NANO ONE MATERIALS CORP.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

AND

FOR THE YEAR ENDED DECEMBER 31, 2016

(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, 2017 and 2016 and the statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, 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.

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, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Professional Accountants

April 19, 2018

NANO ONE MATERIALS CORP.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT DECEMBER 31

	2017	2016
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	4,673,301	2,439,244
Receivables	35,713	483,131
Prepaids	71,044	78,070
Total current assets	4,780,058	3,000,445
Equipment, net (Note 4)	395,414	301,305
Pilot plant, net (Note 5)	1,150,901	844,774
Intangible assets (Note 6)	3,534	1,314
	1,549,849	1,147,393
Total assets	6,329,907	4,147,838
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	122,412	449,735
Accounts payable to related parties (Note 9)	13,857	7,650
Deferred government grant (Note 7)	-	200,341
Total current liabilities	136,269	657,726
Shareholders' equity		
Share capital (Note 10)	17,690,844	11,846,703
Equity reserves (Note 10)	1,147,293	1,710,320
Deficit	(12,644,499)	(10,066,911)
Total shareholders' equity	6,193,638	3,490,112
Total liabilities and shareholders' equity	6,329,907	4,147,838

Nature and continuance of operations (Note 1)
Commitments (Note 8)
Events after the reporting date (Note 16)

Approved and authorized by the Board on April 19, 2018

On behalf of the Board of Directors:

"Dan Blondal"	"Lyle Brown"
Director	Director

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

	2017	**2016**
	$	$
OPERATING EXPENSES		
Consulting (Note 9)	299,155	253,917
Depreciation	17,940	11,086
Filing and regulatory fees	36,021	60,102
Office and general (Note 9)	79,091	58,293
Professional fees (Note 9)	266,712	177,783
Rent	56,462	24,965
Research and development (Note 7)	810,106	690,763
Salary and benefits (Note 9)	489,942	314,409
Shareholder communication and investor relations	317,188	336,560
Share-based payments (Note 9 and 10)	268,074	607,586
Travel	78,194	19,064
Operating expenses	(2,718,885)	(2,554,528)
Interest income	19,541	11,970
	19,541	11,970
Loss and comprehensive loss for the year	(2,699,344)	(2,542,558)
Basic and diluted loss per common share	$ (0.04)	$ (0.05)
Weighted average number of common shares outstanding	61,031,658	54,469,825

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

NANO ONE MATERIALS CORP.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
YEAR ENDED DECEMBER 31

	2017	2016
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	(2,699,344)	(2,542,558)
Items not affecting cash:		
Depreciation	729,288	56,158
Share-based payments	268,074	607,586
Changes in non-cash working capital items:		
(Increase) decrease in receivables	447,418	(419,276)
(Increase) decrease in prepaids	7,026	(61,645)
Increase (decrease) in accounts payable and accrued liabilities	(327,323)	302,270
Increase in accounts payable to related parties	6,207	7,650
Increase in deferred government grant	(200,341)	200,341
Cash used in operating activities	(1,768,995)	(1,849,474)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(176,483)	(153,384)
Purchase of pilot plant	(953,041)	(849,354)
Intangible assets	(2,220)	-
Cash used in investing activities	(1,131,744)	(1,002,738)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	5,315,389	3,982,028
Share issuance costs	(180,593)	(7,078)
Cash provided by financing activities	5,134,796	3,974,950
Change in cash and cash equivalents during the year	2,234,057	1,122,738
Cash and cash equivalents, beginning of year	2,439,244	1,316,506
Cash and cash equivalents, end of year	4,673,301	2,439,244
Cash	399,045	249,539
Cash equivalents	4,274,256	2,189,705
Cash and cash equivalents, end of year	4,673,301	2,439,244

Supplemental disclosures with respect to cash flows (Note 13)

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

NANO ONE MATERIALS CORP.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	SHARE CAPITAL		Equity Reserves		
	Number of Shares outstanding	Amount	Share-based payments	Deficit	Total equity
Balance at December 31, 2015	**44,793,599**	**$ 7,093,942**	**$ 1,880,545**	**$ (7,524,353)**	**$ 1,450,134**
Share-based payments	-	-	607,586	-	607,586
Exercise of stock options	450,000	184,625	(74,125)	-	110,500
Exercise of warrants	9,861,052	3,636,290	(670,412)	-	2,965,878
Exercise of finders' warrants	165,300	115,924	(33,274)	-	82,650
Private placements	2,649,583	823,000	-	-	823,000
Share issuance costs	-	(7,078)	-	-	(7,078)
Loss for the year	-	-	-	(2,542,558)	(2,542,558)
Balance at December 31, 2016	**57,919,534**	**11,846,703**	**1,710,320**	**(10,066,911)**	**3,490,112**
Share-based payments	-	-	268,074	-	268,074
Exercise of stock options	800,000	549,814	(261,814)	-	288,000
Exercise of warrants	1,099,682	910,607	(360,766)	-	549,841
Exercise of finders' warrants	595,096	417,336	(119,788)	-	297,548
Expiry of warrants	-	6,652	(128,408)	121,756	-
Private placements	4,180,000	4,180,000	-	-	4,180,000
Share issuance costs	-	(220,268)	39,675	-	(180,593)
Loss for the year	-	-	-	(2,699,344)	(2,699,344)
Balance at December 31, 2017	**64,594,312**	**$ 17,690,844**	**$ 1,147,293**	**$(12,644,499)**	**$ 6,193,638**

The accompanying notes are an integral part of these 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. 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 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.

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 and accounts payable to related parties. 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 and accounts payable to related parties 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 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%
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 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 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

The following standards have been issued but are 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 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.

The Company has analyzed the impact of adopting IFRS 9 and IFRS 15 and anticipates there will be no material changes as a result of adopting these new 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 not yet completed the process of assessing the impact of IFRS 16 will have on the financial statements.

(Expressed in Canadian Dollars)

4. EQUIPMENT

	Computer software	Computer hardware	Research and development equipment	Office equipment	Total
Cost	$	$	$	$	$
Balance, December 31, 2015	7,424	23,489	424,180	-	455,093
Additions	-	15,702	135,037	2,645	153,384
Balance, December 31, 2016	7,424	39,191	559,217	2,645	608,477
Additions	-	36,477	137,368	2,638	176,483
Balance, December 31, 2017	7,424	75,668	696,585	5,283	784,960
Accumulated depreciation					
Balance, December 31, 2015	928	3,327	251,339	-	255,594
Depreciation for the year	3,248	7,750	40,492	88	51,578
Balance, December 31, 2016	4,176	11,077	291,831	88	307,172
Depreciation for the year	1,624	15,462	64,434	854	82,374
Balance, December 31, 2017	5,800	26,539	356,265	942	389,546
Carrying amounts					
As at December 31, 2016	3,248	28,114	267,386	2,557	301,305
As at December 31, 2017	1,624	49,129	340,320	4,341	395,414

$64,434 (2016 - $40,492) of depreciation has been recorded in research and development expenses.

5. PILOT PLANT

	Forklift and equipment	Pilot plant equipment	Total
Cost	$	$	$
Balance, December 31, 2015	-	-	-
Additions	27,480	821,874	849,354
Balance, December 31, 2016	27,480	821,874	849,354
Additions	-	953,041	953,041
Balance, December 31, 2017	27,480	1,774,915	1,802,395
Accumulated depreciation			
Balance, December 31, 2015	-	-	-
Depreciation for the year	4,580	-	4,580
Balance, December 31, 2016	4,580	-	4,580
Depreciation for the year	11,450	635,464	646,914
Balance, December 31, 2017	16,030	635,464	651,494
Carrying amounts			
As at December 31, 2016	22,900	821,874	844,774
As at December 31, 2017	11,450	1,139,451	1,150,901

$646,914 (2016 - $4,580) of depreciation has been recorded in research and development expenses. During the year ended December 31, 2017, the Company completed the construction of the pilot plant, which became available for use in April 2017.

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

The Company received $Nil (2016 – $98,661) from the Scientific Research and Experimental Development (SR&ED) Program. SR&ED is a federal tax incentive program designed to encourage Canadian businesses of all sizes and in all sectors to conduct research and development in Canada.

Effective June 1, 2016, the Company was granted by the 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 $130,349 (2016 - $77,100) was claimed by the Company during the year ending December 31, 2017.

$1,113,022 less $488,994 received in 2016 = $624,028 received in 2017

Effective June 1, 2016, the Company executed a contribution agreement with Sustainable Development Technology Canada for up to $2.08 million technology commercialization grant. To date, the Company has received two instalments totalling $1,113,022 (2016 – one instalment of $488,994) for the first and second phase of a lithium battery materials pilot plant project. Funds are dispersed at the beginning of each phase and are subject to the Company meeting milestones and having matching funds in place. A total of $Nil (2016 - $200,341) has been allocated as deferred government grant as at December 31, 2017. [a]

Effective June 1, 2016, the Company was awarded up to $1.9 million (claimed - $995,221) from Innovation, Science and Economic Development Canada (ISED). Automotive Supplier's Innovation Program (ASIP) requires that the proceeds from the grant be applied to the preparation, design, construction, optimization and operation of a pilot plant. A total of $631,020 (2016 - $364,201) was claimed by the Company during the year ending December 31, 2017.

Effective June 5, 2017, the Company entered into an agreement with NRC-IRAP whereby NRC-IRAP will fund a non-repayable contribution of up to $8,400 (claimed - $7,040). The contribution is funded by the Youth Employment Strategy of the Government of Canada. Under the terms of the agreement, NRC-IRAP has agreed to reimburse the Company 100% of salaries paid to a process engineering assistant between the ages of 15 to 30.

During the year ended December 31, 2017, the Company received additional government grants for training and employment grants totaling $13,543 (2016 - $Nil).

[a]

Total government assistance recognized for the year ended December 31, 2017 was $1,606,321 (2016 - $828,615). The amount is offset against research and development expense on the statement of loss and comprehensive loss.

difference between $1,606,321 and the cash receipts above is the amortization of SDTC

8. COMMITMENTS

During the year ended December 31, 2016, the Company entered into an operating lease for its corporate head office. During the year ended December 31, 2017 the Company incurred $42,428 (2016 - $3,058) in rental expense. The annual lease commitments under the lease are as follows:

(Expressed in Canadian Dollars)

Within one year	$ 41,315
Within two to three years	30,646
Total	$ 71,961

During the year ended December 31, 2016, the Company entered into an operating lease for its lab and pilot plant facility. During the year ended December 31, 2017 the Company incurred $63,064 (2016 - $4,546) in rental expense. The annual lease commitments under the lease are as follows:

Within one year	$ 58,632
Within two to three years	48,331
Total	$ 106,963

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, 2017, 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.

The following transactions were carried out with related parties:

(a) Purchases of services

	December 31, 2017 $	**December 31, 2016** $
An entity where an executive director is an officer, for employee benefits	11,418	23,853
An entity where an executive director is an officer, for miscellaneous operating expenses	4,575	9,315
An entity where a director is an officer, for legal fees	13,857	-
	29,850	33,168

(Expressed in Canadian Dollars)

(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, 2017 $	**December 31, 2016** $
Consulting fees to an executive director	60,000	60,000
Salary and benefits to an officer	92,512	72,000
Salary and benefits to an executive director	76,953	75,000
Salary and benefits to an executive director	126,953	125,000
Share-based payments	-	62,367
	356,418	394,367

(c) Accounts payable to related parties

As at December 31, 2017, accounts payable to related parties consisted of $13,857 (2016 - $7,650) owing to a director and companies controlled by a director and officer of the Company.

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, 2017, 966,287 (December 31, 2016 – 2,898,861) of the Company's issued common shares were held in escrow and restricted from trading. These trading restrictions expire on March 5, 2018 (released subsequent to the year ended December 31, 2017).

Changes in issued share capital and equity reserves for the year ended December 31, 2017 were as follows:

1. 595,096 finder's warrants with an exercise price of $0.50 were exercised for gross proceeds of $297,548. Accordingly, $119,788 was transferred from equity reserves to share capital

2. 295,000 warrants with an exercise price of $0.50 were exercised for gross proceeds of $147,500

3. 1,609,364 warrants exercised into 804,682 common shares at an exercise price of $0.50 per share were exercised for gross proceeds of $402,341 Accordingly, $360,766 was transferred from equity reserves to share capital.

4. 100,000 stock options with an exercise price of $0.25 were exercised for gross proceeds of $25,000. Accordingly, $29,036 was transferred from equity reserves to share capital.

5. 100,000 stock options with an exercise price of $0.53 were exercised for gross proceeds of $53,000. Accordingly, $32,140 was transferred from equity reserves to share capital.

6. 600,000 stock options with an exercise price of $0.35 were exercised for gross proceeds of $210,000. Accordingly, $200,638 was transferred from equity reserves to share capital.

7. The Company completed a non-brokered private placement of 4,180,000 units of the Company at a price of $1.00 per unit for gross proceeds of $4,180,000. Each unit consists of one share and one-half of a share purchase warrant. Each whole warrant is exercisable until September 8, 2019 to acquire one share at an exercise price of $1.25 per share. The Company paid finders' fee of $145,880 and issued 145,880 finders' warrants with a value of $39,675. Each finders' warrant is exercisable until September 8, 2019 to acquire one share at an exercise price of $1.25 per share.

Changes in issued share capital and equity reserves for the year ended December 31, 2016 were as follows:

1. 350,000 stock options with an exercise price of $0.25 were exercised for gross proceeds of $87,500. Accordingly, $69,294 was transferred from equity reserves to share capital.
2. 100,000 stock options with an exercise price of $0.23 were exercised for gross proceeds of $23,000. Accordingly, $4,831 was transferred from equity reserves to share capital.
3. 2,914,902 warrants with an exercise price of $0.30 were exercised for gross proceeds of $874,470. Accordingly, $653,478 was transferred from equity reserves to share capital.
4. 6,908,334 warrants with an exercise price of $0.30 were exercised for gross proceeds of $2,072,500.
5. 75,633 warrants exercisable into 37,816 common shares at an exercise price of $0.50 per share were exercised for gross proceeds of $18,908. Accordingly, $16,934 was transferred from equity reserves to share capital.
6. 165,300 finders' warrants with an exercise price of $0.50 were exercised for gross proceeds of $82,650. Accordingly, $33,274 was transferred from equity reserves to share capital.
7. The Company completed a non-brokered private placement of 1,243,333 common shares of the Company at a price of $0.30 per share for gross proceeds of $373,000.
8. The Company completed a non-brokered private placement of 1,406,250 common shares of the Company at a price of $0.32 per share for gross proceeds of $$450,000.

(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.

(Expressed in Canadian Dollars)

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, 2015	3,375,000	0.25
Granted	1,525,000	0.35
Exercised	(450,000)	0.25
Balance at December 31, 2016	4,450,000	0.29
Granted	417,500	0.91
Exercised	(800,000)	0.36
Balance at December 31, 2017	4,067,500	0.33
Exercisable as at December 31, 2017	3,829,583	0.30

At December 31, 2017 the following stock options were outstanding:

Number of Options	**Exercise Price**	**Expiry Date**
2,825,000	$0.25	March 5, 2020
225,000	$0.25	January 19, 2021
450,000	$0.35	February 25, 2021
100,000	$0.38	April 8, 2021
50,000	$0.50	September 13, 2021
45,000	$0.67	June 5, 2022
147,500	$0.70	March 10, 2022
25,000	$0.74	May 4, 2022
50,000	$1.08	September 13, 2022
150,000	$1.15	August 11, 2022
4,067,500		

(Expressed in Canadian Dollars)

(c) Share-based payments

The fair value of options granted during the year was $208,446 (2016 – $474,841) or $0.50 (2016 - $0.31) per option. The share-based payments expense recognized for the year was $268,074 (2016 - $489,882). 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 year ended December 31, 2017 are as follows:

	March 10, 2017	May 4, 2017	June 5, 2017	August 11, 2017	September 13, 2017
Risk-free interest rate	1.26%	0.99%	1.58%	1.46%	1.78%
Expected life of options	5 years	5 years	5 years	5 years	5 years
Annualized volatility	69.05%	53.30%	55.76%	57.28%	61.15%
Dividend rate	0.00%	0.00	0.00	0.00	0.00

The weighted average assumptions used for the Black-Scholes option-pricing model of stock options granted during the year ended December 31, 2016 are as follows:

	January 19, 2016	February 25, 2016	April 8, 2016	May 11, 2016	September 13, 2016
Risk-free interest rate	0.58%	0.63%	0.71%	0.68%	0.76%
Expected life of options	5 years	5 years	5 years	5 years	5 years
Annualized volatility	188.82%	179.06%	63.51%	75.22%	88.52%
Dividend rate	0.00%	0.00%	0.00%	0.00%	0.00%

(d) Warrants

The weighted average assumptions used for the Black-Scholes option-pricing model of finders' warrants issued during the year ended December 31, 2017 are as follows:

	2017
Risk-free interest rate	1.52%
Expected life of warrants	2 years
Annualized volatility	54.92%
Dividend rate	0.00%

During the year ended December 31, 2016, the Company amended the terms of 12,396,283 outstanding warrants issued in connection with the 2015 reverse takeover and private placement:

- 1,253,334 warrants with an original exercise price of $0.35 per share until February 26, 2016 became exercisable at $0.30 per share until April 15, 2016;

- 5,142,949 warrants 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 became 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

(Expressed in Canadian Dollars)

- 6,000,000 warrants 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 became exercisable at $0.30 per share until April 15, 2016 and thereafter until March 5, 2017 at $0.50 per share.

The share-based payments expense for the year ended December 31, 2016 was $117,704 for 5,142,949 compensatory warrants repriced. The weighted average assumptions used for the Black-Scholes option-pricing model of warrants repriced during the year ended December 31, 2016 are as follows:

	2016
Risk-free interest rate	0.41%
Expected life of warrants	1.08 years
Annualized volatility	92,23%
Dividend rate	0.00%

At December 31, 2017, warrants were outstanding enabling holders to acquire the following number of shares:

Issued date	Balance, December 31, 2016	Issued	Exercised	Expired	Exercise price $	Balance, December 31, 2017	Expiry date
March 5, 2015	2,152,414	-	1,609,364	543,050	0.25*	-	March 5, 2017
March 5, 2015	345,000	-	295,000	50,000	0.50	-	March 5, 2017
March 5, 2015	614,700	-	595,096	19,604	0.50	-	March 5, 2017
September 8, 2017	-	2,235,880	-	-	1.25	2,235,880	September 8, 2019
	3,112,114	2,235,880	2,499,460	612,654		2,235,880	

*one-half of one common share at an exercise price of $0.50 per share

At December 31, 2016, warrants were outstanding enabling holders to acquire the following number of shares:

Issued date	Balance, December 31, 2015	Issued	Exercised	Expired	Exercise price $	Balance, December 31, 2016	Expiry date
August 26, 2014	1,253,334	-	1,253,334	-	0.30	-	April 15, 2016
March 5, 2015	5,142,949	-	2,990,535	-	0.30*	2,152,414	March 5, 2017
March 5, 2015	6,000,000	-	5,655,000	-	0.30**	345,000	March 5, 2017
March 5, 2015	780,000	-	165,300	-	0.40***	614,700	March 5, 2017
	13,176,283	-	10,064,169	-		3,112,114	

* Exercise price is $0.30 per share until April 15, 2016 and thereafter into one-half of one common share at an exercise price of $0.50 per share
** Exercise price is $0.30 per share until April 15, 2016 and thereafter 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

11. LOSS PER SHARE

The calculation of basic and diluted loss per share for the fiscal year ended December 31, 2017 was based on the loss attributable to common shareholders of $2,699,344 (December 31, 2016 - $2,542,558) and a weighted average number of common shares outstanding of 61,031,658 (December 31, 2016 – 54,469,825).

Diluted loss per share did not include the effect of 4,067,500 stock options (December 31, 2016 – 4,450,000) and 2,235,880 warrants (December 31, 2016 – 3,112,114) 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 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 year.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions for the year ended December 31, 2017 included:

a) The Company allocated $119,788 for finders' warrants exercised during the year to share capital from equity reserves.

b) The Company allocated $360,766 for warrants exercised during the year to share capital from equity reserves.

c) The Company allocated $261,814 for stock options exercised during the year to share capital from equity reserves.

d) The Company recorded $39,675 for finders' warrants issued during the year.

Significant non-cash transactions for the year ended December 31, 2016 included:

a) The Company allocated $74,125 for stock option exercised during the year to share capital from equity reserves.

b) The Company allocated $670,412 for warrants exercised during the year to share capital from equity reserves.

c) The Company allocated $33,274 for finders' warrants exercised during the year to share capital from equity reserves.

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 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.

Cash and cash equivalents are measured at fair value based on level 1 of the fair value hierarchy. The carrying value of receivables, accounts payable and accounts payable to related parties approximate their fair values due to the short-term nature of these instruments.

15. SEGMENTED INFORMATION

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

(Expressed in Canadian Dollars)

16. EVENTS AFTER THE REPORTING DATE

Subsequent to December 31, 2017:

1. The Company granted 150,000 stock options to a consultant of the Company. The options are exercisable until January 3, 2023 at a price of $1.14 per share and vest over twelve months.

2. The Company granted 100,000 stock options to a consultant of the Company. The options are exercisable until January 9, 2023 at a price of $1.19 per share and vest over twelve months.

3. The Company issued 400,000 common shares pursuant to the exercise of stock options at $0.35 for gross proceeds of $140,000.

4. The Company issued 270,000 common shares pursuant to the exercise of warrants at $1.25 for gross proceeds of $337,500.

5. The Company issued 48,825 common shares pursuant to the exercise of finders' warrants at $1.25 for gross proceeds of $61,031.

17. INCOME TAXES

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

	December 31, 2017	December 31, 2016
Loss for the year	$ (2,699,344)	$ (2,542,558)
Expected income tax (recovery)	$ (702,000)	$ (661,000)
Change in tax rates and other	(134,000)	-
Permanent difference	74,000	158,000
Share issue cost	(47,000)	(2,000)
Adjustment to prior years provision versus statutory tax returns	14,000	(170,000)
Expiry of non-capital losses	-	25,000
Change in unrecognized deductible temporary differences	795,000	650,000
Total income tax	$ -	$ -

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

(Expressed in Canadian Dollars)

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, 2017	December 31, 2016
Deferred tax assets		
Equipment	$ 542,000	$ 265,000
Canadian eligible capital (CEC)	-	68,000
Investment tax credits	21,000	-
Share issue costs	69,000	44,000
Non-capital losses available for future periods	2,439,000	1,899,000
	3,071,000	2,276,000
Unrecognized deferred tax assets	(3,071,000)	(2,276,000)
Net deferred tax assets	$ -	$ -

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

	December 31, 2017	December 31, 2016	Expiry Date Range
Equipment	$ 2,008,000	$ 1,018,000	No expiry date
Canadian eligible capital (CEC)	-	262,000	No expiry date
Investment tax credits	29,000	-	2035
Share issue costs	257,000	170,000	2038 – 2041
Non-capital losses available for future periods	9,034,000	7,305,000	2024 - 2037
	$11,328,000	$ 8,755,000	