (“IFRS 3”). The assets acquired did not qualify as a business according to the definition in IFRS 3, and therefore the acquisition did not constitute a business combination, but rather it is treated as a payment of cash consideration for the acquisition of JMBM Canada and its net assets. The allocation of the purchase price to the assets acquired and liabilities assumed is based on estimated fair values at the acquisition date.

JMBM Canada’s assets, liabilities, and operations from November 1, 2022 are included in these financial statements.

	November 1, 2022
Net assets (liabilities) of JMBM acquired:	\$
Cash	179,642
Receivables and prepayments	7,115,699
Property, plant and equipment:	
Production and research equipment	2,445,257
Information technology equipment	19,117
Building	4,874,961
Land	3,263,658
Accounts payable and accrued liabilities	(1,545,341)
Net assets acquired	16,352,993
Consideration paid on asset acquisition:	\$
Cash	16,000,000
Transaction costs - cash	352,993
Total consideration paid	16,352,993

4. RECEIVABLES, PREPAYMENTS, AND DEPOSITS

Receivables and prepayments consist of the following:

	March 31, 2023	December 31, 2022
	\$	\$
(1) Accrued government assistance	29,448	28,027
Prepaid expenses	540,148	1,378,892
Research cost recoveries	306,804	-
(2) Trade receivables	-	807,331
Sales tax recoverable and other	466,391	651,035
	1,342,791	2,865,285

(1) Accrued government assistance includes \$24,303 due from NRC-IRAP (Note 8), and \$5,145 due from other grant programs.

(2) The Company collected the trade receivables during the three months ended March 31, 2023, which were acquired in the acquisition of JMBM Canada.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

4. RECEIVABLES, PREPAYMENTS, AND DEPOSITS (continued)

Research cost recoveries and receivables

During the three months ended March 31, 2023 and March 31, 2022, the Company accrued or received the following cost recoveries within research and operational expenses, net:

	March 31, 2023 \$	March 31, 2022 \$
USCo	58,153	5,095

American-based multinational auto manufacturer (“USCo”):

In 2020, the Company entered into a Cathode Evaluation Agreement with 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. The parties continue to collaborate under this arrangement.

During the three months ended March 31, 2023, the Company invoiced USCo for future services totalling \$306,804 (US\$245,000) of which \$248,651 was unearned as at March 31, 2023, and included in deferred liabilities. As at March 31, 2023, the amount earned of \$58,153 was included within receivables (research cost recoveries).

CBMM Technology Suisse SA (“CBMM”):

In 2021, the Company entered into a Co-Development Agreement with CBMM, a niobium producer to co-develop niobium coated battery cathode materials with CBMM. During the three months ended March 31, 2023, there were no cost recoveries recognized or received. The parties continue to collaborate under this agreement.

Deposits

Deposits consist of the following:

	March 31, 2023 \$	December 31, 2022 \$
Deposits on property, plant and equipment	539,847	260,529
Security and other deposits	175,656	115,025
	715,503	375,554

5. INVENTORY

Inventory is comprised of the following:

	March 31, 2023 \$	December 31, 2022 \$
Raw materials	976,271	317,279

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

6. PROPERTY, PLANT AND EQUIPMENT

	Building	Production and research equipment	Land	Right-of-use assets	Information technology equipment	Construction in progress	Leasehold improvements	Pilot plant	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost									
December 31, 2021	-	1,568,591	-	1,057,752	237,684	-	248,872	2,166,904	5,279,803
Acquisition of JMBM (Note 3)	4,874,961	2,445,257	3,263,658	-	19,117	-	-	-	10,602,993
Additions, net	-	1,035,944	-	127,000	215,341	220,338	16,211	52,625	1,667,459
Disposal	-	(4,402)	-	-	-	-	-	-	(4,402)
December 31, 2022	4,874,961	5,045,390	3,263,658	1,184,752	472,142	220,338	265,083	2,219,529	17,545,853
Accumulated depreciation									
December 31, 2021	-	905,385	-	363,274	144,848	-	63,494	1,978,744	3,455,745
Depreciation	31,418	434,378	-	171,505	70,717	-	100,247	240,785	1,049,050
Disposal	-	(52)	-	-	-	-	-	-	(52)
December 31, 2022	31,418	1,339,711	-	534,779	215,565	-	163,741	2,219,529	4,504,743
Cost									
December 31, 2022	4,874,961	5,045,390	3,263,658	1,184,752	472,142	220,338	265,083	2,219,529	17,545,853
Additions, net	-	325,680	-	411,800	13,651	326,138	7,667	-	1,084,936
Disposal	-	(12,382)	-	-	-	-	-	-	(12,382)
March 31, 2023	4,874,961	5,358,688	3,263,658	1,596,552	485,793	546,476	272,750	2,219,529	18,618,407
Accumulated depreciation									
December 31, 2022	31,418	1,339,711	-	534,779	215,565	-	163,741	2,219,529	4,504,743
(1) Depreciation	48,750	164,621	-	68,815	27,641	-	31,073	-	340,900
Disposal	-	(240)	-	-	-	-	-	-	(240)
March 31, 2023	80,168	1,504,092	-	603,594	243,206	-	194,814	2,219,529	4,845,403
Net book value									
December 31, 2022	4,843,543	3,705,679	3,263,658	649,973	256,577	220,338	101,342	-	13,041,110
March 31, 2023	4,794,793	3,854,596	3,263,658	992,958	242,587	546,476	77,936	-	13,773,004

(1) Depreciation for the three months ended March 31, 2023 and March 31, 2022 is allocated as follows:

	Depreciation expense	Research and operational expenses, net	Total
	\$	\$	\$
For the three months ended March 31, 2023 and March 31, 2022			
Production and research equipment	-	83,872	83,872
Right-of-use assets	21,606	20,965	42,571
Information technology equipment	11,770	-	11,770
Leasehold improvements	4,531	21,994	26,525
Pilot plant	-	65,670	65,670
March 31, 2022	37,907	192,501	230,408
Building	-	48,750	48,750
Production and research equipment	-	164,621	164,621
Right-of-use assets	25,821	42,994	68,815
Information technology equipment	27,641	-	27,641
Leasehold improvements	4,725	26,348	31,073
March 31, 2023	58,187	282,713	340,900

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Additions, net for the three months ended March 31, 2023 and year ended December 31, 2022, were reduced by the amortization of deferred government assistance (deferred liabilities) as follows for the period/year then ended:

	March 31, 2023 \$	December 31, 2022 \$
Production and research equipment	38,429	123,919
Construction in progress	170,104	-
Information technology equipment	-	46,986
Leasehold improvements	-	4,033
Pilot plant	-	6,513
	208,533	181,451

Right-of-use assets and Lease liabilities

The Company has agreements to lease its office space, laboratory, and pilot plant facilities. The Company has determined that its lease contracts are leases as defined under IFRS 16. In analyzing the identified contracts, the Company applied the lessee accounting model pursuant to IFRS 16 and considered all of the facts and circumstances surrounding the inception of the contract (but not future events that are not likely to occur). Lease liabilities have been calculated with a discount rate of either 9% or 12%.

The Company has identified the following leases:

Location	Asset	Type	Term of lease at March 31, 2023 including extensions
Burnaby, BC	Building	Corporate head office (main)	2.5 Years
Burnaby, BC	Building	Corporate head office (supplement)	1.3 Years
Burnaby, BC	Building	Laboratory and pilot plant	5.4 Years
Burnaby, BC	Building	Laboratory	5.4 Years
Burnaby, BC	Building	Laboratory and head office supplement	2.8 Years

A reconciliation of the carrying amount of the lease liabilities as at March 31, 2023 and December 31, 2022 and changes during the period/year then ended is as follows:

	March 31, 2023 \$	December 31, 2022 \$
Lease liabilities		
Beginning of period/year	773,917	799,930
Extension	411,800	127,000
Lease payments	(88,667)	(219,785)
Lease interest (finance costs)	24,656	66,772
End of period/year	1,121,706	773,917
Current portion of lease liabilities	314,155	186,795
Non-current portion of lease liabilities	807,551	587,122
Maturity analysis - contractual undiscounted cash flows		
Less than one year	410,320	246,626
One to five years	867,764	593,960
More than five years	48,583	77,731
Total undiscounted lease liabilities	1,326,667	918,317

Short-term leases are leases with a lease term of twelve months or less. As at March 31, 2023, and December 31, 2022, the Company did not have any short-term leases. As at March 31, 2023, 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, 2023 and March 31, 2022

7. INTANGIBLE ASSETS

As at March 31, 2023, intangible assets include twenty-seven (27) (December 31, 2022 – twenty-five (25)) 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 eighteen (19) years from the patent issuance date.

The amount capitalized as intangible assets represents only the patent issue costs. Application, renewal, and other costs are expensed to professional and consulting, as incurred. The Company has other pending patent applications in which all associated costs have been expensed.

	Issued patents \$
<hr/>	
<u>Cost</u>	
December 31, 2021	30,407
Additions	8,439
<hr/> December 31, 2022	<hr/> 38,846
 <u>Accumulated amortization</u>	
December 31, 2021	4,699
Amortization	2,410
<hr/> December 31, 2022	<hr/> 7,109
 <u>Cost</u>	
December 31, 2022	38,846
Additions	1,887
<hr/> March 31, 2023	<hr/> 40,733
 <u>Accumulated amortization</u>	
December 31, 2022	7,109
Amortization	633
<hr/> March 31, 2023	<hr/> 7,742
 <u>Net book value</u>	
December 31, 2022	31,737
<hr/> March 31, 2023	<hr/> 32,991

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

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

8. GOVERNMENT ASSISTANCE

The Company receives funding from various Canadian federal and provincial government programs. During the three months ended March 31, 2023 and March 31, 2022 the following amounts were received:

	March 31, 2023	March 31, 2022
Amounts received:	\$	\$
(1) Sustainable Development Technology Canada (SDTC)	3,284,507	-
(2) Industrial Research Assistance Program (NRC-IRAP)	53,104	68,296
(2) Other Grants	28,720	-
	3,366,331	68,296

(1) See deferred government assistance below for allocation of SDTC proceeds for the three months ended March 31, 2023 and March 31, 2022.

(2) Proceeds are recorded within research and operational expenses, net.

Deferred government assistance (deferred liabilities):

As at March 31, 2023 and December 31, 2022, deferred liabilities included amounts for deferred government assistance in relation to SDTC projects. A reconciliation of the carrying amount of the deferred government assistance as at March 31, 2023 and December 31, 2022, and changes during the period/year then ended are as follows:

	March 31, 2023	December 31, 2022
Deferred government assistance	\$	\$
Beginning of period/year	-	18,958
Additions - proceeds received	3,284,507	1,797,824
(1) Amortization	(581,906)	(1,816,782)
End of period/year	2,702,601	-

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

	March 31, 2023	March 31, 2022
	\$	\$
Property, plant and equipment (Note 6)	208,533	-
Research and operational expenses, net	373,373	18,958
	581,906	18,958

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

8. GOVERNMENT ASSISTANCE (continued)

Sustainable Development Technology Canada (“SDTC”):

SDTC Pre-Commercial Trial and Multi Cathode Piloting Hub Project (active):

On February 13, 2023, the Company executed an agreement with SDTC in respect of a new government program (Pre-Commercial Trial and Multi Cathode Piloting Hub) (the “SDTC Pre-Commercial Project”) which will provide the Company up to \$10,000,000 (\$3,284,507 received as at March 31, 2023) in funding from SDTC in stages. The funds are non-dilutive, and non-repayable and are intended to support the Company’s design, construction, and operation of a multi-cathode piloting hub in Candiac. The initial project timeline is from January 1, 2023 to December 31, 2025.

The funds from the SDTC Pre-Commercial Project will be paid to the Company in four (4) instalments plus the remaining unpaid release of a final 10% hold-back upon satisfactory review and approval of the project by SDTC. The instalments from SDTC will be paid to the Company at the beginning of each of the four (4) Milestones.

During the three months ended March 31, 2023, the Company received Milestone 1 funds of \$3,284,507.

SDTC Scaling Project (completed):

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 Scaling Project”). The SDTC Scaling Project grant was for \$8,545,500 which includes British Columbia Innovative Clean Energy, Mines and Petroleum Resources (“BC-ICE”) contributions (discussed below).

As at March 31, 2023 and December 31, 2022, \$7,742,210 had been received. The remaining funds relate to the final 10% hold-back (see below).

The funds from the SDTC Scaling Project were paid to the Company in four (4) instalments plus the remaining unpaid release of the final hold-back of \$803,290 upon satisfactory review and approval of the project by SDTC. The instalments from SDTC were paid to the Company at the beginning of each of the four (4) Milestones.

As at March 31, 2023, the Company had completed Milestone 4 (effective January 31, 2023) and is in the process of reporting to SDTC to conclude the program and receive the hold-back payment.

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

Between the programs detailed below, the Company received proceeds from NRC-IRAP during the three months ended March 31, 2023 of \$53,104 (2022 - \$68,296) and accrued proceeds of \$24,303 (subsequently received) (December 31, 2022 – \$28,027) (Note 4).

Youth Internship Contribution Agreement (completed):

Since 2021, the Company has entered into various Youth Internship Contribution Agreements with NRC-IRAP. Under the terms of the agreements, the contributions from NRC-IRAP were for the reimbursement of certain salaries paid to employees of the Company. The program concluded with a final payment received during the three months ended March 31, 2023.

M2CAM Program (active):

In 2021, the Company executed an agreement with NRC-IRAP for non-repayable contributions to the Company totaling up to \$404,000 (\$385,000 received or accrued to March 31, 2023) 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 (M2CAM). Under the terms of the agreement, NRC-IRAP will reimburse the Company for 80% of salaries paid to employees involved in this project.

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

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

8. GOVERNMENT ASSISTANCE (continued)

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

	March 31, 2023	December 31, 2022
	\$	\$
Sustainable Development Technology Canada (SDTC) and BC-ICE	13,108,014	9,823,507
Automotive Supplier's Innovation Program (ASIP)	1,950,952	1,950,952
Industrial Research Assistance Program (NRC-IRAP)	1,235,803	1,182,699
Innovation Assistance Program (IAP) (from NRC-IRAP)	241,225	241,225
Scientific Research & Experimental Development (SR&ED)	98,661	98,661
Other Grants	108,779	80,059
	16,743,434	13,377,103

9. SHARE CAPITAL AND RESERVES

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

Share capital**Transactions for the issuance of share capital during the three months ended March 31, 2023:**

- a) Upon the exercise of RSUs, 86,409 common shares were issued for \$nil proceeds. In addition, \$302,712 representing the fair value initially recognized, was re-allocated from reserves to share capital.
- b) Upon the exercise of stock options, 248,146 common shares were issued at prices between \$1.14 and \$2.88 each for proceeds of \$194,737 (\$365,737 gross proceeds, less \$171,000 which had been collected as at December 31, 2022, and recorded as shares committed for issuance). In addition, \$208,250 representing the fair value initially recognized, was re-allocated from reserves to share capital.
- c) Upon the exercise of warrants, 2,281,939 common shares were issued at \$1.60 each for proceeds of \$3,651,102. In addition, \$22,013 representing the fair value initially recognized, was re-allocated from reserves to 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.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

9. SHARE CAPITAL AND RESERVES (continued)

Reserves

The Company has an Omnibus Equity Incentive Plan which was approved by shareholders in October 2021 (the "Equity Plan") and replaces the previous stock option plan. The Equity Plan provides for the grant of stock options, RSUs, DSUs, performance share units ("PSUs") and other share-based awards subject to TSX approval. Under the Equity Plan, the maximum number of equity-based awards issued cannot exceed 10% of the Company's currently issued and outstanding common shares. Additionally, RSUs are required to be settled by December 31 in the third year following the year of grant ("Expiry date"), whereas DSUs are settled once the awardee retires or departs.

Stock options

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

A summary of the status of the Company's stock options as at March 31, 2023 and December 31, 2022, and changes during the period/year then ended is as follows:

	Period ended March 31, 2023		Year ended December 31, 2022	
	Options	Weighted average exercise price	Options	Weighted average exercise price
	#	\$	#	\$
Options outstanding, beginning of period/year	6,269,863	2.80	6,337,050	2.76
Granted	452,418	3.28	184,410	2.88
Exercised	(248,146)	1.47	(200,375)	1.37
Cancelled/forfeited	(29,238)	4.16	(51,222)	4.05
Options outstanding, end of period/year	6,444,897	2.88	6,269,863	2.80

The weighted average share price of the Company during the three months ended March 31, 2023, the period in which stock options were exercised, was \$3.26.

As at March 31, 2023, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise price \$	Expiry date
62,050	62,050	1.57	July 12, 2023
1,292,875	1,292,875	2.52	July 20, 2023
25,000	25,000	2.81	September 8, 2023
2,355,000	2,355,000	1.28	November 12, 2023
15,000	15,000	3.05	December 4, 2023
1,332,500	1,332,500	5.10	February 1, 2024
44,500	44,500	5.26	February 25, 2024
40,000	30,000	4.90	June 7, 2024
40,000	30,000	3.62	October 5, 2024
240,000	120,000	3.14	December 2, 2024
400,000	400,000	5.10	February 1, 2026
144,919	48,306	2.88	February 4, 2027
9,100	3,033	2.88	June 13, 2027
443,953	-	3.28	March 17, 2028
6,444,897	5,758,264	2.88	

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

The following table summarizes the above information about the stock options outstanding as at March 31, 2023:

Exercise prices \$	Options #	Weighted average remaining life (years)	Weighted average exercise price \$
1.28 - 2.88	3,888,944	0.6	1.77
3.05 - 3.62	738,953	3.6	3.25
4.90 - 5.26	1,817,000	1.3	5.10
	6,444,897	1.2	2.88

The Company recorded the fair value of the stock options granted during the three months ended March 31, 2023 and March 31, 2022 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, 2023	March 31, 2022
Risk-free interest rate	2.9%	1.7%
Expected life of stock options (years)	5.0	5.0
Historical volatility	77.2%	67.0%
Dividend rate	0%	0%
Weighted average fair value per stock option granted	\$ 2.10	\$ 1.63

The total share-based payments expense for the three months ended March 31, 2023 was \$221,450 (2022 - \$508,245), of which \$87,290 (2022 - \$323,320) was attributable to vesting of stock options during the period then ended.

During the period ended March 31, 2023, 29,238 (2022 - nil) stock options were cancelled upon certain individuals leaving employment of the Company. As a result, the original share-based payments expense of \$46,310 (2022 - \$nil) 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, 2023 and March 31, 2022

9. 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, 2023 and December 31, 2022, and changes during the period/year then ended is as follows:

	Period ended March 31, 2023	Year ended December 31, 2022
	Equity Incentives #	Equity Incentives #
Equity Incentives outstanding, beginning of period/year	379,679	193,131
Granted - RSUs	225,808	189,424
Granted - DSUs	85,976	-
Exercised	(86,409)	(2,876)
Equity Incentives outstanding, end of period/year	605,054	379,679

As at March 31, 2023, the Company has RSUs and DSUs outstanding as follows:

RSUs outstanding #	DSUs outstanding #	RSUs/DSUs Exercisable #	Weighted average grant date fair value per Equity Incentive	Final vesting date
139,882	-	18,796	4.17	August 27, 2024
-	8,626	2,876	4.17	August 27, 2024
144,762	-	18,479	2.88	February 4, 2025
225,808	-	-	3.28	March 17, 2026
-	85,976	-	3.28	March 17, 2026
510,452	94,602	40,151	3.42	

During the three months ended March 31, 2023, the Company granted 225,808 RSUs to officers and directors of the Company, as well as 85,976 DSUs to certain directors of the Company. The RSUs and DSUs vest in three annual instalments (one-third (103,928) on March 17, 2024; one-third (103,928) on March 17, 2025; and the final one-third (103,928) on March 17, 2026).

During the year ended December 31, 2022, the Company granted 189,424 RSUs to officers and directors of the Company which vest in three annual instalments (one-third (63,141) on February 4, 2023; one-third (63,141) on February 4, 2024; and the final one-third (63,142) on February 4, 2025).

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, 2023, the Equity Incentives were granted at a fair value of \$3.28 each for a total value of \$1,022,652 (year ended December 31, 2022 - \$2.88 each for a total value of \$545,541) which is being accrued within share-based payment expense over the vesting periods.

The total share-based payments expense for the three months ended March 31, 2023 was \$221,450 (2022 - \$508,245), of which \$134,160 (2022 - \$184,925) represents the vesting of Equity Incentives with the remaining portion of share-based payment expense being attributable to 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, 2023 and March 31, 2022

9. SHARE CAPITAL AND RESERVES (continued)

Warrants

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

A summary of the Company's common share purchase warrants as at March 31, 2023 and December 31, 2022, and changes during the period/year then ended is as follows:

	Period ended March 31, 2023		Year ended December 31, 2022	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of period/year	3,288,479	2.33	4,369,187	2.59
Issued	-	-	1,000,000	4.00
Exercised	(2,281,939)	1.60	(141,993)	1.60
Expired	(6,540)	1.60	(1,938,715)	3.84
Warrants outstanding, end of period/year	1,000,000	4.00	3,288,479	2.33

During the three months ended March 31, 2023, certain of the warrants that expired unexercised were issued as compensatory warrants. As a result, the original fair value on the portion that were compensatory warrants totalled \$909 and was reversed from reserves and credited to share capital.

As at March 31, 2023, the Company has warrants outstanding and exercisable as follows:

Warrants outstanding #	Exercise price \$	Expiry Date	Weighted average remaining life (years)
1,000,000	4.00	June 16, 2023	0.2

During the year ended December 31, 2022, the Company issued 1,000,000 compensatory warrants to Rio Tinto as consideration for technical and support services in connection with the parties entering into a Strategic Collaboration Agreement on June 16, 2022. The warrants are exercisable at \$4.00 each for one year until June 16, 2023. The Company recorded the fair value of the warrants issued to Rio Tinto during using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair values were determined using the following weighted average assumptions:

	December 31, 2022
Risk-free interest rate	3.2%
Expected life of warrants (years)	1.0
Historical volatility	86.0%
Dividend rate	0%
Weighted average fair value per warrant granted	\$ 0.60

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

10. RELATED PARTY TRANSACTIONS

Key management personnel are the persons responsible for the planning, directing, and controlling the activities of the Company and includes both executive and non-executive directors, and entities 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 amounts):

	Transactions three months ended March 31, 2023 \$	Transactions three months ended March 31, 2022 \$	Balances outstanding March 31, 2023 \$	Balances outstanding December 31, 2022 \$
Bedrock Capital	37,500	37,500	-	-
DBM CPA	57,500	40,650	20,475	11,844
Directors' fees	84,009	57,729	-	-
Management and directors' fees (within wages, benefits and fees)	179,009	135,879	20,475	11,844
Wages, benefits and fees (officers) & reimbursements payable	1,107,284	571,890	3,606	-
Share-based payments (directors and officers)	164,285	474,946	-	-
Patent Filing Specialists (professional and consulting; and intangible assets)	123,869	63,953	62,874	11,795
	1,574,447	1,246,668	86,955	23,639

(a) 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 and consulting, net for patent filings, maintenance and related.

(b) Wages, benefits and fees, net:

- Includes salaries and short-term variable cash-based compensation incentives paid to Dan Blondal, CEO, Stephen Campbell, CTO, Alex Holmes, COO, Pamela Kinsman, Corporate Secretary/Director of Sustainability, Denis Geoffroy, Chief Commercialization Officer (CCO), Adam Johnson, Senior Vice-President of External Affairs, and Kelli Forster, Senior Vice-President of People & Culture.

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.

- Includes the services of Bedrock Capital Corp. ("Bedrock Capital") a company controlled by Paul Matysek the Executive 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.
- Includes compensation to non-executive directors of the Company and committee chairpersons.

(c) 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, 2023, the Company granted 311,784 RSUs and DSUs to various directors and officers (2022 – 189,424 RSUs granted). See Note 9 for specifics on 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, 2023 and March 31, 2022

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital during the three months ended March 31, 2023 and March 31, 2022 were comprised of the following:

	March 31, 2023 \$	March 31, 2022 \$
Receivables and prepayments	1,522,494	(9,128)
Inventory	(658,992)	-
Accounts payable and accrued liabilities	1,220,413	(80,241)
Accounts payable to related parties	63,316	(10,324)
Deferred liabilities	2,951,252	(18,958)
Net change	5,098,483	(118,651)

The Company incurred non-cash investing and financing activities during the three months ended March 31, 2023 and March 31, 2022 as follows:

	March 31, 2023 \$	March 31, 2022 \$
Non-cash investing activities:		
Property, plant and equipment included in accounts payable and accrued liabilities	495,155	-
Non-cash financing activities:		
Addition of right-of-use asset (Note 6)	411,800	-

During the three months ended March 31, 2023 and March 31, 2022, no amounts were paid for interest or income taxes.

12. MANAGEMENT OF CAPITAL

The Company considers its capital structure to consist of its components of shareholders' equity. When managing capital, the Company's objective is to ensure that it continues as a going concern, to ensure it has sufficient capital to deploy on new and existing projects (including the requirement for matching funds relating to SDTC projects) (Note 8), 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, 2023.

The Company currently has no source of revenues, though it receives funding from government programs (Note 8), and certain cost recoveries (Note 4) from strategic partners. Additionally, the Company has historically relied upon equity financing to fund its activities. In order to fund ongoing research activities, expansion, capital expenditures, and operating expenses, the Company will spend its existing working capital and may seek additional capital sources to facilitate growth and expansion plans towards commercialization.

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

As at March 31, 2023 and December 31, 2022, the Company had excess capital invested in a HISA, a HISA fund, and GICs, which facilitates the diversification of treasury amongst high-credit quality Canadian chartered banks. These holdings are accessible on demand or cashable. During the three months ended March 31, 2023, the Company earned interest income of \$418,081 (2022 - \$52,050) from its treasury investments.

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

13. FINANCIAL INSTRUMENTS

Financial instruments - fair value

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

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

Financial instruments - classification

Financial assets:	Classification and measurement:
Cash and cash equivalents	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, interest rate risk, credit risk, price risk, and currency risk.

a) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due. The Company has historically relied upon government assistance programs, cost recoveries from strategic partners, equity financings, and the exercise of convertible securities (options and warrants), to satisfy its capital requirements and will continue to depend upon these and other possible sources of capital to finance its activities until such time that the Company commences commercial operations and generates future profitability.

b) Interest rate risk

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

For the three months ended March 31, 2023, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the period by approximately \$89,000 (2022 – \$126,000).

Nano One Materials Corp.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

For the three months ended March 31, 2023 and March 31, 2022

13. FINANCIAL INSTRUMENTS (continued)

Financial instruments - risk (continued)

c) Credit risk

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

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

The Company is exposed to credit risk relating to its research cost recoveries receivable, and 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. The Company believes its exposure to credit risk is low with respect to accrued government assistance and sales tax recoverable as these amounts are due from the Government of Canada.

d) Price risk

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

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, 2023, the Company held certain financial assets and liabilities that were denominated in these foreign currencies.

Based on the March 31, 2023 value of net assets denominated in foreign currencies, the impact of a 10% fluctuation in foreign exchange rates relative to the Canadian dollar would impact loss and comprehensive loss for the period by approximately \$210,000 (2022 - insignificant impact).

14. 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 7).