



Nano One Materials Corp.
Condensed Interim Financial Statements
June 30, 2021
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

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

The accompanying condensed interim financial statements of Nano One Materials Corp. (“the Company”) as at June 30, 2021, and for the three and six months ended June 30, 2021 and June 30, 2020, have been prepared by the management of the Company and approved by the Company’s Audit Committee.

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

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

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

As at June 30, 2021 and December 31, 2020

	Note	June 30, 2021 \$	December 31, 2020 \$
Assets			
Current assets			
Cash and cash equivalents		55,315,536	27,750,290
Short-term investment		-	1,009,164
Receivables and prepayments	3	397,474	403,985
		55,713,010	29,163,439
Non-current assets			
Deposits	3	334,142	287,929
Property and equipment	4	1,978,120	1,484,956
Intangible assets - patents	5	23,866	22,703
		2,336,128	1,795,588
Total assets		58,049,138	30,959,027
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		424,127	480,038
Accounts payable to related parties	8	15,541	49,324
Deferred government assistance	6	-	821,256
Lease liabilities - current portion	4	135,572	88,833
		575,240	1,439,451
Non-current liabilities			
Lease liabilities	4	733,528	621,240
Total liabilities		1,308,768	2,060,691
Shareholders' equity			
Share capital	7	82,145,677	50,733,826
Reserves	7	8,194,552	4,726,488
Deficit		(33,599,859)	(26,561,978)
Total shareholders' equity		56,740,370	28,898,336
Total liabilities and shareholders' equity		58,049,138	30,959,027
Nature and continuance of operations	1		
Subsequent event	13		

Approved on behalf of the Board of Directors on August 9, 2021:

 "Dan Blondal"
 Director

 "John Lando"
 Director

Nano One Materials Corp.

Condensed Interim Statements of Loss and Comprehensive Loss

Unaudited – Prepared by Management

For the three and six months ended June 30, 2021 and June 30, 2020

	Note	Three months ended		Six months ended	
		June 30, 2021 \$	June 30, 2020 \$	June 30, 2021 \$	June 30, 2020 \$
Expenses					
Amortization	5	446	281	856	562
Business development fees		-	37,104	-	75,181
Consulting fees		85,435	26,399	240,667	242,477
Depreciation	4	34,780	32,865	57,701	45,894
Finance costs	4	20,185	6,932	39,342	12,342
General and administrative expenses		159,285	79,733	239,961	132,257
Investor relations and shareholder information		245,614	148,611	374,612	262,038
Management and Directors' fees	8	82,775	238,500	166,775	280,500
Professional fees, net	6,8	87,378	4,711	184,745	73,273
Research expenses (recoveries), net	6,8	955,370	(190,315)	999,528	(125,233)
Salaries and benefits, net	6,8	341,236	134,477	1,036,563	531,619
Share-based payments	7,8	405,328	-	3,475,825	-
Transfer agent and filing fees		178,990	37,320	229,787	56,716
Travel, meals, and conferences		8,244	2,676	10,606	41,731
Loss from operating expenses		(2,605,066)	(559,294)	(7,056,968)	(1,629,357)
Interest income		55,655	17,621	94,165	24,838
Bad debt		-	-	(130,780)	-
Loss and comprehensive loss for the period		(2,549,411)	(541,673)	(7,093,583)	(1,604,519)
Loss per share					
Weighted average number of common shares outstanding					
- basic		95,306,149	78,745,080	92,290,254	75,652,329
- diluted		95,306,149	78,745,080	92,290,254	75,652,329
Basic loss per common share		(0.03)	(0.01)	(0.08)	(0.02)
Diluted loss per common share		(0.03)	(0.01)	(0.08)	(0.02)

Nano One Materials Corp.

Condensed Interim Statements of Cash Flows

Unaudited – Prepared by Management

For the six months ended June 30, 2021 and June 30, 2020

	Note	June 30, 2021 \$	June 30, 2020 \$
Operating activities			
Loss for the period		(7,093,583)	(1,604,519)
Adjustments for:			
Amortization		856	562
Depreciation	4	312,901	125,014
Finance costs		39,342	12,342
Share-based payments		3,475,825	-
Interest income		(94,165)	(24,838)
Non-cash working capital items:			
Receivables and prepayments		6,511	(183,025)
Deposits		-	(37,205)
Accounts payable and accrued liabilities		125,366	(36,792)
Accounts payable to related parties		(33,783)	(24,864)
Deferred government assistance		(821,256)	(676,373)
		(4,081,986)	(2,449,698)
Investing activities			
Interest income received on cash equivalents		94,165	22,300
Maturity of short-term investment		1,009,164	199,851
Purchase of short-term investment		-	(1,000,000)
Deposits on property and equipment		(276,279)	(305,463)
Purchases of property and equipment		(551,976)	(95,933)
Payments for intangible assets	5	(2,019)	-
		273,055	(1,179,245)
Financing activities			
Issuance of common shares/units for cash		33,465,168	11,503,375
Share issue costs		(2,005,376)	(618,358)
Payments of lease liabilities	4	(85,615)	(70,360)
		31,374,177	10,814,657
Increase in cash and cash equivalents		27,565,246	7,185,714
Cash and cash equivalents, beginning of period		27,750,290	1,747,514
Cash and cash equivalents, end of period		55,315,536	8,933,228
Cash and cash equivalents comprise:			
Cash	10	55,315,536	3,810,342
Cash equivalents		-	5,122,886
Cash and cash equivalents, end of period		55,315,536	8,933,228
Supplemental cash flow information	9		

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

Unaudited – Prepared by Management

For the six months ended June 30, 2021 and June 30, 2020

	Number of common shares	Share capital \$	Reserves \$	Deficit \$	Total \$
December 31, 2019	67,189,802	20,068,795	3,163,224	(21,363,583)	1,868,436
Issue of units - private placement	9,565,000	10,999,750	-	-	10,999,750
Share issue costs - cash	-	(618,358)	-	-	(618,358)
Share issue costs - non-cash	-	(281,300)	281,300	-	-
Exercise of stock options	2,010,000	503,625	-	-	503,625
Re-allocated on exercise of stock options	-	498,997	(498,997)	-	-
Re-allocated on cancellation of stock options	-	-	(14,013)	14,013	-
Loss and comprehensive for the period	-	-	-	(1,604,519)	(1,604,519)
June 30, 2020	78,764,802	31,171,509	2,931,514	(22,954,089)	11,148,934
December 31, 2020	88,237,538	50,733,826	4,726,488	(26,561,978)	28,898,336
Issue of common shares - prospectus financing	5,405,000	28,916,750	-	-	28,916,750
Share issue costs - cash	-	(2,005,376)	-	-	(2,005,376)
Share issue costs - non-cash	-	(641,100)	641,100	-	-
Exercise of stock options	289,125	352,395	-	-	352,395
Re-allocated on exercise of stock options	-	194,123	(194,123)	-	-
Re-allocated on cancellation of stock options	-	-	(55,702)	55,702	-
Exercise of warrants	1,383,990	4,196,023	-	-	4,196,023
Re-allocated on exercise of warrants	-	399,036	(399,036)	-	-
Share-based payments	-	-	3,475,825	-	3,475,825
Loss and comprehensive for the period	-	-	-	(7,093,583)	(7,093,583)
June 30, 2021	95,315,653	82,145,677	8,194,552	(33,599,859)	56,740,370

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

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the six months ended June 30, 2021 and June 30, 2020

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 partnering with global leaders in the lithium-ion battery supply chain to improve the cost and durability of lithium-ion batteries and progress towards commercialization. As of the date of these financial statements, the Company holds nineteen (19) patents (December 31, 2020 – sixteen (16) (Note 5), with several others pending.

These condensed interim financial statements (the “financial statements”) have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities 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 June 30, 2021, the Company had working capital of \$55,137,770 (December 31, 2020 - \$27,723,988), 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, financial support and/or contributions from its industry partners, the ability to raise additional capital from equity markets, and the ability to generate future profitable operations.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations or on the Company’s industry partners who provide in-kind and/or financial contributions to the Company’s government programs (Note 6). There are travel restrictions and health and safety concerns that may delay the Company’s research activities. Operations depend on safeguarding all personnel during the outbreak, which may be prohibitive in certain aspects. Nonetheless, the Company has implemented prevention measures at its office and laboratory facilities including the facilitation of remote work programs. Overall, travel and other restrictions related to the COVID-19 pandemic have not had a significant impact on the Company’s operations and research efforts including staffing levels. The receipt of purchased equipment at times has been partially delayed due to the pandemic, and travel by executives and others has been limited, however, the Company continues to progress partnerships and research efforts without significant constraint.

Various Government wage and loan subsidies are available to qualified companies to assist them with operating costs during the pandemic. The Government continues to update its COVID-19 relief programs, which may qualify the Company for additional assistance. As at June 30, 2021, the Company has qualified for and received an additional \$512,500 from Sustainable Development Technology Canada (SDTC) (\$262,500 of which was received during the six months ended June 30, 2021), and approximately \$241,000 from the Innovative Assistance Program (NRC-IRAP), both in relation to COVID-19 pandemic relief (Note 6).

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the six months ended June 30, 2021 and June 30, 2020

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, 2020, 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.

Comparative figures

Certain comparative figures within operating expenses on the statement of loss and comprehensive loss have been reclassified to conform to the current period’s presentation. This includes (i) a reclassification of government assistance from research expenses to professional fees, and salaries and benefits which results in an increase in research expenses (recoveries), and a reduction to professional fees and salaries and benefits; (ii) the inclusion of rent within general and administrative expenses; and (iii) a reclassification from management fees to salaries and benefits.

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 financial statements and are those the Company expects to adopt in its financial statements for the year ended December 31, 2021. Accordingly, these financial statements should be read in conjunction with the Company’s most recent annual audited financial statements.

New accounting policies

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2021. The Company has reviewed these updates and determined that many of these updates are not 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 Financial Statements**

Unaudited – Prepared by Management

For the six months ended June 30, 2021 and June 30, 2020

3. RECEIVABLES AND PREPAYMENTS, AND DEPOSITS

Receivables consist of the following:

	June 30, 2021	December 31, 2020
	\$	\$
Accrued Government assistance	4,333	4,986
Other receivables	80	235
Prepaid expenses	205,221	41,950
Sales tax recoverable	187,840	90,564
Subscriptions receivable	-	266,250
	397,474	403,985

Research cost recoveries and receivables

In December 2020, the Company entered into a Cathode Evaluation Agreement with an American-based multinational auto manufacturer 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 six months ended June 30, 2021, the Company recognized cost recoveries of \$79,379 (2020 - \$nil) in connection with this arrangement. During the six months ended June 30, 2020, the Company recognized recoveries of research expenses pursuant to other arrangements of \$224,041.

Deposits consist of the following:

	June 30, 2021	December 31, 2020
	\$	\$
Deposits on property and equipment	275,577	229,364
Security and other deposits	58,565	58,565
	334,142	287,929

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the six months ended June 30, 2021 and June 30, 2020

4. PROPERTY AND EQUIPMENT

	Research and development equipment \$	Pilot plant \$	Right-of-use assets \$	Computer equipment and software \$	Leasehold improvements \$	Total \$
Cost						
December 31, 2019	883,320	1,958,664	285,552	148,644	-	3,276,180
(1) Additions, net	240,379	91,266	566,900	14,647	76,617	989,809
December 31, 2020	1,123,699	2,049,930	852,452	163,291	76,617	4,265,989
Accumulated depreciation						
December 31, 2019	523,787	1,828,014	76,133	80,258	-	2,508,192
Depreciation	86,082	36,214	120,177	25,751	4,617	272,841
December 31, 2020	609,869	1,864,228	196,310	106,009	4,617	2,781,033
Cost						
December 31, 2020	1,123,699	2,049,930	852,452	163,291	76,617	4,265,989
(1) Additions, net	338,086	8,200	205,300	66,332	188,147	806,065
June 30, 2021	1,461,785	2,058,130	1,057,752	229,623	264,764	5,072,054
Accumulated depreciation						
December 31, 2020	609,869	1,864,228	196,310	106,009	4,617	2,781,033
(2) Depreciation	131,598	54,295	81,832	16,953	28,223	312,901
June 30, 2021	741,467	1,918,523	278,142	122,962	32,840	3,093,934
Net book value						
December 31, 2020	513,830	185,702	656,142	57,282	72,000	1,484,956
June 30, 2021	720,318	139,607	779,610	106,661	231,924	1,978,120

- (1) Additions, net for the six months ended June 30, 2021 and the year ended December 31, 2020 were reduced by the amortization of deferred government assistance as follows (Note 6):

	Research and development equipment \$	Pilot plant \$	Right-of-use assets \$	Computer equipment and software \$	Leasehold improvements \$	Total \$
Six months ended June 30, 2021						
Deferred government assistance amortized	131,757	3,887	-	14,811	89,180	239,635
Year ended December 31, 2020						
Deferred government assistance amortized	689,715	252,969	-	32,752	227,168	1,202,604

- (2) Depreciation for the six months ended June 30, 2021 and June 30, 2020 is allocated as follows:

	Depreciation expense \$	Research expenses, net \$	Total \$
June 30, 2020			
Research and development equipment	-	40,121	40,121
Pilot plant	-	16,233	16,233
Right-of-use assets	11,765	22,766	34,531
Corporate equipment and software	34,129	-	34,129
	45,894	79,120	125,014
June 30, 2021			
Research and development equipment	-	131,598	131,598
Pilot plant	-	54,295	54,295
Right-of-use assets	39,901	41,931	81,832
Corporate equipment and software	16,953	-	16,953
Leasehold improvements	847	27,376	28,223
	57,701	255,200	312,901

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the six months ended June 30, 2021 and June 30, 2020

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 June 30, 2021 including extensions
Burnaby, BC	Building	Corporate head office (main)	1.3 Years
Burnaby, BC	Building	Corporate head office (expansion)	3.0 Years
Burnaby, BC	Building	Laboratory	7.2 Years
Burnaby, BC	Building	Laboratory	7.2 Years

A reconciliation of the carrying amount of the lease liabilities as at June 30, 2021 and December 31, 2020 and changes during the period/year then ended is as follows:

	June 30, 2021 \$	December 31, 2020 \$
Lease liabilities		
Beginning of period/year	710,073	253,395
Additions	-	205,400
Lease extension	205,300	361,500
Lease payments	(85,615)	(137,594)
Lease interest (finance costs)	39,342	27,372
End of period/year	869,100	710,073
Current portion of lease liabilities	135,572	88,833
Non-current portion of lease liabilities	733,528	621,240
Maturity analysis - contractual undiscounted cash flows		
Less than one year	209,477	150,011
One to five years	632,814	476,866
More than five years	252,627	310,925
Total undiscounted lease liabilities	1,094,918	937,802

Short-term leases are leases with a lease term of twelve months or less. As at June 30, 2021, and December 31, 2020, the Company did not have any short-term leases. As at June 30, 2021, 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 Financial Statements**

Unaudited – Prepared by Management

For the six months ended June 30, 2021 and June 30, 2020

5. INTANGIBLE ASSETS

Intangible assets include nineteen (19) (December 31, 2020 - sixteen (16)) issued patents associated with the Company's technology (Note 1). These patents were issued by various jurisdictions including Canada, China, Japan, Korea, Taiwan, and the United States. The patents have expiries ranging between 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 several outstanding patent applications in which all associated costs have been expensed.

	Issued patents \$
<hr/>	
<u>Cost</u>	
December 31, 2019 and December 31, 2020	25,514
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<u>Accumulated amortization</u>	
December 31, 2019	1,235
Amortization	1,576
December 31, 2020	2,811
<hr/>	
<u>Cost</u>	
December 31, 2020	25,514
Addition	2,019
June 30, 2021	27,533
<hr/>	
<u>Accumulated amortization</u>	
December 31, 2020	2,811
Amortization	856
June 30, 2021	3,667
<hr/>	
<u>Net book value</u>	
December 31, 2020	22,703
June 30, 2021	23,866

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the six months ended June 30, 2021 and June 30, 2020

6. GOVERNMENT ASSISTANCE

The Company receives funding from the Government of Canada for its research activities through various programs. During the six months ended June 30, 2021 and June 30, 2020 the following amounts were received (repaid):

	June 30, 2021	June 30, 2020
	\$	\$
Grant cash proceeds received (repaid):		
(1) Sustainable Development Technology Canada (SDTC) - COVID-19 relief	262,500	250,000
(2) Innovation Assistance Program (IAP)	-	194,606
(2) Industrial Research Assistance Program (NRC-IRAP)	(8,394)	78,270
(2)(3) Other Grants	-	2,700
	254,106	525,576

- (1) See deferred government assistance below for allocation of SDTC for the six months ended June 30, 2021.
- (2) Proceeds are recorded within research expenses, net.
- (3) \$4,333 was accrued for Other Grants during the six months ended June 30, 2021 (Note 3), which was subsequently received.

Deferred government assistance:

As at June 30, 2021 and December 31, 2020, 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 June 30, 2021 and December 31, 2020, and changes during the period/year then ended is as follows:

	June 30, 2021	December 31, 2020
	\$	\$
Deferred government assistance (SDTC Program)		
Beginning of period/year	821,256	676,373
Additions - receipt of SDTC grant proceeds	-	2,805,202
(1) Amortization	(821,256)	(2,660,319)
End of period/year	-	821,256

Effective May 31, 2021, the Company completed Milestone 2. As at June 30, 2021 and as at the date of these financial statements, the Company is in the process of completing its Milestone 2 report in anticipation of receiving Milestone 3 funds during the next fiscal quarter.

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

	June 30, 2021	December 31, 2020
	\$	\$
Property and equipment (Note 4)	239,635	1,202,604
Professional fees, net	11,758	174,470
Salaries and benefits, net	62,007	151,461
Research expenses, net	507,856	1,131,784
	821,256	2,660,319

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the six months ended June 30, 2021 and June 30, 2020

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 (December 31, 2020 - \$8,283,000) (\$4,291,516 received as of the date of these financial statements). SDTC Program #2 is estimated conclude in June 2024.

Initially, the non-repayable grant was for up to \$5,000,000 and was increased to \$5,512,500 upon receiving two additional one-time non-repayable grants of \$250,000 and \$262,500 from SDTC in relation to COVID-19 pandemic relief during the year ended December 31, 2020 and the six months ended June 30, 2021, respectively.

In May 2020, the Company announced that the Innovative Clean Energy (“ICE”) Fund of the Province of British Columbia’s Ministry of Energy, Mines and Petroleum Resources will be contributing \$3,033,000 to the SDTC Program #2. The funds are non-repayable, and the Company will receive the funds in alignment with the SDTC grant.

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.

During the six months ended June 30, 2021, the Company received \$262,500 in relation to COVID-19 pandemic relief as described above (2020 - \$250,000).

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

NRC-IRAP Program #5 (completed):

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

During the six months ended June 30, 2021, the Company repaid \$3,408 to NRC-IRAP for an overclaim that occurred during the year ended December 31, 2020 (2020 - the Company received \$78,270). The NRC-IRAP Program #5 is now complete.

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

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For the six months ended June 30, 2021 and June 30, 2020

6. GOVERNMENT ASSISTANCE (continued)Innovation Assistance Program (“IAP”) from NRC-IRAP:

Effective April 1, 2020, the Company executed an agreement with IAP which provided the Company with a non-repayable contribution of up to \$243,936 in relation to COVID-19 pandemic relief relating to the Company’s development of coatings for high durability lithium-ion battery cathodes. Under the terms of the agreement, IAP reimbursed the Company for 100% of salaries paid to Company employees involved in this project through to June 24, 2020.

No amounts were received during the six months ended June 30, 2021. During the six months ended June 30, 2020, \$194,606 was received in connection with this grant. As the grant was a one-time occurrence in relation to COVID-19 pandemic relief, no further amounts are due from this program.

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

In 2016, the Company executed an agreement with ASIP which provided the Company with a non-repayable contribution of up to \$1,950,522. The proceeds from the grant were incurred by the Company in relation to the preparation, design, construction, optimization, and operation of its pilot plant. The ASIP program effectively concluded in June 2020.

No amounts were received during the six months ended June 30, 2021 or June 30, 2020.

Other Grants:

During the six months ended June 30, 2021, the Company accrued \$4,333 (Note 3) for internships, training and employment grants which was subsequently received (2020 - \$2,700 was received).

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

	June 30, 2021	December 31, 2020
	\$	\$
Sustainable Development Technology Canada (SDTC)	6,372,813	6,110,313
Automotive Supplier's Innovation Program (ASIP)	1,950,952	1,950,952
Industrial Research Assistance Program (NRC-IRAP)	786,572	794,966
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
	9,530,282	9,276,176

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7. SHARE CAPITAL AND RESERVES

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

Transactions for the issuance of share capital during the six months June 30, 2021:

- a) On April 1, 2021, the Company completed a short-form prospectus financing consisting of the issuance of 5,405,000 common shares at a price of \$5.35 per share for gross proceeds of \$28,916,750.

An underwriters' cash commission totalling \$1,735,005 was paid upon closing of the offering, plus legal, filing and other fees of \$270,371. Additionally, the Company issued 324,999 finders' (underwriters') warrants exercisable at \$5.35 until April 1, 2022 having a fair value on issuance of \$641,100. These share issue costs were recorded as a reduction of share capital.

- b) Upon the exercise of stock options, 289,125 common shares were issued at prices between \$0.38 and \$2.81 per share, for proceeds of \$352,395. In addition, \$194,123 representing the fair value of the stock options granted and vested was re-allocated from reserves to share capital.

- c) Upon the exercise of warrants, 1,383,990 common shares were issued at prices between \$1.60 and \$3.55 per share, for proceeds of \$4,196,023. In addition, \$399,036 representing the fair value of certain of the warrants on initial issuance was re-allocated from reserves to share capital.

Transactions for the issuance of share capital during the six months ended June 30, 2020:

- d) On February 21, 2020, the Company completed a non-brokered private placement consisting of the issuance of 9,565,000 units at a price of \$1.15 per unit for gross proceeds of \$10,999,750 (\$10,381,392 net proceeds after deducting cash finders' fees and expenses). Each unit consisted of one common share and one-half of a common share purchase warrant with each whole warrant exercisable into one common share at an exercise price of \$1.60 until February 21, 2023. The residual value of the warrants attached to the units was determined to be \$nil.

Cash finders' fees totalling \$557,221 and legal fees of \$61,137, were incurred in respect of the placement. Additionally, the Company issued 467,740 finders' warrants exercisable at \$1.60 until February 21, 2023, having a fair value of \$281,300. The Company recorded the fair value of the warrants issued using the Black-Scholes option pricing model. These share issue costs were recorded as a reduction of share capital.

- e) Upon the exercise of stock options, 2,010,000 common shares were issued at prices between \$0.25 and \$0.70 per share, for proceeds of \$503,625. In addition, \$498,997 representing the fair value of the stock options granted and vested was re-allocated from reserves to share capital.

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7. SHARE CAPITAL AND RESERVES (continued)

Stock options

The Company has a stock option plan under which the maximum number of stock options issued cannot exceed 10% of the Company's currently issued and outstanding common shares. The exercise price of each stock option shall not be less than the discounted market price of the Company's common shares as calculated on the date 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.

A summary of the status of the Company's stock options as at June 30, 2021 and December 31, 2020, and changes during the period/year then ended is as follows:

	Period ended June 30, 2021		Year ended December 31, 2020	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of period/year	4,604,075	1.66	5,843,425	0.86
Granted	1,863,950	5.10	1,502,250	2.53
Exercised	(289,125)	1.22	(2,724,100)	0.42
Cancelled	(41,850)	2.84	(17,500)	1.25
Options outstanding, end of period/year	6,137,050	2.72	4,604,075	1.66

As at June 30, 2021, the Company has stock options outstanding and exercisable as follows:

	Options outstanding #	Options exercisable #	Exercise price \$	Expiry date
(1)	25,000	25,000	0.50	September 13, 2021
	25,000	25,000	0.70	March 10, 2022
	50,000	50,000	1.08	September 13, 2022
	150,000	150,000	1.14	January 3, 2023
	50,000	50,000	1.19	January 9, 2023
	210,575	210,575	1.57	July 12, 2023
(2)	1,352,625	1,314,250	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	1,140,000	5.10	February 1, 2024
	52,100	-	5.26	February 25, 2024
	40,000	-	4.90	June 7, 2024
	400,000	-	5.10	February 1, 2026
	6,137,050	5,379,825		

(1) These options were exercised subsequent to June 30, 2021.

(2) A portion of these options were exercised subsequent to June 30, 2021.

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

The following table summarizes the above information about the stock options outstanding as at June 30, 2021:

Exercise prices \$	Options #	Weighted average remaining life (years)	Weighted average exercise price \$
0.50 - 0.70	50,000	0.4	0.60
1.08 - 1.57	2,835,575	2.3	1.29
2.52 - 3.05	1,392,625	2.1	2.53
4.90 - 5.26	1,858,850	3.0	5.10
	6,137,050	2.4	2.72

During the six months ended June 30, 2021, the Company granted 1,863,950 (2020 – none) stock options to Directors, Officers, employees, and consultants. The Company recorded the fair value of the options granted using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair values were determined using the following weighted average assumptions:

	June 30, 2021
Risk-free interest rate	0.3%
Expected life of stock options (years)	3.4
Historical volatility	73.5%
Dividend rate	0%
Weighted average fair value per stock option granted	\$ 2.56

The total share-based payments expense for the six months ended June 30, 2021 was \$3,475,825 (2020 - \$nil), which includes only those stock options that vested during the period then ended.

During the six months ended June 30, 2021, 41,850 unvested stock options were cancelled upon certain employees leaving employment of the Company. During the six months ended June 30, 2020, 17,500 stock options were cancelled upon termination of consulting contracts. As a result, the original share-based payments expense of \$55,702 (2020 - \$14,013) was reversed from reserves and credited to deficit.

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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 June 30, 2021 and December 31, 2020, and changes during the period/year then ended is as follows:

	Period ended June 30, 2021		Year ended December 31, 2020	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of period/year	5,561,328	2.52	676,500	1.60
Issued - attached to units	-	-	7,423,950	2.29
Issued - underwriters'/finders' warrants	324,299	5.35	890,372	2.13
Exercised	(1,383,990)	3.03	(3,396,494)	1.74
Expired	-	-	(33,000)	1.60
Warrants outstanding, end of period/year	4,501,637	2.57	5,561,328	2.52

As at June 30, 2021, the Company has warrants outstanding and exercisable as follows:

Warrants #	Weighted average exercise price \$	Expiry Date	Weighted average remaining life (years)
31,316	2.72	October 29, 2022	1.3
1,602,350	3.55	October 29, 2022	1.3
2,466,879	1.60	February 21, 2023	1.6
76,793	1.60	February 21, 2023	1.6
324,299	5.35	April 1, 2022	0.8
4,501,637	2.57		1.5

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8. RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with related parties (gross before applicable government assistance recoveries):

	Transactions six months ended June 30, 2021 \$	Transactions six months ended June 30, 2020 \$	Balances outstanding June 30, 2021 \$	Balances outstanding December 31, 2020 \$
Bedrock Capital	75,000	280,500	-	-
DBM CPA	64,775	43,000	9,870	7,875
Directors' fees	27,000	-	-	-
Management and Directors' fees	166,775	323,500	9,870	7,875
Officers - Salaries	720,700	487,500	-	2,696
Directors and Officers - Share-based payments	3,156,085	-	-	-
Patent Filing Specialists	69,385	61,830	5,671	38,753
	4,112,945	872,830	15,541	49,324

(a) Management and Directors' fees:

- Includes the services of Bedrock Capital Corp. ("Bedrock Capital") a company controlled by Paul Matysek the Chairman and a Director of the Company;
- Includes the services of Donaldson Brohman Martin, CPA Inc. ("DBM CPA"), a firm in which Dan Martino, CFO is a principal; and
- Includes Directors' fees paid to two of the Company's Directors (Joseph Guy, \$13,500) and (Lyle Brown, \$13,500).

(b) Professional fees:

- Includes the services of Patent Filing Specialists Inc. ("Patent Filing Specialists"), a company controlled by Joseph Guy, a Company Director. Transactions incurred during the six months ended June 30, 2021 are included within both intangible assets and professional fees (2020 – professional fees only).

(c) Salaries and benefits:

- Includes salaries and short-term variable cash-based compensation incentives paid to Dan Blondal, CEO (\$263,950), Stephen Campbell, CTO (\$153,000), John Lando, President (\$186,250), and Alex Holmes, COO (\$117,500). Expense reimbursements outstanding as at December 31, 2020 related to Dan Blondal.

(d) Share-based payments:

- Includes amounts recognized on vesting of stock options granted to Directors and Officers. During the six months ended June 30, 2021, 1,540,000 stock options (2020 – none) were granted to Directors and Officers which are exercisable at \$5.10. 1,140,000 stock options are exercisable for three years until February 1, 2024 and vested immediately, and 400,000 stock options are exercisable for five years until February 1, 2026 and vest over 24 months.

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9. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash investing and financing activities during the six months ended June 30, 2021 and June 30, 2020 as follows:

	June 30, 2021 \$	June 30, 2020 \$
Non-cash investing activities:		
Property and equipment included in accounts payable and accrued liabilities	9,343	5,049
Deposits on property and equipment in accounts payable and accrued liabilities	35,853	-
Non-cash financing activities:		
Lease extension on right-of-use asset (Note 4)	205,300	-
Addition of right-of-use asset	-	93,800
Fair value of finders' warrants issued	641,100	281,300

During the six months ended June 30, 2021 and June 30, 2020, 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 the SDTC program) (Note 6), as well as generating returns on excess funds while maintaining accessibility to such funds. In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general 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 six months ended June 30, 2021.

The Company currently has no source of revenues, though it receives funding from government assistance programs (Note 6), and certain research cost recoveries 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 short-term investments (guaranteed investment certificates "GICs") bearing fixed rates of interest that are either redeemable or non-redeemable and have terms not exceeding 24 months. The Company will also hold excess capital in high-interest savings accounts (HISAs) which bear interest at variable rates (classified as cash). As at June 30, 2021, the Company had excess capital invested in HISAs which are accessible on demand and did not have any GIC or other short-term investment holdings.

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

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

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

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.

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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, short-term investment, receivables, and deposits.

The Company minimizes its credit risk on its cash and cash equivalents and short-term investment, by holding the funds/investment with a high-credit quality Canadian chartered bank. 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 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 held in high-interest savings accounts, and a deposit held as collateral with a Canadian chartered bank on the Company's corporate credit cards. For the six months ended June 30, 2021, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the period by approximately \$203,000 (2020 – \$27,000).

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 June 30, 2021, the Company held certain financial assets and liabilities that were denominated in these foreign currencies. Based on the June 30, 2021 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).

13. SUBSEQUENT EVENT

The Company has issued 26,250 common shares and received proceeds of \$15,650 in aggregate, upon the exercise of stock options between \$0.50 and \$2.52 per share, for gross proceeds of \$15,650.