NANO ONE MATERIALS CORP.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

AND

FOR THE YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nano One Materials Corp.

Opinion

We have audited the accompanying financial statements of Nano One Materials Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

“DAVIDSON & COMPANY LLP”

Vancouver, Canada — Chartered Professional Accountants

April 17, 2019

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

	2018	2017
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	3,153,369	4,673,301
Receivables (Note 7)	347,499	35,713
Prepaid expenses	44,265	71,044
Total current assets	3,545,133	4,780,058
Equipment, net (Note 4)	454,879	395,414
Pilot plant, net (Note 5)	273,728	1,150,901
Intangible assets (Note 6)	13,877	3,534
	742,484	1,549,849
Total assets	4,287,617	6,329,907
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	158,635	122,412
Accounts payable to related parties (Note 9)	16,046	13,857
Total current liabilities	174,681	136,269
Shareholders' equity		
Share capital (Note 10)	18,843,555	17,690,844
Equity reserves (Note 10)	2,911,595	1,147,293
Deficit	(17,642,214)	(12,644,499)
Total shareholders' equity	4,112,936	6,193,638
Total liabilities and shareholders' equity	4,287,617	6,329,907

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 17, 2019

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

	2018	2017
	$	$
OPERATING EXPENSES		
Consulting (Note 9)	284,345	299,155
Depreciation	23,129	17,940
Filing and regulatory fees	42,485	36,021
Office and general (Note 9)	100,263	79,091
Professional fees (Note 9)	325,338	266,712
Rent	48,892	56,462
Research and development (Note 4,5 and 7)	1,075,304	810,106
Salary and benefits (Note 9)	653,037	489,942
Shareholder communication and investor relations	257,501	317,188
Share-based payments (Note 9 and 10)	2,116,856	268,074
Travel	97,470	78,194
Operating expenses	(5,024,620)	(2,718,885)
Interest income	28,021	19,541
Loss on sale of pilot plant equipment (Note 5)	(1,116)	-
	26,905	19,541
Loss and comprehensive loss for the year	(4,997,715)	(2,699,344)
Basic and diluted loss per common share (Note 11)	$ (0.08)	$ (0.04)
Weighted average number of common shares outstanding	65,392,205	61,031,658

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

	2018	2017
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	(4,997,715)	(2,699,344)
Items not affecting cash:		
Depreciation	1,015,990	729,288
Share-based payments	2,116,856	268,074
Loss on sale of pilot plant equipment	1,116	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(311,786)	447,418
Decrease in prepaid expenses	26,779	7,026
Increase (decrease) in accounts payable and accrued liabilities	36,907	(327,323)
Increase in accounts payable to related parties	2,189	6,207
Decrease in deferred government grant	-	(200,341)
Cash used in operating activities	(2,109,664)	(1,768,995)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(168,960)	(176,483)
Purchase of pilot plant equipment	(36,813)	(953,041)
Intangible assets	(11,027)	(2,220)
Proceeds from sale of pilot plant equipment	6,375	-
Cash used in investing activities	(210,425)	(1,131,744)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	800,157	5,315,389
Share issuance costs	-	(180,593)
Cash provided by financing activities	800,157	5,134,796
Change in cash and cash equivalents during the year	(1,519,932)	2,234,057
Cash and cash equivalents, beginning of year	4,673,301	2,439,244
Cash and cash equivalents, end of year	3,153,369	4,673,301
Cash	2,837,496	399,045
Cash equivalents	315,873	4,274,256
Cash and cash equivalents, end of year	3,153,369	4,673,301

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, 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**
Share-based payments	-	-	2,116,856	-	2,116,856
Exercise of stock options	1,205,000	694,025	(339,275)	-	354,750
Exercise of warrants	307,500	384,375	-	-	384,375
Exercise of finders' warrants	48,825	74,311	(13,279)	-	61,032
Loss for the year	-	-	-	(4,997,715)	(4,997,715)
Balance at December 31, 2018	**66,155,637**	**$18,843,555**	**$ 2,911,595**	**$(17,642,214)**	**$ 4,112,936**

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, Canada. The Company is engaged in developing novel, scalable and low-cost processing technology for the production of high performance non-structured materials. The financial statements of the Company are presented in Canadian dollars unless otherwise indicated.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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

Foreign currency translation

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

Cash and cash equivalents

Cash and cash equivalents 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 is pervasive throughout the financial statement, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

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

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

Critical accounting judgments

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

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

3. RECENT ACCOUNTING STANDARDS

The Company has adopted the new and revised IFRS standards described below:

IFRS 9 – Financial Instruments

Classification and measurement

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

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

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

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

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

Impairment of financial assets

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

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

- *Probability of default –* It is an estimate of likelihood of default over a given time horizon.
- *Loss given default –* It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral.
- *Exposure at default –* It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

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

The following table summarizes the classification and measurement changes under IFRS 9 for each financial instrument of the Company:

Financial Instrument	Original Classification Under IAS 39	New Classification Under IFRS 9
Cash and cash equivalents	FVTPL	Amortized cost
Receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Accounts payable to related parties	Other financial liabilities	Amortized cost

Due to the nature of its financial instruments, the adoption of IFRS 9 had no impact on the opening deficit balance at January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 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 an entity expects to be entitled to in exchange for transferring goods or services to a customer. IFRS 15 is effective for periods beginning on or after January 1, 2018. The adoption of IFRS 15 had no impact on the Company's financial statements.

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

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.

(Expressed in Canadian Dollars)

The Company will apply IFRS 16 on its effective date of January 1, 2019 using the modified retrospective approach. The Company expects that the adoption will result in an increase in right-of-use asset and lease liability by approximately $320,000 and no impact on opening deficit at January 1, 2019.

Subsequent to transition, depreciation expense and finance costs will also increase accordingly, which reflects changes to right-of-use asset and lease liability respectively.

4. EQUIPMENT

	Computer software	Computer hardware	Research and development equipment	Office equipment	Total
Cost	$	$	$	$	$
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
Additions	-	33,573	135,387	-	168,960
Balance, December 31, 2018	7,424	109,241	831,972	5,283	953,920
Accumulated depreciation					
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
Depreciation for the year	812	21,449	86,366	868	109,495
Balance, December 31, 2018	6,612	47,988	442,631	1,810	499,041
Carrying amounts					
As at December 31, 2017	1,624	49,129	340,320	4,341	395,414
As at December 31, 2018	812	61,253	389,341	3,473	454,879

$86,366 (2017 - $64,434) of depreciation has been recorded in research and development expenses.

(Expressed in Canadian Dollars)

5. PILOT PLANT

	Forklift and equipment	Pilot plant equipment	Total
Cost	$	$	$
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
Additions	-	36,813	36,813
Disposals	-	(35,960)	(35,960)
Balance, December 31, 2018	27,480	1,775,768	1,803,248
Accumulated depreciation			
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
Depreciation for the year	11,450	895,045	906,495
Disposals	-	(28,469)	(28,469)
Balance, December 31, 2018	27,480	1,502,040	1,529,520
Carrying amounts			
As at December 31, 2017	11,450	1,139,451	1,150,901
As at December 31, 2018	-	273,728	273,728

$906,495 (2017- $646,914) of depreciation has been recorded in research and development expenses. During the year ended December 31, 2018, the Company sold certain pilot plant equipment for proceeds of $6,375, resulting in a loss on sale of $1,116.

6. INTANGIBLE ASSETS

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

7. GOVERNMENT ASSISTANCE

Effective June 1, 2016, the Company was granted by the National Research Council of Canada's Industrial Research Assistance Program ("NRC-IRAP") a non-repayable contribution of up to $222,857. NRC-IRAP requires that the proceeds from the grant be applied towards the development of High Voltage Cobalt Free Cathode Materials. Under the terms of the agreement, NRC-IRAP has agreed to reimburse the Company for 80% of salaries paid to Company employees and 50% of supported contractor fees involved in this pilot facility. A total of $15,408 (2017 - $130,349) was claimed by the Company during the year ending December 31, 2018.

$1,873,167 = $488,994 in 2016, $624,028 in 2017 and $760,145 in 2018

Effective June 1, 2016, the Company executed a contribution agreement with Sustainable Development Technology Canada ("SDTC") for up to $2.08 million technology commercialization grant. To date, the Company has received three instalments totalling $1,873,167 (2017 - two instalments totaling $1,113,022) for all three phases of a lithium battery materials pilot plant project. Funds were dispersed at the beginning of each phase and were subject to the Company meeting milestones and having matching funds in place. To date, the holdback retained by SDTC amounted to $208,130, which will be released when the project is completed.

(Expressed in Canadian Dollars)

Effective June 1, 2016, the Company was awarded up to $1.9 million (claimed - $1,564,815) in funding from Automotive Supplier's Innovation Program (ASIP) – a program of Innovation, Science and Economic Development Canada (ISED). The program requires that the proceeds be applied to the preparation, design, construction, optimization, and operation of a pilot plant. A total of $569,564 (2017 - $631,020) was claimed by the Company during the year ended December 31, 2018 and the Company recorded a receivable of $277,865 as at December 31, 2018 (December 31, 2017 - $Nil).

Effective August 1, 2018, the Company was granted by the NRC-IRAP a non-repayable contribution of up to $349,000 (claimed - $46,454). NRC-IRAP required that the proceeds for the grant be applied towards the development of coatings for high durability lithium ion battery cathodes. Under the terms of the agreement, NRC-IRAP agreed to reimburse the Company for 80% of the salaries paid to Company employees involved in this project. The Company received a total of $46,454 during the period ended December 31, 2018.

During the year ended December 31, 2018, the Company received additional government grants for training and employment totaling $36,376 (2017 - $13,543).

Total government assistance recognized for the year ended December 31, 2018 was $1,427,946 (2017 - $1,606,321). The amount is offset against research and development expense on the statement of loss and comprehensive loss.

8. COMMITMENTS

During the year ended December 31, 2016, the Company entered into an operating lease agreement for its corporate head office. During the year ended December 31, 2018, the Company incurred $36,892 (2017 - $42,428) in rental expense. On February 15, 2019, the Company entered into an agreement to extend the lease.

The annual lease commitments under the leases are as follows:

Within one year	$ 41,125
Within two to four years	$ 114,377
Total	$ 155,502

During the year ended December 31, 2016, the Company entered into an operating lease agreement for its lab and pilot plant facility. During the year ended December 31, 2018, the Company incurred $56,339 (2017 - $63,064) in rental expense. On February 15, 2019, the Company entered into an agreement to extend the lease.

The annual lease commitments under the leases are as follows:

Within one year	$ 61,127
Within two to four years	$ 170,011
Total	$ 231,138

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, 2018, the Company had not yet generated any revenue, therefore, no royalties have been paid or accrued.

(Expressed in Canadian Dollars)

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, 2018 $	December 31, 2017 $
An entity where an executive director is an officer, for employee benefits	-	11,418
An entity where an executive director is an officer, for miscellaneous operating expenses	4,321	4,575
An entity where a director is an officer, for legal fees	170,763	13,857
	175,084	29,850

(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, 2018 $	December 31, 2017 $
Consulting fee to an executive director	60,000	60,000
Salary and benefits to a former officer	53,682	92,512
Salary and benefits to an executive director	78,795	76,953
Salary and benefits to an executive director	128,795	126,953
Share-based payments	1,585,686	-
	1,906,958	356,418

(c) Accounts payable to related parties

As at December 31, 2018, accounts payable to related parties consisted of $16,046 (2017 - $13,857) 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, 2018, Nil (December 31, 2017 – 996,287) of the Company's issued common shares were held in escrow and restricted from trading.

Changes in issued share capital and equity reserves for the year ended December 31, 2018 were as follows:

1. 775,000 stock options with an exercise price of $0.25 were exercised for gross proceeds of $193,750. Accordingly, $192,273 was transferred from equity reserves to share capital.

2. 30,000 stock options with an exercise price of $0.70 were exercised for gross proceeds of $21,000. Accordingly, $13,244 was transferred from equity reserves to share capital.

3. 400,000 stock options with an exercise price of $0.35 were exercised for gross proceeds of $140,000. Accordingly, $133,758 was transferred from equity reserves to share capital.

4. 307,500 warrants with an exercise price of $1.25 were exercised for gross proceeds of $384,375.

5. 48,825 finder's warrants with an exercise price of $1.25 were exercised for gross proceeds of $61,032. Accordingly, $13,279 was transferred from equity reserved to share capital.

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'

(Expressed in Canadian Dollars)

warrant is exercisable until September 8, 2019 to acquire one share at an exercise price of $1.25 per share.

(b) Stock option plan

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

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

	Number of Options	Weighted Average Exercise Price
		$
Balance at December 31, 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
Granted	3,075,000	1.30
Exercised	(1,205,000)	0.29
Balance at December 31, 2018	5,937,500	0.84
Exercisable as at December 31, 2018	5,370,000	0.79

At December 31, 2018 the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
2,050,000	$0.25	March 5, 2020
225,000	$0.25	January 19, 2021
50,000	$0.35	February 25, 2021
100,000	$0.38	April 8, 2021
50,000	$0.50	September 13, 2021
117,500	$0.70	March 10, 2022
25,000	$0.74	May 4, 2022
45,000	$0.67	June 5, 2022
150,000	$1.15	August 11, 2022
50,000	$1.08	September 13, 2022
150,000	$1.14	January 3, 2023
100,000	$1.19	January 9, 2023
340,000	$1.57	July 12, 2023

(Expressed in Canadian Dollars)

25,000	$1.08	September 10, 2023
2,460,000	$1.28	November 12, 2023
5,937,500		

(c) Share-based payments

The fair value of options granted during the year was $2,363,111 (2017 – $208,446) or $0.77 (2017 - $0.50) per option. The share-based payments expense recognized for the year was $2,116,856 (2017 - $268,074). Fair value at grant date of the stock option plan was measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility.

The assumptions used for the Black-Scholes option-pricing model of stock options granted during the year ended December 31, 2018 are as follows:

	January 3, 2018	January 9, 2018	July 12, 2018	September 10, 2018	November 12, 2018
Risk-free interest rate	1.86%	2.01%	2.07%	2.21%	2.43%
Expected life of options	5 years	5 years	5 years	5 years	5 years
Annualized volatility	65.22%	56.68%	68.64%	69.81%	69.54%
Dividend rate	0.00%	0.00%	0.00%	0.00%	0.00%

The 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%

(d) Warrants

At December 31, 2018, warrants were outstanding enabling holders to acquire the following number of shares:

Issued date	Balance, December 31, 2017	Issued	Exercised	Expired	Exercise price $	Balance, December 31, 2018	Expiry date
September 8, 2017	2,235,880	-	356,325	-	1.25	1,897,555	September 8, 2019
	2,235,880	-	356,325	-		1,897,555	

(Expressed in Canadian Dollars)

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

11. LOSS PER SHARE

The calculation of basic and diluted loss per share for the fiscal year ended December 31, 2018 was based on the loss attributable to common shareholders of $4,997,715 (December 31, 2017 - $2,699,344) and a weighted average number of common shares outstanding of 65,392,205 (December 31, 2017 – 61,031,658).

Diluted loss per share did not include the effect of 5,937,500 stock options (December 31, 2017 - 4,067,500) and 1,897,555 warrants (December 31, 2017 - 2,235,880) 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, 2018 included:

a) The Company allocated $13,279 for finders' warrants exercised during the year to share capital from equity reserves.

b) The Company allocated $339,275 for stock options exercised during the year to share capital from equity reserves.

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.

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.

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

15. SEGMENTED INFORMATION

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

16. EVENTS AFTER THE REPORTING DATE

Subsequent to December 31, 2018:

1. The Company granted 60,000 stock options to a consultant of the Company. The options are exercisable until January 24, 2021 at a price of $1.37 per share.

2. The Company granted 100,000 stock options to a consultant of the Company. The options are exercisable until March 21, 2024 at a price of $1.35 per share.

3. The Company issued 25,000 common shares pursuant to the exercise of stock options at $0.70 per share for gross proceeds of $17,500.

4. The Company issued 50,000 common shares pursuant to the exercise of stock options at $0.35 per share for gross proceeds of $17,500.

5. The Company issued 132,500 common shares pursuant to the exercise of warrants at $1.25 per share for gross proceeds of $165,625.

6. The Company issued 16,065 common shares pursuant to the exercise of finders' warrants at $1.25 per share for gross proceeds of $20,081.

(Expressed in Canadian Dollars)

17. INCOME TAXES

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

	December 31, 2018	December 31, 2017
Loss for the year	$ (4,997,715)	$ (2,699,344)
Expected income tax (recovery)	$ (1,349,000)	$ (702,000)
Change in tax rates and other	(4,000)	(134,000)
Permanent difference	575,000	74,000
Share issue cost	-	(47,000)
Adjustment to prior years provision versus statutory tax returns	48,000	14,000
Change in unrecognized deductible temporary differences	730,000	795,000
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%.

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, 2018	December 31, 2017
Deferred tax assets		
Equipment	$ 695,000	$ 542,000
Investment tax credits	21,000	21,000
Share issue costs	45,000	69,000
Non-capital losses available for future periods	3,040,000	2,439,000
	3,801,000	3,071,000
Unrecognized deferred tax assets	(3,801,000)	(3,071,000)
Net deferred tax assets	$ -	$ -

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

	December 31, 2018	December 31, 2017	Expiry Date Range
Equipment	$ 2,575,000	$ 2,008,000	No expiry date
Investment tax credits	29,000	29,000	2035
Share issue costs	165,000	257,000	2038 - 2041
Non-capital losses available for future periods	11,259,000	9,034,000	2026 - 2038
	$14,028,000	$11,328,000	