NANO ONE MATERIALS CORP.

CONDENSED INTERIM

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED SEPTEMBER 30, 2019

(Expressed in Canadian dollars)

Nano One Materials Corp.
Unit 101B
8575 Government Street
Burnaby, BC V3N 4V1, Canada

p 604-420-2041
f 604-687-4670
info@nanoone.ca
www.nanoone.ca

NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2019

The accompanying unaudited condensed interim financial statements of Nano One Materials Corp. (the "Company") for the period ended September 30, 2019 have been prepared by, and are the responsibility of, the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

NANO ONE MATERIALS CORP.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (unaudited)
(Expressed in Canadian Dollars)

	September 30, 2019	December 31, 2018
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	2,736,773	3,153,369
Receivables	102,895	347,499
Prepaids	67,905	44,265
Total current assets	2,907,573	3,545,133
Equipment, net (Note 4)	462,648	454,879
Pilot plant, net (Note 5)	-	273,728
Right-of-use assets, net (Note 6)	256,255	-
Intangible assets (Note 7)	13,877	13,877
	732,780	742,484
Total assets	3,640,353	4,287,617
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	84,464	158,635
Accounts payable to related parties	16,646	16,046
Grants Received (Note 8)	865,613	
Total current liabilities	966,723	174,681
Lease liabilities (Note 9)	270,158	-
Total liabilities	1,236,881	174,681
Shareholders' equity		
Share capital (Note 11)	20,114,619	18,843,555
Equity reserves (Note 11)	3,182,395	2,911,595
Deficit	(20,893,541)	(17,642,214)
Total shareholders' equity	2,403,472	4,112,936
Total liabilities and shareholders' equity	3,640,353	4,287,617

Nature and continuance of operations (Note 1)

Approved and authorized by the Board on November 27, 2019

On behalf of the Board of Directors:

"Dan Blondal"	"Lyle Brown"
Director	Director

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

NANO ONE MATERIALS CORP.
CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (unaudited)
(Expressed in Canadian Dollars)
NINE MONTHS ENDED SEPTEMBER 30

	THREE MONTHS ENDED SEPTEMBER 30		**NINE MONTHS ENDED SEPTEMBER 30**	
	2019	2018	2019	2018
	$	$	$	$
OPERATING EXPENSES				
Consulting	41,280	70,222	166,847	206,253
Depreciation (Note 4, 5 and 6)	15,170	6,622	42,874	16,506
Filing and regulatory fees	22,312	2,052	70,406	26,922
Office and general	24,881	43,274	78,742	89,331
Professional fees	67,010	18,429	205,625	137,530
Rent (Note 9)	3,000	10,953	9,000	36,408
Research and development	189,250	265,499	1,148,762	1,021,526
Salary and benefits	197,583	164,517	615,144	482,433
Shareholder communication and investor relations	138,205	59,668	473,662	142,422
Share-based payments (Note 10)	79,792	230,263	412,132	407,418
Travel	38,542	24,532	118,864	61,983
Lease Liability Interest (Note 9)	6,335	-	20,136	-
Operating expenses	(823,361)	(896,031)	(3,362,195)	(2,628,732)
Other income (Note 18)	87,403	-	87,403	-
Interest income	3,297	16,956	23,464	27,043
Loss and comprehensive loss for the period	(732,660)	(879,075)	(3,251,327)	(2,601,689)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.05)	(0.04)
Weighted average number of common shares outstanding	66,447,665	65,395,365	66,447,665	65,172,966

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

NANO ONE MATERIALS CORP.
CONDENSED INTERIM STATEMENTS OF CASH FLOW (unaudited)
(Expressed in Canadian Dollars)
NINE MONTHS ENDED SEPTEMBER 30

	2019	2018
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(3,251,327)	(2,601,689)
Items not affecting cash:		
Depreciation	436,449	763,588
Share-based payments	412,132	407,418
Changes in non-cash working capital items:		
Receivables	244,605	(269,812)
Prepaids	(23,640)	52,519
Accounts payable and accrued liabilities	(90,217)	(75,062)
Accounts payable to related parties	16,646	(13,857)
Deferred government grant	865,613	220,909
Cash used in operating activities	(1,389,740)	(1,515,986)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(86,245)	(191,266)
Purchase of pilot plant	(20,180)	(20,269)
Intangible assets	-	(44,897)
Cash provided by investing activities	(106,425)	(256,432)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	1,129,731	601,407
Lease payments	(50,162)	-
Cash provided by financing activities	1,079,569	601,407
Change in cash during the period	(416,596)	(1,171,011)
Cash, beginning of period	3,153,369	4,673,301
Cash, end of period	2,736,773	3,502,290
Cash	1,271,180	3,481,846
Cash equivalents	1,465,593	20,444
Cash and cash equivalents, end of period	2,736,773	3,502,290

Supplemental disclosures with respect to cash flows (Note 14)

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

NANO ONE MATERIALS CORP.
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (unaudited)
(Expressed in Canadian Dollars)

	SHARE CAPITAL		Equity Reserves		
	Number of Shares outstanding	Amount	Share-based payments	Deficit	Total equity
Balance at December 31, 2017	**64,594,312**	**$ 17,690,844**	**$ 1,147,293**	**$(12,644,499)**	**$ 6,193,638**
Share-based payments	-	-	407,418	-	407,418
Exercise of stock options	455,000	304,369	(148,369)	-	156,000
Exercise of warrants	307,500	384,375	-	-	384,375
Exercise of finders warrants	48,825	74,310	(13,280)	-	61,032
Loss for the period	-	-	-	(2,601,689)	(2,601,689)
Balance at September 30, 2018	**65,405,637**	**$ 18,453,900**	**$ 1,393,062**	**$(15,246,188)**	**$ 4,600,774**
Share-based payments	-	-	1,709,438	-	1,709,438
Exercise of stock options	750,000	389,656	(190,906)	-	198,750
Loss for the period	-	-	-	(2,396,026)	(2,396,026)
Balance at December 31, 2018	**66,155,637**	**$ 18,843,555**	**$ 2,911,595**	**$(17,642,214)**	**$ 4,112,936**
Share-based payments	-	-	412,132	-	412,132
Exercise of stock options	110,000	100,273	(41,373)	-	58,900
Exercise of warrants	840,600	1,050,750	-	-	1,050,750
Exercise of finders warrants	16,065	24,450	(4,368)	-	20,082
Expiry of stock options	-	73,564	(73,564)	-	-
Expiry of finders warrants	-	22,027	(22,027)	-	-
Loss for the period	-	-	-	(3,251,327)	(3,251,327)
Balance at September 30, 2019	**67,122,302**	**$ 20,114,619**	**$ 3,182,395**	**$(20,893,541)**	**$ 2,403,473**

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Nano One Materials Corp. (the "Company") was incorporated under the laws of the Province of Alberta on November 5, 1987 and continued under the laws of the Province of British Columbia on September 8, 2004. The Company's head office address is Unit 101B, 8575 Government Street, Burnaby, BC, V3N 4V1, Canada. The registered and records office address is Suite 2900 – 550 Burrard Street, Vancouver, BC V6C 0A3, Canada. The Company is engaged in developing novel, scalable and low-cost processing technology for the production of high performance non-structured materials. The financial statements of the Company are presented in Canadian dollars unless otherwise indicated.

At the date of the financial statements, the Company has not yet realized profitable operations and it has relied on non-operational sources of financing to fund operations. The ability of the Company to achieve its objectives, meet its ongoing obligations and recover its investments in pending patents and assets will depend on management's ability to successfully execute its business plan, achieve profitable operations and obtain additional financing, if or when required. There is no assurance that these initiatives will be successful.

These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, or other business and financial transactions which would assure continuation of the Company's operations. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. Management estimates the Company has sufficient working capital to maintain the operations for the upcoming year.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in these financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and 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 issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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

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. Revenues and 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

Cash and cash equivalents are comprised of cash on hand and demand deposits. Cash equivalents are short term, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in values.

Financial instruments

IFRS 9 – Financial Instruments

Classification and measurement

IFRS 9 replaced IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 is effective for periods beginning on or after January 1, 2018. Under IFRS 9, financial assets are classified and measured either at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit and loss ("FVTPL") based on the business model in which they are held and the characteristics of their contractual cash flows.

All financial assets not classified at amortized cost or FVOCI are measured at FVTPL. On initial recognition, the Company can irrevocably designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

i. It is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows associated with the financial asset instead of selling the financial asset for a profit or loss;
ii. Its contractual terms give rise to cash flows that are solely payments of principal and interest.

All financial instruments are initially recognized at fair value on the statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified at FVTPL and FVOCI are measured at fair value with changes in those fair values recognized in profit or loss and other comprehensive income, respectively. Financial assets and financial liabilities classified at amortized cost are measured at using the effective interest method.

Impairment of financial assets

For financial assets measured at amortized cost, recognition of credit losses is no longer dependent on the identification of a credit loss event. Instead, the impairment assessment considers a broader range of information in assessing credit risk and measuring expected credit losses (ECL), including past events, current conditions, and reasonable and supportable forecasts that affect collectability of the future cash flows of the financial statements

The key elements used in the calculation of ECL are as follows:

- *Probability of default –* It is an estimate of likelihood of default over a given time horizon.
- *Loss given default –* It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from

a counterparty and those that the Company would expect to receive, including the realization of any collateral.

- *Exposure at default* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The following table summarizes the classification and measurement for each financial instrument of the Company:

Cash and cash equivalents	Amortized cost
Receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Accounts payable to related parties	Amortized cost

Non-financial assets

Equipment

Equipment is recorded at historical cost less accumulated depreciation and impairment charges. Equipment is depreciated using the declining balance method. The significant classes of equipment and the annual rates are as follows:

Research and development equipment	20%
Office equipment	20%
Computer hardware	30%
Computer software	50%

Pilot Plant

Pilot plant is recorded at historical cost less accumulated depreciation and impairment charges. Pilot plant is depreciated using the straight-line method over the estimated useful lives of the individual assets. The significant classes of pilot plant and the rates are as follows:

Forklift and equipment	2 years
Pilot plant equipment	2 years

Intangible assets

Intangible assets with finite lives are measured at cost less accumulated amortization and impairment charges. 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.

Impairment

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.

Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital. When vested options are forfeited or are not exercised at the expiry date, the amount previously recognized in share-based payments is transferred to accumulated losses (deficit).

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payments. Otherwise, share-based payments are measured at the fair value of goods or services received.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and develop patent pending technologies. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the warrants are exercisable into additional common shares prior to expiry at a price stipulated by the agreement. Warrants that are part of units are assigned value based on the residual value method and included in share capital with the common shares that were concurrently issued. Warrants that are issued as payment for agency fees or other transactions costs are accounted for as share-based payments.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in 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 following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 date of the statement of financial position.

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.

Loss per share

The dilutive effect on earnings (loss) per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive.

Basic earnings (loss) per common share is calculated using the weighted-average number of shares outstanding during the period.

Government assistance

Government 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 assistance received relating to expenses of future periods is deferred and deducted against the related expenditures as incurred.

Research and development

Research costs are expensed as incurred to the statement of comprehensive loss. Development costs are expensed as incurred unless capitalization criteria under IFRS are met for deferral and amortization. No development costs have been capitalized to date.

Research and development expenses are net of research and development government grants received.

Significant accounting estimates and judgments

The preparation of the financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the financial statement, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

1. the inputs used in the accounting for share-based payments expense in the statements of loss and comprehensive loss; and
2. the inputs used in the accounting for finders' warrants in share capital.

Critical accounting judgments

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

1. going concern of operations;
2. determining whether or not development costs meet the criteria to be capitalized; and
3. determining the provisions for income taxes and the recognition of deferred income taxes.

3. RECENT ACCOUNTING STANDARDS

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company has applied IFRS 16 on its effective date of January 1, 2019 using the modified retrospective approach.

(Expressed in Canadian Dollars)

4. EQUIPMENT

	Computer software	Computer hardware	Research and development equipment	Office equipment	Total
Cost	$	$	$	$	$
Balance, December 31, 2017	7,424	75,668	696,585	5,283	784,960
Additions	-	33,573	135,387	-	168,960
Balance, December 31, 2018	7,424	109,241	831,972	5,283	953,920
Additions	-	22,987	61,001	2,256	86,244
Balance September 30, 2019	7,424	132,228	892,973	7,539	1,040,164
Accumulated depreciation					
Balance, December 31, 2017	5,800	26,539	356,265	942	389,546
Depreciation for the year	812	21,449	86,366	868	109,495
Balance, December 31, 2018	6,612	47,988	442,631	1,810	499,041
Depreciation for the period	304	16,056	61,368	747	78,475
Balance September 30, 2019	6,916	64,044	503,999	2,557	577,516
Carrying amounts					
As at December 31, 2018	812	61,253	389,341	3,473	454,879
As at September 30, 2019	508	68,184	388,974	4,982	462,648

$ 61,368 (2018 - $63,360) of depreciation has been recorded in research and development expenses.

5. PILOT PLANT

	Forklift and equipment	Pilot plant equipment	Total
Cost	$	$	$
Balance, December 31, 2017	27,480	1,774,915	1,802,395
Additions	-	36,813	36,813
Disposals	-	(35,960)	(35,960)
Balance, December 31, 2018	27,480	1,775,768	1,803,248
Additions	-	20,181	20,181
Balance September 30, 2019	27,480	1,795,949	1,823,429
Accumulated depreciation			
Balance, December 31, 2017	16,030	635,464	651,494
Depreciation for the year	11,450	895,045	906,495
Disposals	-	(28,469)	(28,469)
Balance, December 31, 2018	27,480	1,502,040	1,529,520
Depreciation for the period	-	293,909	293,909
Balance September 30, 2019	27,480	1,795,949	1,823,429
Carrying amounts			
As at December 31, 2018	-	273,728	273,728
As at September 30, 2019	-	-	-

$293,909 (2018 - $683,723) of depreciation has been recorded in research and development expenses.

(Expressed in Canadian Dollars)

6. RIGHT - OF - USE ASSETS

	Head Office	Pilot Plant Facility	Total
Cost	$	$	$
Balance, January 1, 2019	128,829	191,491	320,320
Additions	-	-	-
Balance September 30, 2019	128,829	191,491	320,320
Accumulated depreciation			
Balance, January 1, 2019	-	-	-
Depreciation for the period	25,766	38,298	64,064
Balance September 30, 2019	25,766	38,298	64,064
Carrying value			
As at January 1, 2019	128,829	191,491	320,320
As at September 30, 2019	103,063	153,193	256,256

During the period ended September 30, 2019, $38,298 (2018 - $Nil) of depreciation has been recorded in research and development expenses.

7. INTANGIBLE ASSETS

Intangible assets include patents associated with the Company's technology. The patents will expire sixteen (16) to eighteen (18) years from the application filing date. The capitalized amount represents the application costs. The related amortization for the year is immaterial.

8. GOVERNMENT ASSISTANCE

Effective June 1, 2016, the Company was granted by the National Research Council of Canada's Industrial Research Assistance Program ("NRC-IRAP") a non-repayable contribution of up to $222,857. NRC-IRAP requires that the proceeds from the grant be applied towards the development of High Voltage Cobalt Free Cathode Materials. Under the terms of the agreement, NRC-IRAP has agreed to reimburse the Company for 80% of salaries paid to Company employees and 50% of supported contractor fees involved in this pilot facility. A total of $Nil (2018 - $15,408) was claimed by the Company during the period ended September 30, 2019.

Effective June 1, 2016, the Company executed a contribution agreement with Sustainable Development Technology Canada ("SDTC") for up to $2.08 million technology commercialization grant. To date, the Company has received four instalments totaling $2,081,297 (2018 – one instalment of $760,145; 2017 - two instalments totaling $1,113,022) for all three phases of a lithium battery materials pilot plant project. Funds were dispersed at the beginning of each phase and were subject to the Company meeting milestones and having matching funds in place. To date, the holdback retained by SDTC amounted to $208,130 has been received upon completion of the project and acceptance of final reports by SDTC.

Effective September 1, 2019, the Company executed a contribution agreement with Sustainable Development Technology Canada ("SDTC") for up to $5.0 million grant to support the Company "Scaling Advanced Battery Materials" project. Funds will be dispersed at the beginning of each phase and were subject to the Company meeting milestones and having matching funds in place. During the period ended September 30, 2019, the Company has received the first instalment of $973,814, of which $108,202 was offset against research and development expense and $865,613 was recorded as deferred government grant.

(Expressed in Canadian Dollars)

Effective June 1, 2016, the Company was awarded up to $1.9 million (claimed - $1,733,476) in funding from Automotive Supplier's Innovation Program (ASIP) – a program of Innovation, Science and Economic Development Canada (ISED). The program requires that the proceeds be applied to the preparation, design, construction, optimization, and operation of a pilot plant. A total of $168,691 (2018 - $291,699) was claimed and received by the Company during the period ended September 30, 2019.

Effective August 1, 2018, the Company was granted by the NRC-IRAP a non-repayable contribution of up to $349,000 (claimed - $98,885). NRC-IRAP required that the proceeds for the grant be applied towards the development of coatings for high durability lithium ion battery cathodes. Under the terms of the agreement, NRC-IRAP agreed to reimburse the Company for 80% of the salaries paid to Company employees involved in this project. The Company received a total of $52,431 during the period ended September 30, 2019.

During the period ended September 30, 2019, the Company received additional government grants for training and employment totaling $15,000 (2018 - $34,760).

Total government assistance recognized for the period ended September 30, 2019 was $552,454 (2018 - $881,103). The amount is offset against research and development expense on the statement of loss and comprehensive loss.

9. LEASE LIABILITIES

	September 30, 2019 $
Lease liabilities at January 1, 2019	320,320
Additions	-
Interest on leases	20,135
Lease payments	(70,298)
Total lease liabilities	270,157
Less: Current portion of lease liabilities	100,831
Non-current portion of lease liabilities	169,326

During the year ended December 31, 2016, the Company entered into lease agreements for its corporate head office and pilot plant facility (Note 5). On February 15, 2019, the Company entered into agreements to renew the leases for three years from October 1, 2019 to September 30, 2022.

In addition to the lease payments made above, the Company incurred $9,000 in lease expense for the period ended September 30, 2019 relating to short-term lease. There were no low-value leases incurred for the period ended September 30, 2019.

Future minimum lease payments relating to lease liabilities are as follows:

(Expressed in Canadian Dollars)

	September 30, 2019 $
Remaining of 2019	25,208
2020	101,719
2021	104,382
2022	78,287
	309,596

As at September 30, 2019, the incremental borrowing rates used to measure the lease liabilities was 9%.

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 related parties:

(a) Purchases of services

	September 30, 2019 $	**September 30, 2018** $
An entity where an executive director is an officer, for miscellaneous operating expenses	-	4,321
An entity where a director is an officer, for legal fees	89,648	81,644
	89,648	85,965

(b) Key management compensation

Key management includes directors (executive and non-executive) and officers of the Company. The compensation paid or payable to key management for employee services is shown below:

	September 30, 2019 $	**September 30, 2018** $
Consulting fee to an executive director	45,000	45,000
Salary and benefits to a former officer	-	53,608
Salary and benefits to an executive director	60,203	60,045
Salary and benefits to an executive director	100,789	97,545
	205,992	256,198

(c) Accounts payable to related parties

As at September 30, 2019, accounts payable to related parties consisted of $16,646 (2018 - $nil) owing to a director and companies controlled by a director and officer of the Company.

11. SHARE CAPITAL AND EQUITY RESERVES

(a) Common shares

The authorized share capital of the Company consists of unlimited common shares without par value.

Changes in issued share capital and equity reserves for the period ended September 30, 2019 were as follows:

1. The Company issued 50,000 common shares pursuant to the exercise of stock options at $0.35 for gross proceeds of $17,500. Accordingly, $16,720 was transferred from equity reserves to share capital.

2. The Company issued 40,000 common shares pursuant to the exercise of stock options at $0.70 for gross proceeds of $28,000. Accordingly, $17,659 was transferred from equity reserves to share capital.

3. The Company issued 20,000 common shares pursuant to the exercise of stock options at $0.67 for gross proceeds of $13,400. Accordingly, $6,994 was transferred from equity reserves to share capital.

4. The Company issued 840,600 common shares pursuant to the exercise of warrants at $1.25 for gross proceeds of $1,050,750.

5. The Company issued 16,065 common shares pursuant to the exercise of finders' warrants at $1.25 for gross proceeds of $20,082. Accordingly, $4,369 was transferred from equity reserves to share capital.

6. $95,591 was transferred from equity reserves to share capital due to 76,450 shares of expired stock option and 80,990 shares of expired finders' warrant.

Changes in issued share capital and equity reserves for the period ended September 30, 2018, were as follows:

1. The Company issued 400,000 common shares under the exercise of stock options at $0.35 for proceeds of $140,000, 50,000 common shares at $0.25 for proceeds of $12,500, and 5,000 common shares at $0.70 for proceeds of $3,500. Accordingly, $148,369 was transferred from equity reserves to share capital.

2. The Company issued 307,500 common shares under the exercise of warrants at $1.25 for gross proceeds of $384,375.

3. The Company issued 48,825 common shares under the exercise of finders' warrants at $1.25 for gross proceeds of $61,032. Accordingly, $13,280 was transferred from equity reserves to share capital.

(Expressed in Canadian Dollars)

(b) Stock option plan

The Company has a stock option plan under which it is authorized to grant options to directors, officers, consultants and employees to acquire up to 10% of the issued and outstanding shares at the time of each grant. The exercise price of each option shall not be less than the discounted market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of ten years. All options are to be settled by physical delivery of shares.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
		$
Balance at December 31, 2017	4,067,500	0.33
Granted	3,075,000	1.30
Exercised	(1,205,000)	0.29
Balance at December 31, 2018	5,937,500	0.84
Granted	195,000	1.34
Exercised	(110,000)	0.54
Expired	(76,450)	1.51
Balance at September 30, 2019	5,946,050	0.86
Exercisable as at September 30, 2019	5,662,300	0.84

At September 30, 2019 the following stock options were outstanding:

Number of Options	**Exercise Price**	**Expiry Date**
2,050,000	$0.25	March 5, 2020
225,000	$0.25	January 19, 2021
100,000	$0.38	April 8, 2021
50,000	$0.50	September 13, 2021
77,500	$0.70	March 10, 2022
25,000	$0.74	May 4, 2022
25,000	$0.67	June 5, 2022
150,000	$1.15	August 11, 2022
50,000	$1.08	September 13, 2022
150,000	$1.14	January 3, 2023
100,000	$1.19	January 9, 2023
278,550	$1.57	July 12, 2023
25,000	$1.08	September 10, 2023

(Expressed in Canadian Dollars)

2,445,000	$1.28	November 12, 2023
60,000	$1.37	January 24, 2021
100,000	$1.35	March 21, 2024
35,000	$1.25	September 3, 2024
5,946,050		

(c) Share-based payments

The fair value of options granted during the period was $18,104 (2018 – $527,446) or $0.52 (2018 - $0.86) per option. The share-based payments expense recognized for the period was $412,132 (2018 - $407,418). Fair value at grant date of the stock option plan was measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility.

The assumptions used for the Black-Scholes option-pricing model of stock options granted during the period ended September 30, 2019 are as follows:

	January 24, 2019	March 21, 2019	September 3, 2019
Risk-free interest rate	1.86%	1.56%	1.15%
Expected life of options	2 years	5 years	5 years
Annualized volatility	74.23%	83.35%	46.45%
Dividend rate	0.00%	0.00%	0.00%

(d) Warrants

The Company issued 676,500 common shares pursuant to exercise of warrants at $1.25 for gross proceeds of $845,625, which enables 676,500 incentive warrants valid under the "Early Warrant Exercise Incentive Program" announced by the Company on July 31, 2019.

At September 30, 2019, warrants were outstanding enabling holders to acquire the following number of shares:

Issued date	Balance, December 31, 2018	Issued	Exercised	Expired	Exercise price $	Balance, September 30, 2019	Expiry date
September 8, 2017	1,879,555	-	856,665	1,022,890	1.25	-	September 8, 2019
August 23, 2019	-	676,500	-	-	1.60	676,500	October 23, 2020
	1,879,555	676,500	856,665	1,022,890		676,500	

12. LOSS PER SHARE

The calculation of basic and diluted loss per share for the period ended September 30, 2019 was based on the loss attributable to common shareholders of $3,251,327 (September 30, 2018 -

$2,601,689) and a weighted average number of common shares outstanding of 66,447,665 (September 30, 2018 – 65,172,966).

Diluted loss per share did not include the effect of 5,946,050 stock options (September 30, 2018 – 4,227,500) and 676,500 warrants (September 30, 2018 – 1,879,555) as they are anti-dilutive.

13. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain optimal capital structure to reduce to the cost of capital. The Company's capital is composed of shareholders' equity in the statement of financial position.

The Company is not subject to externally imposed capital requirements. In managing capital structure, the Company manages its capital through regular reports to the Board of Directors, as well as management review of monthly or quarterly financial information. The Company issues new equity financing as needed and available. There were no changes to the Company's management of capital during the period.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions for the period ended September 30, 2019 included:

a) The Company allocated $4,369 for finders' warrants exercised during the period to share capital from equity reserves.

b) The Company allocated $41,373 for stock options exercised during the period to share capital from equity reserves.

c) The Company reversed $95,591 for stock options expired and finders' warrants expired during the period to share capital from equity reserves.

d) Interest paid on lease liabilities amounted to $20,136 (2018 - $Nil)

e) The Company recognised $412,132 share-based compensation expense.

Significant non-cash transactions for the period ended September 30, 2018 included:

a) The Company allocated $148,370 for stock option exercised during the period to share capital from equity reserves.

b) The Company allocated $13,279 for warrants exercised during the period to share capital from equity reserves.

c) The Company recognised $407,418 share-based compensation expense.

15. FINANCIAL INSTRUMENTS

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity, credit, currency, interest rate, and price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital and possible loans to finance its activities. The Company manages liquidity risk through its capital management as outlined in Note 12 above. Accounts payable and accounts payable to related parties are due within one year.

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's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents, and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

The majority of the Company's cash and cash equivalents is held with major Canadian based financial institutions. The Company considers credit risk with respect to the receivables to be minimal.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Current cash is generally not exposed to interest rate risk because of their short-term maturity.

Price Risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices. The Company closely monitors the individual equity movements to determine the appropriate course of action to be taken by the Company.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk, currency risk and credit risk.

Fair Value

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

- 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 asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The carrying value of cash and cash equivalents, receivables, accounts payable and accounts payable to related parties approximate their fair values due to the short-term nature of these instruments.

16. SEGMENTED INFORMATION

The Company operates in one business segment, being a developer of patent pending technology for the production of nanostructured materials.

17. COMMITMENT

On April 15, 2011, the Company entered into an Assignment and Royalty Agreement (the "Agreement") with Lithium Ion Power LLC ("LIP") and Teresita F. Kullberg ("Kullberg") that will survive until the last patent issued under any of the technologies expires. In accordance with the Agreement, Kullberg and LIP assigned to the Company all of its rights, title, and interest in and to the technologies and all such rights in and to any and all improvements. The Company must pay a royalty of 3% on net revenues from all consideration collected or received from the marketing, manufacturing, sale or distribution of or licensing the right to do any of the same of the goods manufactured with the use of all or some of the technologies. As at September 30, 2019, the Company had not yet generated any revenue, therefore, no royalties have been paid or accrued.

18. OTHER INCOME

On June 20, 2019, the Company entered into an agreement and has received a purchase order in the amount of CDN$550,000 from a Global OEM (Original Equipment Manufacturer) to jointly evaluate processes and innovative cathode materials for high energy density lithium ion batteries in automotive applications. During the period ended September 30, 2019, the first milestone invoice of $81,847 was issued to the Global OEM and recorded as "other income".