Nano One Materials Corp.

Consolidated Financial Statements

December 31, 2022

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nano One Materials Corp.

Opinion

We have audited the accompanying consolidated financial statements of Nano One Materials Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, cash flows, changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matters

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

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

Accounting for the Acquisition of Johnson Matthey Battery Materials Ltd. ("JMBM")

As described in Note 3 to the consolidated financial statements, during the year ended December 31, 2022, the Company acquired 100% of JMBM (the "transaction") for cash consideration totaling $16 million. As more fully described in Note 2, judgement is required by the Company to assess whether the transaction constituted a business combination or an asset acquisition.

We identified the accounting for the transaction as a key audit matter in respect of whether the set of assets acquired, and liabilities assumed constituted a business. This matter represented an area of significant risk of material misstatement given the high degree of estimation uncertainty. A high degree of auditor judgment, subjectivity, and effort were required in performing procedures to evaluate management's significant judgements in assessing the accounting for the transaction and the fair value of the assets acquired.

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

- Obtaining an understanding of the key controls associated with management's evaluation of the acquisition.
- Evaluating management's assessment of whether the transaction constituted an asset acquisition or business combination.
- Examining and evaluating the contractual terms identified in underlying agreements in connection with the transaction for consistency with the amounts recorded in the consolidated financial statements.
- Utilizing professionals with specialized skill and knowledge to assist in testing the fair value of certain assets acquired.
- Assessing the adequacy of the disclosures in the consolidated financial statements.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

March 29, 2023

Nano One Materials Corp.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at December 31, 2022 and December 31, 2021

	Note	**December 31, 2022 $**	December 31, 2021 $
Assets			
Current assets			
Cash and cash equivalents		39,445,395	52,652,258
Receivables and prepayments	4	2,865,285	697,182
Inventory	5	317,279	-
		42,627,959	53,349,440
Non-current assets			
Deposits	4	375,554	158,691
Property, plant and equipment	6	13,041,110	1,824,058
Intangible assets - patents	7	31,737	25,708
		13,448,401	2,008,457
Total assets		**56,076,360**	55,357,897
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		1,829,435	759,014
Accounts payable to related parties	10	23,639	25,024
Deferred government assistance	8	-	18,958
Lease liabilities - current portion	6	186,795	143,740
		2,039,869	946,736
Non-current liabilities			
Lease liabilities	6	587,122	656,190
Total liabilities		**2,626,991**	1,602,926
Shareholders' equity			
Share capital	9	96,704,471	82,607,348
Shares committed for issuance	9	171,000	-
Reserves	9	10,209,880	8,977,007
Deficit		(53,635,982)	(37,829,384)
Total shareholders' equity		**53,449,369**	53,754,971
Total liabilities and shareholders' equity		**56,076,360**	55,357,897
Nature and continuance of operations	1		
Subsequent events	16		

Approved on behalf of the Board of Directors on March 29, 2023:

"Carla Matheson"	*"Lyle Brown"*
Director	**Director**

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

Nano One Materials Corp.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

For the years ended December 31, 2022 and December 31, 2021

	Note	**December 31, 2022 $**	December 31, 2021 $
Expenses			
Amortization	7	2,410	1,888
Business development and investor relations		625,831	760,856
Depreciation	6	171,621	125,145
Finance costs	6	66,772	74,501
General and administrative expenses		1,415,160	886,125
Professional and consulting, net	8,10	1,542,005	906,230
Research and operational expenses, net	8,10	3,252,665	728,004
Share-based payments	9,10	1,745,697	4,385,894
Wages, benefits and fees, net	8,10	7,918,555	3,522,446
Loss from operating expenses		**(16,740,716)**	(11,391,089)
Loss on disposal of equipment		(4,349)	-
Interest income	12	924,301	198,761
Bad debt		-	(130,780)
Loss and comprehensive loss for the year		**(15,820,764)**	(11,323,108)
Loss per share			
Weighted average number of common shares outstanding			
- basic		**98,185,028**	93,876,156
- diluted		**98,185,028**	93,876,156
Basic loss per common share		**(0.16)**	(0.12)
Diluted loss per common share		**(0.16)**	(0.12)

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

Nano One Materials Corp.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended December 31, 2022 and December 31, 2021

	Note	**December 31, 2022 $**	December 31, 2021 $
Operating activities			
Loss for the year		(15,820,764)	(11,323,108)
Adjustments for:			
Amortization	7	2,410	1,888
Depreciation	6	1,049,050	674,712
Finance costs	6	66,772	74,501
Research expenses, net - warrants issued		595,000	-
Share-based payments	9	1,745,697	4,385,894
Interest income	12	(924,301)	(198,761)
Loss on disposal of equipment		4,349	-
Net change in non-cash working capital items	11	3,920,901	(634,369)
		(9,360,886)	(7,019,243)
Investing activities			
Interest income received on cash and cash equivalents		924,301	198,761
Maturity of short-term investment		-	1,009,164
Deposits		(309,863)	(122,193)
Purchase price of Johnson Matthey Battery Materials Ltd.	3	(16,352,993)	-
Cash acquired on purchase price of Johnson Matthey Battery Materials Ltd.	3	179,642	-
Purchases of property, plant and equipment, net		(1,233,305)	(763,533)
Payments for intangible assets	7	(8,439)	(4,893)
		(16,800,657)	317,306
Financing activities			
Issuance of common shares/units for cash		13,037,915	33,799,225
Shares committed for issuance		171,000	-
Share issue costs		(34,450)	(2,005,376)
Payments of lease liabilities	6	(219,785)	(189,944)
		12,954,680	31,603,905
Change in cash and cash equivalents		**(13,206,863)**	24,901,968
Cash and cash equivalents, beginning of year		**52,652,258**	27,750,290
Cash and cash equivalents, end of year		**39,445,395**	52,652,258
Cash and cash equivalents comprise:			
Cash		10,514,558	816,595
Cash equivalents		28,930,837	51,835,663
Cash and cash equivalents, end of year		**39,445,395**	52,652,258
Supplemental cash flow information	11		

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

(Expressed in Canadian Dollars)

For the years ended December 31, 2022 and December 31, 2021

	Number of common shares	Share capital $	Shares committed for issuance $	Reserves $	Deficit $	Total $
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	369,125	436,995	-	-	-	436,995
Re-allocated on exercise of stock options	-	239,824	-	(239,824)	-	-
Re-allocated on cancellation of stock options	-	-	-	(55,702)	55,702	-
Exercise of warrants	1,516,440	4,445,480	-	-	-	4,445,480
Re-allocated on exercise of warrants	-	480,949	-	(480,949)	-	-
Share-based payments	-	-	-	4,385,894	-	4,385,894
Loss and comprehensive loss for the year	-	-	-	-	(11,323,108)	(11,323,108)
December 31, 2021	95,528,103	82,607,348	-	8,977,007	(37,829,384)	53,754,971
December 31, 2021	95,528,103	82,607,348	-	8,977,007	(37,829,384)	53,754,971
Issue of common shares - private placement	4,643,148	12,536,500	-	-	-	12,536,500
Share issue costs - cash	-	(34,450)	-	-	-	(34,450)
Exercise of RSUs	2,876	11,993	-	(11,993)	-	-
Exercise of stock options	200,375	274,226	-	-	-	274,226
Re-allocated on exercise of stock options	-	167,912	-	(167,912)	-	-
Proceeds received for subsequent exercise of stock options	-	-	171,000	-	-	171,000
Re-allocated on cancellation of stock options	-	-	-	(14,166)	14,166	-
Exercise of warrants	141,993	227,189	-	-	-	227,189
Re-allocated on exercise of warrants	-	21,973	-	(21,973)	-	-
Re-allocated on expiry of warrants	-	891,780	-	(891,780)	-	-
Warrants issued for research services	-	-	-	595,000	-	595,000
Share-based payments	-	-	-	1,745,697	-	1,745,697
Loss and comprehensive loss for the year	-	-	-	-	(15,820,764)	(15,820,764)
December 31, 2022	**100,516,495**	**96,704,471**	**171,000**	**10,209,880**	**(53,635,982)**	**53,449,369**

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 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 December 31, 2022, the Company had working capital of $40,588,090 (December 31, 2021 - $52,402,704), which management assesses is sufficient for the Company to continue as a going concern beyond one year. The Company will utilize this working capital to execute on its 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. The Company subsequently received additional funding from Sustainable Development Technology Canada (Note 16(b)).

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 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").

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

Functional and presentation currency

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

2. 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 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 statements of loss and comprehensive loss have been reclassified to conform to the current year’s presentation. This includes the reclassification of:

- Management and directors’ fees into wages, benefits and fees, net;
- Consulting fees into professional and consulting, net;
- Transfer agent and filing fees, and travel, meals and conferences into general and administrative expenses; and
- Wages that were formerly within research and operational expenses, into wages, benefits and fees

Significant accounting estimates and judgments

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting estimates and judgments (continued)

Property, plant and equipment

The estimated useful lives of property, plant and equipment are reviewed by management and adjusted if necessary. To estimate property, plant and equipment's useful life, management may use its past experience, review engineering estimates and industry practices for similar items of property, plant and equipment and/or apply statistical methods to assist in its determination of useful life.

The estimated useful life of the Company's pilot plant within property, plant and equipment is subject to specific estimation uncertainty as to the duration of use. The use of the pilot plant has historically been driven by securing government assistance to conduct research activities that utilize the pilot plant. Accordingly, the Company has historically depreciated the pilot plant over the term of the government assistance program. Future determinations of the expected life of the pilot plant may differ from historical experience.

The information about significant areas of judgment considered by management in preparing these financial statements is as follows:

Acquisitions

The determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, considering all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The transaction with Johnson Matthey Battery Materials Ltd. was determined to constitute an asset acquisition (Note 3).

Research expenses

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

Government assistance

Government assistance ("grants") are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as a deduction against the related expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. Government grants received in advance that relate to expenses to be incurred in future periods are deferred on the statements of financial position as deferred government assistance and deducted against the related expenditures as incurred.

For the years ended December 31, 2022 and December 31, 2021, government grants received by the Company have been applied as reductions, as applicable, against property, plant and equipment on the consolidated statements of financial position, and to professional and consulting, research and operational expenses, and wages, benefits and fees on the consolidated statements of loss and comprehensive loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development

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

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

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

Acquisitions

Asset acquisitions are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values at the date of acquisition of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Company, if any. The acquiree's identifiable assets and liabilities assumed are recognized at their fair value at the acquisition date, or if the fair values exceed the consideration paid, then the consideration paid is allocated on a pro rata basis to the identifiable assets acquired based on their relative fair values.

Share capital

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

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

Foreign currency translation

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

Cash and cash equivalents and short-term investments

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

Short-term investments are non-redeemable, interest-bearing investments with original maturities of twelve months or less. Short-term investments are not readily converted into cash and are held for investment purposes to maturity.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

Share-based payments

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

Stock options

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

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

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

Restricted share units

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

Deferred share units

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

Intangible assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

Building	25 years straight-line
Production and research equipment:	
• Plant and machinery	14 years straight-line
• Production equipment fixtures	20%
• Research and development equipment	20%
Land	N/A
Right-of-use assets	Over the terms of the leases
Information technology equipment:	
• Computer equipment and fixtures	30%
• Office equipment	20%
• Computer software	50%
Leasehold improvements	Over the terms of the leases
Pilot plant	Over the term of the related government assistance program

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

Impairment of non-financial assets

The Company's non-financial assets are reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

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

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

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

Lease liabilities are remeasured in the following circumstances:

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

Financial instruments

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

<u>Classification and measurement of financial assets and liabilities</u>

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

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

<u>Impairment of financial assets</u>

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

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

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

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

Earnings (loss) per share

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

Accounting standards issued for adoption of future periods

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2022:

The following amendments will be in effect for annual reporting periods beginning on or after January 1, 2023:

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) – the amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy.

Definition of Accounting Estimates (Amendments to IAS 8) – the amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

The Company anticipates that these amendments will not have a material impact on the results of operations and financial position of the Company.

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") 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 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.

(Expressed in Canadian Dollars)

3. ACQUISITION OF JOHNSON MATTHEY BATTERY MATERIALS LTD. (continued)

The acquisition of JMBM 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 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's assets, liabilities, and operations from November 1, 2022 are included in these financial statements.

Net assets (liabilities) of JMBM acquired:	November 1, 2022 $
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 consist of the following:

	December 31, 2022 $	December 31, 2021 $
Accrued government assistance (Note 8)	28,027	47,652
Prepaid expenses	1,378,892	285,697
Research cost recoveries	-	308,267
Trade receivables	807,331	-
Sales tax recoverable and other	651,035	55,566
	2,865,285	697,182

As at December 31, 2022, trade receivables were those acquired in the acquisition of JMBM, which were subsequently collected.

(Expressed in Canadian Dollars)

4. RECEIVABLES, PREPAYMENTS, AND DEPOSITS (continued)

Research cost recoveries and receivables

During the years ended December 31, 2022 and December 31, 2021, the Company accrued or received the following cost recoveries within research and operational expenses, net:

	December 31, 2022	December 31, 2021
	$	$
USCo	5,095	387,647
CBMM	233,649	226,800
Other recoveries	163,203	-
	401,947	614,447

American-based multinational auto manufacturer ("USCo"):

In December 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.

During the year ended December 31, 2022, the Company collected $313,362 from USCo ($308,267 of which was receivable as at December 31, 2021). Of this amount, $5,095 (2021 - $387,647) was recognized as cost recoveries during the year ended December 31, 2022. The parties continue to collaborate under this arrangement.

CBMM Technology Suisse SA ("CBMM"):

In May 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 year ended December 31, 2022, cost recoveries of $233,649 were recognized and received (2021 - $226,800). The parties continue to collaborate under this agreement.

Deposits

Deposits consist of the following:

	December 31, 2022	December 31, 2021
	$	$
Deposits on property, plant and equipment	260,529	93,000
Security and other deposits	115,025	65,691
	375,554	158,691

5. INVENTORY

Inventory is comprised of the following:

	December 31, 2022	December 31, 2021
	$	$
Raw materials	**317,279**	-

(Expressed in Canadian Dollars)

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, 2020	-	1,123,699	-	852,452	163,291	-	76,617	2,049,930	4,265,989
Additions, net	-	444,892	-	205,300	74,393	-	172,255	116,974	1,013,814
December 31, 2021	-	1,568,591	-	1,057,752	237,684	-	248,872	2,166,904	5,279,803
Accumulated depreciation									
December 31, 2020	-	609,869	-	196,310	106,009	-	4,617	1,864,228	2,781,033
Depreciation	-	295,516	-	166,964	38,839	-	58,877	114,516	674,712
December 31, 2021	-	905,385	-	363,274	144,848	-	63,494	1,978,744	3,455,745
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
(1) 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**
Net book value									
December 31, 2021	-	663,206	-	694,478	92,836	-	185,378	188,160	1,824,058
December 31, 2022	**4,843,543**	**3,705,679**	**3,263,658**	**649,973**	**256,577**	**220,338**	**101,342**	**-**	**13,041,110**

(1) Depreciation for the year ended December 31, 2022 and December 31, 2021 is allocated as follows:

	Depreciation expense $	Research expenses, net $	Total $
December 31, 2021			
Building	-	-	-
Production and research equipment	-	295,516	295,516
Right-of-use assets	83,102	83,862	166,964
Information technology equipment	38,839	-	38,839
Leasehold improvements	3,204	55,673	58,877
Pilot plant	-	114,516	114,516
	125,145	549,567	674,712
December 31, 2022			
Building	-	31,418	31,418
Production and research equipment	-	434,378	434,378
Right-of-use assets	90,610	80,895	171,505
Information technology equipment	70,717	-	70,717
Leasehold improvements	10,294	89,953	100,247
Pilot plant	-	240,785	240,785
	171,621	**877,429**	**1,049,050**

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Additions, net for the years ended December 31, 2022 and December 31, 2021, were reduced by the amortization of deferred government assistance as follows:

Year ended December 31, 2022	Production and research equipment $	Information technology equipment $	Leasehold improvements $	Pilot plant $	Total $
Deferred government assistance amortized (Note 8)	**123,919**	**46,986**	**4,033**	**6,513**	**181,451**

Year ended December 31, 2021	Production and research equipment $	Information technology equipment $	Leasehold improvements $	Pilot plant $	Total $
Deferred government assistance amortized	297,045	42,792	149,751	49,375	538,963

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 were calculated with a discount rate of 9%.

The Company has identified the following leases:

Location	Asset	Type	Term of lease at December 31, 2022 including extensions
Burnaby, BC	Building	Corporate head office (main)	2.8 Years (1)
Burnaby, BC	Building	Corporate head office (supplement)	1.5 Years
Burnaby, BC	Building	Laboratory and pilot plant	5.7 Years
Burnaby, BC	Building	Laboratory	5.7 Years

(1) The Company extended the facility lease on its corporate head office. The extension commenced on October 1, 2022 and expires on September 30, 2025 (three years). The Company recognized a right-of-use asset and corresponding lease liability for this lease in the amount of $127,000.

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

Lease liabilities	**December 31, 2022 $**	December 31, 2021 $
Beginning of year	799,930	710,073
Extension	127,000	205,300
Lease payments	(219,785)	(189,944)
Lease interest (finance costs)	66,772	74,501
End of year	**773,917**	799,930
Current portion of lease liabilities	**186,795**	143,740
Non-current portion of lease liabilities	**587,122**	656,190
Maturity analysis - contractual undiscounted cash flows		
Less than one year	246,626	207,724
One to five years	593,960	588,536
More than five years	77,731	194,328
Total undiscounted lease liabilities	**918,317**	990,588

Short-term leases are leases with a lease term of twelve months or less. As at December 31, 2022, and December 31, 2021, the Company did not have any short-term leases. As at December 31, 2022, the Company included the available extension options on its leases within the measurement of the lease liabilities, and there were no leases with residual value guarantees.

(Expressed in Canadian Dollars)

7. INTANGIBLE ASSETS

As at December 31, 2022, intangible assets include twenty-five (25) (December 31, 2021 – twenty (20)) issued patents associated with the Company's technology. These patents were issued by various jurisdictions including Canada, China, Japan, Korea, Taiwan, and the United States. The patents have expiries ranging between thirteen (13) to eighteen (18) years from the patent issuance date. See Note 1 for the subsequent issuance of additional patents.

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

	Issued patents $
Cost	
December 31, 2020	25,514
Additions	4,893
December 31, 2021	30,407
Accumulated amortization	
December 31, 2020	2,811
Amortization	1,888
December 31, 2021	4,699
Cost	
December 31, 2021	30,407
Additions	8,439
December 31, 2022	**38,846**
Accumulated amortization	
December 31, 2021	4,699
Amortization	2,410
December 31, 2022	**7,109**
Net book value	
December 31, 2021	25,708
December 31, 2022	**31,737**

(Expressed in Canadian Dollars)

8. GOVERNMENT ASSISTANCE

The Company receives funding from various Canadian federal and provincial government programs. During the years ended December 31, 2022 and December 31, 2021 the following amounts were received:

		December 31, 2022	December 31, 2021
	Amounts received:	**$**	$
(1)	Sustainable Development Technology Canada (SDTC)	1,797,824	1,915,359
(2)	Industrial Research Assistance Program (NRC-IRAP)	354,361	33,372
		2,152,185	1,948,731

(1) See deferred government assistance below for allocation of SDTC proceeds for the year ended December 31, 2022 and December 31, 2021.

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

Deferred government assistance:

As at December 31, 2022 and December 31, 2021, the deferred government assistance balances were in relation to SDTC Scaling Project (below). Under the SDTC Scaling Project, 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 December 31, 2022 and December 31, 2021, and changes during the years then ended are as follows:

		December 31, 2022	December 31, 2021
	Deferred government assistance (SDTC Scaling Project)	**$**	$
	Beginning of year	18,958	821,256
	Additions - proceeds received	1,797,824	1,652,859
(1)	Amortization	(1,816,782)	(2,455,157)
	End of year	**-**	18,958

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

	December 31, 2022	December 31, 2021
	$	$
Property, plant and equipment (Note 6)	181,451	538,963
Wages, benefits and fees, net	1,366,735	1,550,166
Professional and consulting, net	64,243	101,772
Research and operational expenses, net	204,353	264,256
	1,816,782	2,455,157

On July 7, 2022, the Company received Milestone 4 proceeds of $1,797,824. During the year ended December 31, 2021, the Company received Milestone 3 funds of $1,652,859 representing the aggregate of SDTC and British Columbia Innovative Clean Energy, Mines and Petroleum Resources ("BC-ICE") contributions.

8. GOVERNMENT ASSISTANCE (continued)

Sustainable Development Technology Canada ("SDTC"):

SDTC Scaling Project (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 (SDTC Scaling Project). The SDTC Scaling Project grant is for up to $8,545,500 ($7,742,210 received as at December 31, 2022) which includes BC-ICE contributions (discussed below). The funds are non-repayable.

The funds from the SDTC Scaling Project are payable to the Company in five (5) instalments including the release of a final 10% hold-back to the Company upon satisfactory review and approval of the project by SDTC. The instalments from SDTC are to be paid to the Company at the beginning of each of the four (4) Milestones. Each instalment payment is subject to the Company meeting the specific project Milestones and having available cash resources to match each instalment from SDTC.

As at December 31, 2022, the Company is in Milestone 4 (subsequently concluded). The Company subsequently announced additional funding from SDTC (Note 16(b)) pursuant to a new program.

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 year ended December 31, 2022 of $354,361 (2021 - $33,372) and accrued proceeds of $28,027 (December 31, 2021 – $47,652) (Note 4).

Youth Internship Contribution Agreement (active):

Since May 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 are for the reimbursement of certain salaries paid to employees of the Company. During the course of this program the Company has received $71,749 in reimbursements.

M2CAM Program (active):

In December 2021, the Company executed an agreement with NRC-IRAP for non-repayable contributions to the Company totaling up to $404,000 ($319,393 received through to December 31, 2022) over the course of the program through to June 2023. The scope of the program is research into cost optimization of the Company's patented process for the manufacture of cathode active materials and specifically the use of metal feedstocks and thermal processing methods (M2CAM). Under the terms of the agreement, NRC-IRAP will reimburse the Company for 80% of salaries paid to employees involved in this project.

(Expressed in Canadian Dollars)

8. GOVERNMENT ASSISTANCE (continued)

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

	December 31, 2022	December 31, 2021
	$	$
Sustainable Development Technology Canada (SDTC) and BC-ICE	9,823,507	8,025,683
Automotive Supplier's Innovation Program (ASIP)	1,950,952	1,950,952
Industrial Research Assistance Program (NRC-IRAP)	1,182,699	828,338
Innovation Assistance Program (IAP) (from NRC-IRAP)	241,225	241,225
Scientific Research & Experimental Development (SR&ED)	98,661	98,661
Other Grants	80,059	80,059
	13,377,103	11,224,918

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 years ended December 31, 2022:

a) On June 16, 2022, by way of a non-brokered private placement, Rio Tinto made a strategic equity investment into the Company resulting in the issuance of 4,643,148 common shares of the Company at $2.70 each for proceeds of $12,536,500 (US $10,000,000).

   Share issue costs of $34,450 were paid for filing fees which were recorded as reduction of share capital.

b) Upon the exercise of RSUs, 2,876 common shares were issued for $nil proceeds. In addition, $11,993 representing the fair value initially recognized, was re-allocated from reserves to share capital.

c) Upon the exercise of stock options, 200,375 common shares were issued between $0.70 and $2.52 each for proceeds of $274,226. In addition, $167,912 representing the fair value initially recognized, was re-allocated from reserves to share capital.

d) Upon the exercise of warrants, 141,993 common shares were issued at $1.60 each for proceeds of $227,189. In addition, $21,973 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.

e) In December 2022, the Company received $171,000 in proceeds from the subsequent exercise of 150,000 stock options at $1.14 each. The proceeds are presented as shares committed for issuance.

Transactions for the issuance of share capital during the year ended December 31, 2021:

f) 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.

g) Upon the exercise of stock options, 369,125 common shares were issued at prices between $0.38 and $2.81 each, for proceeds of $436,995. In addition, $239,824 representing the fair value initially recognized, was re-allocated from reserves to share capital.

h) Upon the exercise of warrants, 1,516,440 common shares were issued at prices between $1.60 and $3.55 each, for proceeds of $4,445,480. In addition, $480,949 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.

(Expressed in Canadian Dollars)

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 December 31, 2022 and December 31, 2021, and changes during the years then ended is as follows:

	Year ended December 31, 2022		Year ended December 31, 2021	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of year	6,337,050	2.76	4,604,075	1.66
Granted	184,410	2.88	2,143,950	4.85
Exercised	(200,375)	1.37	(369,125)	1.18
Cancelled/forfeited	(51,222)	4.05	(41,850)	2.84
Options outstanding, end of year	**6,269,863**	**2.80**	6,337,050	2.76

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

	Options outstanding #	Options exercisable #	Exercise price $	Expiry date
(1)	150,000	150,000	1.14	January 3, 2023
(2)	104,450	104,450	1.57	July 12, 2023
(2)	1,338,375	1,338,375	2.52	July 20, 2023
	25,000	25,000	2.81	September 8, 2023
(2)	2,365,000	2,365,000	1.28	November 12, 2023
	15,000	15,000	3.05	December 4, 2023
	1,345,000	1,248,750	5.10	February 1, 2024
	47,150	23,575	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	200,000	5.10	February 1, 2026
(2)(3)	150,788	-	2.88	February 4, 2027
	9,100	3,033	2.88	June 13, 2027
	6,269,863	**5,653,183**	**2.80**	

(1) Subsequently exercised (Note 16(a)).
(2) 98,146 stock options were subsequently exercised (Note 16(a)).
(3) 5,623 stock options were subsequently cancelled/forfeited.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

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

Exercise prices $	Options #	Weighted average remaining life (years)	Weighted average exercise price $
1.14 - 1.57	2,619,450	0.8	1.28
2.52 - 3.14	1,778,263	1.1	2.64
3.62 - 5.26	1,872,150	1.5	5.07
	6,269,863	**1.1**	**2.80**

The Company recorded the fair value of the stock options granted during the years ended December 31, 2022 and December 31, 2021 using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair values were determined using the following weighted average assumptions:

	December 31, 2022	December 31, 2021
Risk-free interest rate	1.8%	0.4%
Expected life of stock options (years)	5.0	3.4
Historical volatility	75.6%	73.6%
Dividend rate	0%	0%
Weighted average fair value per stock option granted	$ 1.79	$ 2.43

The total share-based payments expense for the year ended December 31, 2022 was $1,745,697 (2021 - $4,385,894), of which $1,004,764 (2021 – $4,269,158) was attributable to vesting of stock options during the year then ended.

During the year ended December 31, 2022, 51,222 (2021 – 41,850) stock options were cancelled upon certain individuals leaving employment of the Company. As a result, the original share-based payments expense of $14,166 (2021 - $55,702) 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.

(Expressed in Canadian Dollars)

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 December 31, 2022 and December 31, 2021, and changes during the years then ended is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
	Equity Incentives #	Equity Incentives #
Equity Incentives outstanding, beginning of year	193,131	-
Granted - RSUs	189,424	184,505
Granted - DSUs	-	8,626
Exercised	(2,876)	-
Equity Incentives outstanding, end of year	**379,679**	193,131

As at December 31, 2022, 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
181,629	-	58,626	(1)(2)	4.17	August 27, 2024
-	8,626	2,876		4.17	August 27, 2024
189,424	-	-	(1)(2)	2.88	February 4, 2025
371,053	**8,626**	**61,502**		**3.53**	

(1) 63,141 RSUs subsequently vested.
(2) 86,409 RSUs were subsequently exercised (Note 16(d)).

During the year ended December 31, 2022, 64,377 RSUs and DSUs vested, with only 2,876 RSUs being exercised resulting in the equivalent number of common shares being issued.

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).

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

The value of the Equity Incentives granted was based on the fair value of the Company's common shares on the date of grant. During the year ended December 31, 2022, the Equity Incentives were granted at a fair value of $2.88 each for a total value of $545,541 (Year ended December 31, 2021 - $4.17 each for a total value of $805,356) which is being accrued within share-based payment expense over the vesting periods.

The total share-based payments expense for the year ended December 31, 2022 was $1,745,697 (2021 - $4,385,894), of which $740,933 (2021 - $116,736) represents the vesting of Equity Incentives with the remaining portion of share-based payment expense being attributable to stock options, as described above.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Warrants

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

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

	Year ended December 31, 2022		Year ended December 31, 2021	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of year	4,369,187	2.59	5,561,328	2.52
Issued	1,000,000	4.00	324,299	5.35
Exercised	(141,993)	1.60	(1,516,440)	2.93
Expired	(1,938,715)	3.84	-	-
Warrants outstanding, end of year	**3,288,479**	**2.33**	4,369,187	2.59

During the year ended December 31, 2022, various warrants expired unexercised, whereby certain warrants were issued as compensatory warrants. As a result, the original fair value on the portion that were compensatory warrants totalled $891,780 and was reversed from reserves and credited to share capital.

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

	Warrants outstanding #	Exercise price $	Expiry Date	Weighted average remaining life (years)
(1)	2,249,629	1.60	February 21, 2023	0.1
(2)	38,850	1.60	February 21, 2023	0.1
	1,000,000	4.00	June 16, 2023	0.5
	3,288,479	**2.33**		**0.2**

(1) 2,244,629 warrants were subsequently exercised (Note 16(a)), and 5,000 warrants subsequently expired unexercised.
(2) 37,310 warrants were subsequently exercised (Note 16(a)), and 1,540 warrants subsequently expired unexercised.

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 fair value of the warrants of $595,000 was recognized within research and operational expenses, net. 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

(Expressed in Canadian Dollars)

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 before applicable government assistance recoveries):

	Transactions year ended December 31, 2022	Transactions year ended December 31, 2021	**Balances outstanding December 31, 2022**	Balances outstanding December 31, 2021
	$	$	**$**	$
Bedrock Capital	150,000	150,000	-	-
DBM CPA	172,865	117,925	11,844	8,400
Directors' fees	238,521	86,250	-	-
Management and directors' fees (within wages, benefits and fees)	561,386	354,175	11,844	8,400
Wages, benefits and fees (officers)	1,348,197	1,172,800	-	631
Share-based payments (directors and officers)	1,125,228	3,756,185	-	-
Patent Filing Specialists (professional and consulting; and intangible assets)	253,684	188,584	11,795	15,993
	3,288,495	5,471,744	**23,639**	25,024

(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 (including allocations to research and operational expenses, net):

- Includes salaries and short-term variable cash-based compensation incentives paid to Dan Blondal, CEO, Stephen Campbell, CTO, John Lando, former President until November 30, 2021, Alex Holmes, COO, Pamela Kinsman, Corporate Secretary and Director of Sustainability, and Denis Geoffroy, Chief Commercialization Officer (CCO).

  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 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 fees paid to the Company's directors for their positions as non-executive directors and/or board committee members or chairpersons.

(c) Share-based payments:

- Includes amounts recognized on vesting of stock options and Equity Incentives granted to directors and officers, or accruals for future vesting periods.
- During the year ended December 31, 2022, the Company granted 189,424 RSUs to various directors and officers (2021 – 193,131 RSUs and DSUs granted). See Note 9 for specifics on vesting terms.
- There were no stock options granted to key management personnel during the year ended December 31, 2022. During the year ended December 31, 2021, 1,580,000 stock options were granted to directors and officers which are exercisable at either 3.62 or $5.10 each. 400,000 of these stock options have a five year term expiring in February 2026, with the remainder having a term of three years expiring in either February 2024 of October 2024. The stock options have varying vesting terms.

(Expressed in Canadian Dollars)

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital during the years ended December 31, 2022 and December 31, 2021 were comprised of the following:

	December 31, 2022	December 31, 2021
	$	$
Receivables and prepayments	4,947,596	(293,197)
Inventory	(317,279)	-
Accounts payable and accrued liabilities	(689,073)	485,426
Accounts payable to related parties	(1,385)	(24,300)
Deferred government assistance	(18,958)	(802,298)
Net change	**3,920,901**	(634,369)

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

	December 31, 2022	December 31, 2021
	$	$
Non-cash investing activities:		
Property, plant and equipment included in accounts payable and accrued liabilities	234,176	5,535
Deposits on equipment in accounts payable and accrued liabilities	-	14,488
Non-cash financing activities:		
Addition or extension of right-of-use asset	127,000	205,300
Fair value of finders' warrants issued	-	641,100

During the year ended December 31, 2022 and December 31, 2021, 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 year ended December 31, 2022.

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 December 31, 2022 and December 31, 2021, the Company had excess capital invested in a HISA, a HISA fund, and a GIC, which facilitates the diversification of treasury amongst high-credit quality Canadian chartered banks. These amounts are accessible on demand. During the year ended December 31, 2022, the Company earned interest income of $924,301 (2021 - $198,761) from its GIC, HISA, HISA fund, and the funds held in an interest-bearing escrow account in respect of the JMBM acquisition.

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 is unable to meet its financial obligations as they come due. The Company has historically relied upon government assistance programs, cost recoveries from strategic partners, and equity financings 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 GIC holding bears a fixed rate of interest.

For the year ended December 31, 2022, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the year by approximately $387,000 (2021 – $392,000).

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 also exposed to credit risk relating to its trade receivables (subsequently collected), 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.

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 the 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 December 31, 2022, the Company held certain financial assets and liabilities that were denominated in these foreign currencies.

Based on the December 31, 2022 value of net assets denominated in foreign currencies, the impact of a 10% fluctuation in foreign exchange rates relative to the Canadian dollar would impact loss and comprehensive loss for the year by approximately $320,000 (2021 - 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).

(Expressed in Canadian Dollars)

15. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended December 31, 2022, and December 31, 2021, is as follows:

	December 31, 2022 $	December 31, 2021 $
Loss for the year	(15,820,764)	(11,323,108)
Expected income tax (recovery)	(4,272,000)	(3,057,000)
Change in tax resulting from:		
Permanent differences	493,000	1,187,000
Impact of acquisition	(4,868,000)	-
Change in recognized deductible temporary differences and other	8,656,000	2,572,000
Share issue costs	(9,000)	(715,000)
Adjustment to prior year provision versus statutory tax returns	-	13,000
Total income tax expense (recovery)	-	-

The Company's unused temporary differences, unused tax credits, and unused tax losses that have not been included on the statements of financial position as at December 31, 2022 and December 31, 2021, are as follows:

	December 31, 2022 $	**Expiry Date Range**	December 31, 2021 $	Expiry Date Range
Property, plant and equipment	2,335,000	No expiry	5,587,000	No expiry
Right-of-use asset / lease liability	124,000	No expiry	105,000	No expiry
Share issue costs	2,364,000	2043 to 2046	3,241,000	2042 to 2045
Non-capital loss carry forwards	54,109,000	2026 to 2042	22,247,000	2026 to 2041

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

16. SUBSEQUENT EVENTS

(a) Upon the exercise of stock options and warrants, 2,530,085 common shares were issued prices between $1.14 and $2.88 each for proceeds of $4,016,839.

(b) 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) which will provide the Company with $10,000,000 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. On February 21, 2023, the Company received the first instalment of $3,284,507.

(c) On February 1, 2023, the Company commenced two new facility leases in Burnaby, BC.

(d) On March 9, 2023, the Company issued 86,409 common shares upon the exercise of RSUs.

(e) On March 17, 2023, the Company granted an aggregate of 764,202 equity incentives to officers, directors, employees, and consultants, with each vesting in three annual instalments until March 17, 2026, as follows:

- 452,418 stock options exercisable at $3.28 each for a period five years until March 17, 2028;
- 225,808 RSUs; and
- 85,976 DSUs.