NANO ONE MATERIALS CORP.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

AND

FOR THE PERIOD ENDED DECEMBER 31, 2014

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Nano One Materials Corp.

We have audited the accompanying financial statements of Nano One Materials Corp., which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of loss and comprehensive loss, cash flows and changes in equity for the year ended December 31, 2015 and the nine months ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Nano One Materials Corp. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the year ended December 31, 2015 and the nine months ended December 31, 2014 in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

April 20, 2016

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

	December 31, 2015	December 31, 2014
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	1,316,506	153,311
Receivables	63,855	4,543
Prepaids	16,425	13,817
Total current assets	1,396,786	171,671
Equipment (Note 5)	199,499	214,138
Intangible assets (Note 6)	1,314	-
	200,813	214,138
Total assets	1,597,599	385,809
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	147,465	115,128
Shareholders' equity		
Share capital (Note 10)	7,093,942	3,178,127
Equity reserves (Note 10)	1,880,545	42,144
Deficit	(7,524,353)	(2,949,590)
Total shareholders' equity	1,450,134	270,681
Total liabilities and shareholders' equity	1,597,599	385,809

Nature and continuance of operations (Note 1)
Events after the reporting date (Note 16)

Approved and authorized by the Board on April 20, 2016

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

NANO ONE MATERIALS CORP.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	YEAR ENDED DECEMBER 31, 2015	NINE MONTHS ENDED DECEMBER 31, 2014
	$	$
OPERATING EXPENSES		
Consulting	208,189	86,410
Depreciation	4,255	-
Filing and regulatory fees	113,191	2,764
Office and general	40,918	4,942
Professional fees	267,738	129,682
Rent	30,000	-
Research and development	350,836	323,954
Salary and benefits	281,143	99,184
Shareholder communication and investor relations	53,457	-
Share-based payments (Note 10)	685,600	-
Travel	30,239	7,848
Operating expenses	(2,065,566)	(654,784)
Interest income	8,171	2,067
Listing expense (Note 2)	(2,556,808)	-
	(2,548,637)	2,067
Loss and comprehensive loss for the period	(4,614,203)	(652,717)
Basic and diluted loss per common share	(0.11)	(0.03)
Weighted average number of common shares outstanding	41,795,843	26,447,249

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

NANO ONE MATERIALS CORP. (formerly Dundarave Resources Inc.)
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	YEAR ENDED DECEMBER 31, 2015	NINE MONTHS ENDED DECEMBER 31, 2014
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(4,614,203)	(652,717)
Items not affecting cash:		
Depreciation	47,110	37,153
Shares issued for consulting	-	15,000
Share-based payments	685,600	-
Listing expense	2,556,808	-
Changes in non-cash working capital items:		
Increase (decrease) in receivables	(39,610)	14,098
Increase in prepaids	(1,191)	(63)
(Decrease) increase in accounts payable and accrued liabilities	(196,302)	53,775
Cash used in operating activities	(1,561,788)	(532,754)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash assumed on RTO	27,932	-
Purchase of equipment	(32,471)	(8,153)
Intangible assets	(1,314)	-
Cash provided by investing activities	(5,853)	(8,153
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	3,000,000	235,000
Share issuance costs	(269,164)	(1,963)
Cash provided by financing activities	2,730,836	233,037
Change in cash and cash equivalents during the period	1,163,195	(307,870)
Cash and cash equivalents, beginning of period	153,311	461,181
Cash and cash equivalents, end of period	1,316,506	153,311

Supplemental disclosures with respect to cash flows (Note 13)

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

NANO ONE MATERIALS CORP. (formerly Dundarave Resources Inc.)
STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	SHARE CAPITAL		Equity Reserves		
	Number of Shares outstanding	Amount	Share-based payments	Deficit	Total equity
Balance at March 31, 2014	**25,755,968**	**$ 2,898,558**	**$ 55,532**	**$ (2,310,261)**	**$ 643,829**
Expiry of stock options	-	-	(13,388)	13,388	-
Private placements (net of share issuance costs of $479)	1,253,334	234,521	-	-	234,521
Commitments, (net of share issuance costs of $1,484)	416,348	45,048	-	-	45,048
Loss for the period	-	-	-	(652,717)	(652,717)
Balance at December 31, 2014	**27,425,650**	**3,178,127**	**42,144**	**(2,949,590)**	**270,681**
Share-based payments	-		685,600	-	685,600
Cancellation of stock options	-	-	(39,440)	39,440	-
Shares issued for acquisition of the Company (Note 2)	5,142,949	1,285,737	-	-	1,285,737
Warrants issued for acquisition of the Company (Note 2)	-	-	1,035,233	-	1,035,233
Finders' fee in connection with RTO	225,000	56,250	-	-	56,250
Private placement (net of share issuance costs of $74,164)	12,000,000	2,768,828	157,008	-	2,925,836
Finders' fee	-	(195,000)	-	-	(195,000)
Loss for the period	-	-	-	(4,614,203)	(4,614,203)
Balance at December 31, 2015	**44,793,599**	**$ 7,093,942**	**$ 1,880,545**	**$ (7,524,353)**	**$ 1,450,134**

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Nano One Materials Corp (formerly, Dundarave Resources Inc.) (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. On March 5, 2015, the Company completed a combination with Perfect Lithium Corp. ("PLC") whereby it acquired all the issued and outstanding shares of PLC in exchange for issuing Company shares to the former shareholders of PLC (Note 2). As a result, PLC is considered the accounting parent and in March 2015 changed its fiscal year-end from March 31 to December 31.

On July 1, 2015, the Company amalgamated with PLC and continued as one company under the name, Nano One Materials Corp. The Company's head office address is Suite 620, 650 West Georgia Street, Vancouver, BC V6B 4N9, Canada. The registered and records office address is Suite 2900 – 550 Burrard Street, Vancouver, BC V6C 0A3. 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 believes 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. REVERSE TAKEOVER ("RTO")

On March 5, 2015, the Company acquired PLC by way of a business combination (the "Transaction"). Pursuant to the Transaction, the Company, through its wholly-owned subsidiary, 1019491 B.C. Ltd, acquired all the issued and outstanding shares of PLC.

To complete the Transaction, the following occurred:

- The Company consolidated its share capital on a 2:1 basis such that after consolidation the shareholders of the Company held 5,142,949 post-consolidation common shares and were issued 5,142,949 warrants. Each warrant is exercisable until March 5, 2016 into one post-consolidation common share at an exercise price of $0.40 per share and thereafter until March 5, 2017 into one-half of one (1/2) post-consolidation share at an exercise price of $0.50 per whole share.

- The Company exchanged common shares for the shares of PLC at a ratio of 0.80 post-consolidation share of the Company for each PLC share. The Company issued 27,425,650 post-consolidation shares for the 34,282,051 outstanding shares of PLC. In addition, outstanding PLC warrants were exchanged for warrants of the Company with adjustments made to the number and exercise price for the 0.80 to 1 exchange ratio.

- Outstanding stock options of the Company and PLC were cancelled.

- The Company engaged Mackie Research Capital Corporation ("Mackie") to act as an advisor and paid Mackie a work fee of $22,600 and a finder's fee of 225,000 post-consolidation shares.

In connection with the Transaction, the Company completed a concurrent financing (the "Financing") of 12,000,000 units at $0.25 per unit for gross proceeds of $3,000,000. Each unit consists of one post consolidation share and one-half of a share purchase warrant. Each whole warrant is exercisable into one post consolidation share at an exercise price of $0.40 per share until March 5, 2016 and thereafter until March 5, 2017 at $0.50 per share. The Company engaged Mackie to act as the lead agent to the private placement. As consideration, the Company paid Mackie and several other agents a commission of 6.5% of the proceeds of the Financing in cash and 6.5% of the number of units sold in warrants.

As a result of the Transaction, PLC shareholders controlled the Company and the Company's named changed to "Nano One Materials Corp." and 1019491 B.C. Ltd.'s named changed to "Perfect Lithium Corp.". Since the mining exploration business of the Company had been suspended and the Company had become a dormant public shell, the Company did not meet the definition of a business and the Transaction was accounted for as the purchase of the Company's net liabilities by PLC. The net purchase price was determined as an equity settled share-based payment, under *IFRS 2, Share-based Payment,* at the fair value of the equity instruments of the Company retained by the shareholders of the Company, based on the market value of the Company's common shares on the date of closing the RTO.

The Transaction costs relating to the RTO plus the aggregate of the fair value of the consideration paid and the net liabilities acquired has been recognized as listing expense, in the statement of loss and comprehensive loss. These financial statements reflect the assets, liabilities and operations of PLC since its incorporation and of the Company from March 5, 2015.

(Expressed in Canadian Dollars)

The net liabilities of the Company acquired in exchange for all of the issued and outstanding common shares of PLC is set out as follows:

Cash	$	27,932
Receivables		19,702
Prepaids		1,417
Accounts payable		(218,639)
Accrued liabilities		(10,000)
Net liabilities	$	(179,588)

The breakdown of the listing expense, in the statement of loss and comprehensive loss, is as follows:

5,142,949 common shares at $0.25 per share	$ 1,285,737
5,142,949 warrants issued in connection with the RTO	1,035,233
225,000 common shares issued as finders' fee	56,250
Net liabilities acquired	179,588
Listing expense	$ 2,556,808

The fair value of the 5,142,949 common shares was determined to be $1,285,737 based on the fair value of the common shares issued through the private placement on March 5, 2015.

The following weighted average assumptions were used for the Black-Scholes valuation of warrants granted pursuant to the RTO during the fiscal year:

	2015
Risk-free interest rate	0.61%
Expected life of warrants	2 year
Annualized volatility	156.77%
Dividend rate	0.00%

3. 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 certain financial instruments classified at fair value through profit or loss which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These financial statements include the balances of the Company and PLC for the period March 5, to June 30, 2015. On July 1, 2015, the Company amalgamated PLC and continued as one company.

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.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities. The Company has designated its cash and cash equivalents as fair value through profit or loss, which are measured at fair value. Receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Financial assets

Financial assets are classified into one of four categories:

- Fair value through profit or loss ("FVTPL");
- Held-to-Maturity ("HTM");
- Loans and receivables; and
- Available for Sale ("AFS")

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

Held to maturity ("HTM")

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Available for sale ("AFS")

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

Financial liabilities

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss; and
- Other financial liabilities.

Fair value through profit or loss

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities

This category consists of liabilities carried at amortized cost using the effective interest method.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS financial instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of AFS financial instruments, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Cash and cash equivalents

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

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%
Computer hardware	50%
Computer software	30%

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 ("Warrants"). Depending on the terms and conditions of each equity financing agreement ("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 income 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. The grant is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. Government assistance received relating to expenses of future periods is deferred and amortized to profit or loss as related expenditures are 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 are 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 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.

4. RECENT ACCOUNTING STANDARDS

The following standard has been issued but is not yet effective:

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations ("IFRS 11") has been amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. IFRS is effective on or after January 1, 2016.

IFRS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization ("IFRS 16 and IAS 38") have been amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption for intangible assets. IFRS 16 and IAS 38 are effective on or after January 1, 2016.

IFRS 15 Revenue from Contracts with Customers is a new standard which establishes a new five-step model for revenue arising from contracts with customers. Revenue is recognized as the amount that reflects the consideration to which any entity expects to be entitled to in exchange for transferring gods or services to a customer. IFRS 15 is effective for periods beginning on or after January 1, 2018.

There are no other standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(Expressed in Canadian Dollars)

5. EQUIPMENT

	Computer software	Computer hardware	Research and development equipment	Total
Cost	$	$	$	$
Balance, March 31, 2014	-	-	414,469	414,469
Additions	-	-	8,153	8,153
Disposals	-	-	-	-
Balance, December 31, 2014	-	-	422,622	422,622
Additions	7,424	23,489	1,558	32,471
Disposals	-	-	-	-
Balance, December 31, 2015	7,424	23,489	424,180	455,093
Accumulated depreciation				
Balance, March 31, 2014	-	-	171,331	171,331
Depreciation for the period	-	-	37,153	37,153
Disposals	-	-	-	-
Balance, December 31, 2014	-	-	208,484	208,484
Depreciation for the period	928	3,327	42,855	47,110
Disposals	-	-	-	-
Balance, December 31, 2015	928	3,327	251,339	255,594
Carrying amounts				
As at December 31, 2014	-	-	214,138	214,138
As at December 31, 2015	6,496	20,162	172,841	199,499

$42,855 (2014 - $32,471) of depreciation has been recorded in research and development expenses.

6. INTANGIBLE ASSETS

Intangible assets include patents associated with the Company's technology. The patents will expire twenty (20) years from the application filing date. The capitalized amount represents the application costs. The related amortization for the year is immaterial.

7. GOVERNMENT ASSISTANCE

Effective October 15, 2014, the Company was granted by the National Research Council of Canada Industrial Research Assistance Program ("NRC-IRAP") a non-repayable contribution of up to $250,000. NRC-IRAP requires that the proceeds from the grant be applied towards the optimization and design of a demonstrated pilot facility. 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 study. A total of $243,521 was claimed by the Company during the fiscal year ended December 31, 2015, which was recorded as a reduction to related research and development costs.

On January 14, 2014, the Company entered into an agreement with NRC-IRAP whereby NRC-IRAP will fund a non-repayable contribution of up to $20,000. The contribution is funded by the Youth Employment Strategy of the Government of Canada which requires that the proceeds from the grant be applied towards a commercialization strategy assessment. Under the terms of the agreement, NRC-IRAP has agreed to reimburse the Company for 85% of salaries paid to an MBA intern or fresh graduate. A total of $Nil was claimed by the Company during the fiscal year ended December 31, 2015 (period ended December 31, 2014 - $13,333), which was recorded as a reduction of related salary and benefits expense.

On July 12, 2013, the Company was granted by the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP) a non-repayable contribution of up to $50,000. IRAP requires that the proceeds from the grant be applied towards research and development costs associated with Perfect Lithium Lab Reactor Prototype. Under the terms of the agreement, NRC-IRAP has agreed to reimburse the Company for 80% of salaries paid to Company employees involved in this prototype. A total of $Nil was claimed by the Company during the fiscal year ended December 31, 2015 (period ended December 31, 2014 - $2,000), which was recorded as a reduction of related research and development expenses.

8. COMMITMENTS

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 December 31, 2015, the Company had not yet generated any revenue, therefore, no royalties have been paid or accrued.

9. 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.

(Expressed in Canadian Dollars)

The following transactions were carried out with related parties:

(a) Purchases of services

	December 31, 2015 $	**December 31, 2014** $
An entity where an executive director is an officer, for consulting fees	40,000	45,000
An entity where an executive director is an officer, for consulting fees	45,000	-
An entity where an executive director is an officer, for employee benefits	8,016	-
An entity where an executive director is an officer, for miscellaneous operating expenses	1,527	-
An entity controlled by an officer, for consulting fees included in research and development costs	-	85,891
	94,543	130,891

(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:

	December 31, 2015 $	**December 31, 2014** $
Salary and benefits to an officer	82,056	-
Salary and benefits to an executive director	42,629	-
Salary and benefits to an executive director	137,431	75,000
Share-based payments	588,882	-
	850,998	75,000

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND EQUITY RESERVES

(a) Common shares

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

As at December 31, 2015, 4,831,436 (December 31, 2014 – Nil) of the Company's issued common shares were held in escrow and restricted from trading. These trading restrictions expire as follows:

March 5, 2016	966,288
September 5, 2016	966,287
March 5, 2017	966,287
September 5, 2017	966,287
March 5, 2018	966,287
	4,831,436

Changes in issued share capital and equity reserves for the fiscal year ended December 31, 2015 were as follows:

i) On March 5, 2015, the Company consolidated the existing 34,282,051 common shares into 27,425,650 common shares as part of the Transaction (Note 2).

ii) On March 5, 2015, the Company issued 5,142,949 common shares as part of the Transaction (Note 2).

iii) Pursuant to the Transaction, the Company issued 225,000 common shares as consideration for the finder fee (Note 2). The total $56,250 fair value of these shares, estimated at $0.25 per common share, was recorded as a cost of the Transaction.

iv) The Company completed a financing (the "Financing") of 12,000,000 units at $0.25 per unit for gross proceeds of $3,000,000. Each unit consists of one share and one-half of a share purchase warrant. Each whole warrant is exercisable until March 5, 2016 to acquire one share at an exercise price of $0.40 per share and thereafter until March 5, 2017 at $0.50 per share. The Company engaged Mackie to act as the lead agent to the Financing. As consideration, the Company paid to Mackie and several other agents a commission of $195,000 and issued 780,000 finders' warrants with a value of $157,000. Each finders' warrant is exercisable until March 5, 2016 to acquire one share at an exercise price of $0.40 per share and thereafter until March 5, 2017 at $0.50 per share.

Changes in issued share capital and equity reserves for the period ended December 31, 2014 were as follows:

i) The Company issued 336,348 common shares with a value of $31,532 pursuant to service agreements between the Company and Lithium Ion Power LLC.

ii) The Company issued 80,000 common shares with a value of $15,000 pursuant to a consulting agreement between the Company and Eon Consulting.

iii) The Company completed a non-brokered private placement of 1,253,334 units of the Company at a price of $0.1875 each, for gross proceeds of $235,000. Each unit consisted of one common share and one common share purchase warrant to purchase an additional common share for a period of 18 months at a price of $0.35.

(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 March 31, 2014	1,011,600	0.125
Cancelled	(121,600)	0.125
Expired	(130,000)	0.125
Balance at December 31, 2014	760,000	0.125
Granted	3,375,000	0.25
Cancelled	(760,000)	0.125
Balance at December 31, 2015	3,375,000	0.25
Exercisable as at December 31, 2015	1,906,250	0.25

At December 31, 2015 the following stock options were outstanding:

Number of Options	**Exercise Price**	**Expiry Date**
100,000	$0.23	June 10, 2020
2,825,000	$0.25	March 5, 2020
250,000	$0.25	September 15, 2020
200,000	$0.25	December 1, 2020
3,375,000		

(Expressed in Canadian Dollars)

(c) Share-based payments

The total share-based payments calculated under the fair value method for options granted during the period was $804,028 (2014 – $Nil). The share-based payments expense for the period was $685,600 (2014 - $Nil). 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 weighted average assumptions used for the Black-Scholes option-pricing model of stock options granted during the fiscal year are as follows:

	December 1, 2015	September 15, 2015	June 10, 2015	March 5, 2015
Risk-free interest rate	0.86%	1.09%	1.09%	0.94%
Expected life of options	5 years	2 years	5 years	5 years
Annualized volatility	187.55%	149.39%	80.76%	156.77%
Dividend rate	0.00	0.00	0.00	0.00

The following weighted average assumptions were used for the Black-Scholes valuation of warrants granted pursuant to the finders' fee in relation to the private placement and the RTO completed during the fiscal year:

	2015
Risk-free interest rate	0.61%
Expected life of warrants	2 year
Annualized volatility	156.77%
Dividend rate	0.00%

(d) Warrants

At December 31, 2015, warrants were outstanding enabling holders to acquire the following number of shares:

Issued date	Balance, December 31, 2014	Issued	Exercised	Expired	Exercise price $	Balance, December 31, 2015	Expiry date
November 27, 2013	22,400	-	-	22,400	0.3125	-	November 27, 2015
August 26, 2014	1,253,334	-	-	-	0.35	1,253,334	February 26, 2016
March 5, 2015	-	5,142,949	-	-	0.40*	5,142,949	March 5, 2017
March 5, 2015	-	6,780,000	-	-	0.40**	6,780,000	March 5, 2017
	1,275,734	11,922,949	-	22,400		13,176,283	

* Exercise price is $0.40 per share until March 5, 2016 and thereafter into one-half of one common share at an exercise price of $0.50 per share

** Exercise price is $0.40 per share until March 5, 2016 and thereafter at an exercise price of $0.50 per share

(Expressed in Canadian Dollars)

At December 31, 2014, warrants were outstanding enabling holders to acquire the following number of shares:

Issued date	Balance, March 31, 2014	Issued	Exercised	Expired	Exercise price $	Balance, December 31, 2014	Expiry date
November 13, 2013	649,600	-	-	649,600	0.63	-	November 13, 2014
November 27, 2013	532,800	-	-	532,800	0.63	-	November 27, 2014
November 27, 2013	22,400	-	-	-	0.3125	22,400	November 27, 2015
November 28, 2013	82,000	-	-	82,000	0.63	-	November 28, 2014
August 26, 2014	-	1,253,334	-	-	0.35	1,253,334	February 26, 2016
	1,286,800	1,253,334	-	1,264,400		1,275,734	

11. LOSS PER SHARE

The calculation of basic and diluted loss per share for the fiscal year ended December 31, 2015 was based on the loss attributable to common shareholders of $4,614,203 (period ended December 31, 2014 - $652,717) and a weighted average number of common shares outstanding of 41,795,843 (December 31, 2014 – 26,447,240).

Diluted loss per share did not include the effect of 3,375,000 stock options (December 31, 2014 – 760,000) and 13,176,283 warrants (December 31, 2014 – 1,275,734) as they are anti-dilutive.

12. 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 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. Additional information relating to capital management is given in the nature and continuance of operations in note 1.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions for the fiscal year ended December 31, 2015 included:

a) The Company recorded $157,008 as the fair value for finders' warrants granted pursuant to the finders' fee in relation to the private placement completed during the period in share capital and equity reserves (Note 10).

Significant non-cash transactions for the period ended December 31, 2014 included:

a) The Company issued 336,348 common shares with a value of $31,532 pursuant to service agreements between the Company and Lithium Ion Power LLC.

b) The Company issued 80,000 common shares with a value of $15,000 pursuant to a consulting agreement between the Company and Eon Consulting.

14. 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 accrued liabilities 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.

Currency Risk

The Company operates in Canada and the United States, and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company and may also affect the value of the Company's assets and liabilities.

The Company's cash, accounts payable and accrued liabilities are exposed to the financial risk related to the fluctuation of foreign exchange rates. Most significantly, the Company is exposed to potential currency fluctuations between the US and Canadian dollars as research and development expenses transacted in US dollars represented approximately Nil% (December 31, 2014 – 46%) of the Company's operating results.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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 fair values of cash and cash equivalents is based on level 1 of the fair value hierarchy.

Financial Assets

The estimated fair value of financial assets is equal to their carrying values due to the short-term nature of these instruments. The Company's financial assets were held in the following currencies:

	Stated in Canadian Dollars		
December 31, 2015			
Carrying Value	Canadian Dollar	US Dollar	Total
Cash	84,749	4,022	88,771
Cash equivalents	1,227,735	-	1,227,735
Cash and cash equivalents	1,312,484	4,022	1,316,506
Receivables	63,855	-	63,855

	Stated in Canadian Dollars		
December 31, 2014			
Carrying Value	Canadian Dollar	US Dollar	Total
Cash	27,518	21,837	49,355
Cash equivalents	103,956	-	103,956
Cash and cash equivalents	131,474	21,837	153,311
Receivables	4,543	-	4,543

Financial Liabilities

The estimated fair value of financial liabilities is equal to their carrying values due to the short-term nature of these instruments. The Company's financial liabilities were held in the following currencies:

	Stated in Canadian Dollars		
December 31, 2015			
Carrying Value	Canadian Dollar	US Dollar	Total
Accounts payable and accrued liabilities	95,740	51,725	147,465

	Stated in Canadian Dollars		
December 31, 2014			
Carrying Value	Canadian Dollar	US Dollar	Total
Accounts payable and accrued liabilities	115,128	-	115,128

15. SEGMENTED INFORMATION

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

16. EVENTS AFTER THE REPORTING DATE

Subsequent to December 31, 2015:

1. 187,500 stock options with an exercise price of $0.25 were exercised for gross proceeds of $46,875.

2. The Company amended the terms of 12,396,283 outstanding warrants issued in connection with a reverse take-over and private placement announced March 9, 2015 as follows:

    - 1,253,334 warrants (1,253,334 exercised at $0.30 for gross proceeds of $376,000) with an original exercise price of $0.35 per share until February 26, 2016 are now exercisable at $0.30 per share until April 15, 2016;

    - 5,142,949 warrants (2,914,902 exercised at $0.30 for gross proceeds of $874,471) with an original exercise price of $0.40 per share until March 5, 2016 and thereafter until March 5, 2017 into one-half of one (1/2) share at an exercise price of $0.50 per whole share are now exercisable at $0.30 per share until April 15, 2016 and thereafter until March 5, 2017 into one-half of one (1/2) share at an exercise price of $0.50 per whole share; and

    - 6,000,000 warrants (5,655,000 exercised at $0.30 for gross proceeds of $1,696,500) with an original exercise price of $0.40 per share until March 5, 2016 and thereafter until March 5, 2017 at $0.50 per share are now exercisable at $0.30 per share until April 15, 2016 and thereafter until March 5, 2017 at $0.50 per share.

(Expressed in Canadian Dollars)

3. The Company completed a non-brokered private placement of 1,243,333 common shares of the Company at a price of $0.30 each for gross proceeds of $373,000.
4. The Company completed a non-brokered private placement of 1,406,250 common shares of the Company at a price of $0.32 each for gross proceeds of $450,000.
5. The Company granted 225,000 stock options at $0.25 per share expiring January 19, 2021.
6. The Company granted 1,050,000 stock options at $0.35 per share expiring February 25, 2021.
7. The Company granted 100,000 stock options at $0.38 per share expiring April 8, 2021.
8. The Company issued 47,567 common shares pursuant to the exercise of Finder's Warrants at $0.50 for gross proceeds of $23,784.

17. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	December 31, 2015	December 31, 2014
Loss for the period	$ (4,614,203)	$ (652,717)
Expected income tax (recovery)	$ (1,200,000)	$ (170,000)
Change in tax rates and other	(8,000)	2,000
Permanent difference	843,000	-
Share issue cost	(70,000)	(1,000)
Adjustment to prior years provision versus statutory tax returns	(433,000)	-
Change in unrecognized deductible temporary differences	868,000	169,000
Total income tax	$ -	$ -

The significant components of the Company's deferred tax assets that have not been included on the statements of financial position are as follows:

	December 31, 2015	December 31, 2014
Deferred Tax Assets		
Equipment	$ 250,000	$ 53,000
Canadian eligible capital (CEC)	68,000	-
Share issue costs	57,000	2,000
Non-capital losses available for future periods	1,251,000	703,000
	1,626,000	758,000
Unrecognized deferred tax assets	(1,626,000)	(758,000)
Net deferred tax assets	$ -	$ -

(Expressed in Canadian Dollars)

The significant components of the Company's temporary differences and unused tax losses are as follows:

	December 31, 2015	December 31, 2014	Expiry Date Range
Equipment	$ 961,000	$ 203,000	No expiry date
Canadian eligible capital (CEC)	262,000	-	No expiry date
Share issue costs	221,000	9,000	2018 - 2021
Non-capital losses available for future periods	4,813,000	2,705,000	2026 - 2035
	$ 6,257,000	$ 2,917,000	