



Nano One Materials Corp.
Condensed Interim Financial Statements
For the nine months ended
September 30, 2020
Unaudited – Prepared by Management
(Expressed in Canadian dollars)

**NOTICE OF NO AUDITOR REVIEW
OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**

The accompanying condensed interim financial statements of Nano One Materials Corp. ("the Company") as at September 30, 2020 and December 31, 2019, and for the three and nine months ended September 30, 2020 and September 30, 2019, have been prepared by the management of the Company and approved by the Company's Audit Committee.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of the condensed interim financial statements by an entity's auditor.

Nano One Materials Corp.**Condensed Interim Statements of Financial Position**

Unaudited – Prepared by Management

As at September 30, 2020 and December 31, 2019

	Note	September 30, 2020 \$	December 31, 2019 \$
Assets			
Current assets			
Cash and cash equivalents		13,923,780	1,747,514
Short-term investment	9	1,005,384	198,911
Receivables	3	46,167	147,662
Prepaid expenses		87,864	25,198
		15,063,195	2,119,285
Non-current assets			
Deposits	3	333,534	21,360
Property and equipment	4	1,323,953	767,988
Intangible assets	5	23,097	24,279
		1,680,584	813,627
Total assets		16,743,779	2,932,912
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		244,215	109,844
Accounts payable to related parties	8	231,835	24,864
Deferred government assistance	6	1,604,853	676,373
Current portion of lease liabilities	4	199,687	101,719
		2,280,590	912,800
Non-current liabilities			
Lease liabilities	4	241,880	151,676
Total liabilities		2,522,470	1,064,476
Shareholders' equity			
Share capital	7	34,713,654	20,068,795
Reserves	7	3,932,258	3,163,224
Deficit		(24,424,603)	(21,363,583)
Total shareholders' equity		14,221,309	1,868,436
Total liabilities and shareholders' equity		16,743,779	2,932,912
Nature and continuance of operations	1		
Subsequent events	13		

Approved on behalf of the Board of Directors on November 18, 2020:

"Dan Blondal"

Director

"Lyle Brown"

Director

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

Nano One Materials Corp.

Condensed Interim Statements of Loss and Comprehensive Loss

Unaudited – Prepared by Management

For the three and nine months ended September 30,

	Note	Three months ended		Nine months ended	
		September 30, 2020 \$	September 30, 2019 \$	September 30, 2020 \$	September 30, 2019 \$
Expenses					
Amortization	5	620	-	1,182	-
Business development fees		14,845	8,850	90,026	108,767
Consulting fees		97,474	1,240	339,951	36,045
Depreciation	4	35,611	15,171	81,505	42,874
Finance costs	4	7,865	6,335	20,207	20,136
General and administrative expenses		71,286	48,323	203,543	142,029
Investor relations and shareholder information		133,162	119,886	395,200	334,139
Management and directors' fees	8	84,500	15,000	365,000	45,000
Professional fees	8	114,944	65,262	251,984	187,957
Research (recoveries) expenses, net	3,6,8	(907,976)	110,364	(1,276,789)	1,080,066
Salaries and benefits	8	293,549	188,958	1,004,981	598,220
Share-based payments	7,8	1,514,660	79,792	1,514,660	412,132
Transfer agent and filing fees		67,391	20,190	124,107	68,284
Travel, meals and conferences		2,458	58,479	44,189	201,035
Loss from operating expenses		(1,530,389)	(737,850)	(3,159,746)	(3,276,684)
Interest income		26,024	5,190	50,862	25,357
Loss and comprehensive loss for the period		(1,504,365)	(732,660)	(3,108,884)	(3,251,327)
Loss per share					
Weighted average number of common shares outstanding					
- basic		80,060,521	66,447,665	77,127,723	66,447,665
- diluted		80,060,521	66,447,665	77,127,723	66,447,665
Basic loss per common share \$		(0.02)	(0.01)	(0.04)	(0.05)
Diluted loss per common share \$		(0.02)	(0.01)	(0.04)	(0.05)

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

Nano One Materials Corp.**Condensed Interim Statements of Cash Flows**

Unaudited – Prepared by Management

For the nine months ended September 30,

	Note	September 30, 2020 \$	September 30, 2019 \$
Operating activities			
Loss for the period		(3,108,884)	(3,251,327)
Adjustments for:			
Amortization		1,182	-
Depreciation	4	253,095	436,449
Finance costs		20,207	20,136
Share-based payments		1,514,660	412,132
Interest income		(50,862)	(25,357)
Non-cash working capital items:			
Receivables		101,495	244,605
Prepaid expenses		(62,666)	(23,640)
Deposits		(20,636)	-
Accounts payable and accrued liabilities		238,560	(110,355)
Accounts payable to related parties		206,971	16,646
Deferred government assistance		928,480	865,613
		21,602	(1,415,098)
Investing activities			
Interest received on cash equivalents and short-term investment		45,478	25,357
Maturity of short-term investment	9	198,911	-
Purchase of short-term investment	9	(1,000,000)	-
Deposits on property and equipment	3	(274,969)	-
Purchases of property and equipment		(635,018)	(106,425)
		(1,665,598)	(81,068)
Financing activities			
Issuance of common shares/units for cash		14,565,455	1,129,732
Share issue costs		(618,358)	-
Payment of lease liabilities	4	(126,835)	(50,162)
		13,820,262	1,079,570
Change in cash and cash equivalents		12,176,266	(416,596)
Cash and cash equivalents, beginning of period		1,747,514	3,153,369
Cash and cash equivalents, end of period		13,923,780	2,736,773
Cash and cash equivalents comprise:			
Cash		9,804,591	1,271,180
Cash equivalents		4,119,189	1,465,593
Cash and cash equivalents, end of period		13,923,780	2,736,773

Supplemental cash flow information

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

Nano One Materials Corp.

Condensed Interim Statements of Changes in Shareholders' Equity

Unaudited – Prepared by Management

For the nine months ended September 30, 2020 and September 30, 2019

	Number of common shares	Share capital \$	Reserves \$	Deficit \$	Total \$
December 31, 2018	66,155,637	18,843,555	2,911,595	(17,642,214)	4,112,936
January 1, 2019, as previously reported	66,155,637	18,843,555	2,911,595	(17,642,214)	4,112,936
Impact of change in accounting policy (IFRS 16) (Note 4)	-	-	-	(31,643)	(31,643)
January 1, 2019, adjusted balance	66,155,637	18,843,555	2,911,595	(17,673,857)	4,081,293
Exercise of stock options	110,000	58,900	-	-	58,900
Re-allocated on exercise of stock options	-	41,373	(41,373)	-	-
Re-allocated on expiry of stock options	-	73,564	(73,564)	-	-
Exercise of warrants	856,665	1,070,832	-	-	1,070,832
Re-allocated on exercise of warrants	-	4,368	(4,368)	-	-
Re-allocated on expiry of warrants	-	22,027	(22,027)	-	-
Share-based payments	-	-	412,132	-	412,132
Loss and comprehensive for the period	-	-	-	(3,251,327)	(3,251,327)
September 30, 2019	67,122,302	20,114,619	3,182,395	(20,925,184)	2,371,830
December 31, 2019	67,189,802	20,068,795	3,163,224	(21,363,583)	1,868,436
Issue of units - private placement	9,565,000	10,999,750	-	-	10,999,750
Share issue costs - cash	-	(618,358)	-	-	(618,358)
Share issue costs - non-cash	-	(281,300)	281,300	-	-
Exercise of stock options	2,584,898	979,145	-	-	979,145
Re-allocated on exercise of stock options	-	783,197	(783,197)	-	-
Re-allocated on cancellation of stock options	-	-	(47,864)	47,864	-
Exercise of warrants	1,616,600	2,586,560	-	-	2,586,560
Re-allocated on exercise of warrants	-	195,865	(195,865)	-	-
Share-based payments	-	-	1,514,660	-	1,514,660
Loss and comprehensive for the period	-	-	-	(3,108,884)	(3,108,884)
September 30, 2020	80,956,300	34,713,654	3,932,258	(24,424,603)	14,221,309

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

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2020 and September 30, 2019

1. NATURE AND CONTINUANCE OF OPERATIONS

Nano One Materials Corp. (the “Company”) was incorporated under the laws of the Province of Alberta on November 5, 1987 and continued under the laws of the Province of British Columbia. The Company’s head office is located at Unit 101B, 8575 Government Street, Burnaby, BC, V3N 4V1, Canada. Its records office is located at Suite 2900 – 550 Burrard Street, Vancouver, BC V6C 0A3, Canada. The Company’s common shares trade on the TSX Venture Exchange under the symbol “NNO”.

The Company has developed, patented and scaled-up an innovative one-pot process for the production of cathode active materials (CAM) for lithium-ion battery applications in electric vehicles, energy storage systems, and consumer electronics. The Company’s technology is intended to improve the performance and cost of cathode materials, and to simplify production using environmentally sustainable processes. The Company has built a demonstration pilot plant (Note 4) and is partnering with global leaders in the lithium-ion battery supply chain to improve the cost and durability of lithium-ion batteries. As of the date of these financial statements, the Company holds sixteen (16) patents (Note 5), with several others pending.

These condensed interim financial statements (the “financial statements”) have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company has not yet commenced revenue generating activities by way of licensing, commercialization, or other and has historically incurred operating losses. As at September 30, 2020, the Company had working capital of \$12,782,605 (December 31, 2019 - \$1,206,485). The Company will utilize this working capital to enable it to execute its research and strategic objectives and carry on as a going concern. On October 29, 2020, the Company completed a short-form prospectus financing consisting of the issue of 5,282,900 units at a price of \$2.72 per unit for gross proceeds of \$14,369,488 (Note 13).

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations or on the Company’s industry partners who provide in-kind and/or financial contributions to the Company’s government programs (Note 6). There are travel restrictions and health and safety concerns that may delay the Company’s research activities. Operations depend on safeguarding all personnel during the outbreak, which may be prohibitive in certain aspects. Nonetheless, the Company has implemented prevention measures at its office and laboratory facilities including the facilitation of remote work programs. To date, the Company has not experienced any significant delays in carrying out its activities. Various Government wage and loan subsidies are available to qualified companies to assist them with operating costs during the pandemic, and the various programs are constantly being expanded and relaxed, which may qualify the Company for additional assistance. To date, the Company has qualified for and received an additional \$250,000 from Sustainable Development Technology Canada, and approximately \$241,000 from the Innovative Assistance Program (under NRC-IRAP), both in relation to COVID-19 pandemic relief (Note 6).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company’s annual audited financial statements for the year ended December 31, 2019, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

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

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2020 and September 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional and presentation currency

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

Comparative figures

Certain comparative figures within operating expenses on the condensed interim statement of loss and comprehensive loss have been reclassified to conform to the current period's presentation. This primarily includes the segregation of (i) consulting; and (ii) investor relations and shareholder information. These accounts have been segregated into business development, management fees, and travel, meals and conferences. Additionally, the comparative figure for interest income within the condensed interim statement of cash flows has also been reclassified to conform to the current period's presentation.

Significant accounting policies

Except as set out below, the accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited financial statements and are those the Company expects to adopt in its financial statements for the year ended December 31, 2020. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited financial statements.

3. RECEIVABLES AND DEPOSITS

Receivables consist of the following:

	September 30, 2020 \$	December 31, 2019 \$
Research cost recoveries due from Global OEM partner	-	139,738
Sales tax recoverable	42,167	7,924
Other receivables	4,000	-
	46,167	147,662

Research cost recoveries and receivables

On June 20, 2019, the Company entered into an agreement with a Global OEM (Original Equipment Manufacturer) (the "OEM Partner") to jointly evaluate processes and innovative cathode materials for high energy density lithium-ion batteries in automotive applications (the "Work Program"). The research activity under the Work Program was a direct component of the research efforts under the Company's SDTC Program #2 (Note 6). Under the Work Program, the Company provided staffing and utilized its property and equipment to conduct research activities under the specifications of the Work Program and recovered certain costs from the OEM Partner. The Work Program concluded in May 2020 and the Company recovered total costs of \$523,706 over the course of the Work Program.

During the nine months ended September 30, 2020, the Company collected \$307,100 from the OEM Partner (\$139,738 of which was included in receivables as at December 31, 2019).

During the nine months ended September 30, 2020 and September 30, 2019, the Company recorded the following research cost recoveries accrued/received within research expenses, net:

	September 30, 2020 \$	September 30, 2019 \$
Global OEM Partner	167,362	87,403
Other recoveries received	56,679	-
	224,041	87,403

Nano One Materials Corp.

Notes to the Condensed Interim Financial Statements

Unaudited – Prepared by Management

For the nine months ended September 30, 2020 and September 30, 2019

3. RECEIVABLES AND DEPOSITS (continued)

Deposits consist of the following:

	September 30, 2020 \$	December 31, 2019 \$
Deposits for purchases of property and equipment	274,969	16,570
Security and other deposits	58,565	4,790
	333,534	21,360

4. PROPERTY AND EQUIPMENT

	Research and development equipment \$	Right-of-use assets \$	Pilot plant \$	Corporate equipment and software \$	Leasehold improvements \$	Total \$
Cost						
December 31, 2018	831,972	-	1,803,248	121,948	-	2,757,168
Adoption of IFRS 16	-	285,552	-	-	-	285,552
Additions	51,348	-	155,416	26,696	-	233,460
December 31, 2019	883,320	285,552	1,958,664	148,644	-	3,276,180
Accumulated depreciation						
December 31, 2018	442,631	-	1,529,520	56,410	-	2,028,561
Depreciation	81,156	76,133	298,494	23,848	-	479,631
December 31, 2019	523,787	76,133	1,828,014	80,258	-	2,508,192
Cost						
December 31, 2019	883,320	285,552	1,958,664	148,644	-	3,276,180
Additions	291,471	294,800	145,374	33,678	43,737	809,060
September 30, 2020	1,174,791	580,352	2,104,038	182,322	43,737	4,085,240
Accumulated depreciation						
December 31, 2019	523,787	76,133	1,828,014	80,258	-	2,508,192
Depreciation	70,793	100,315	49,899	20,898	11,190	253,095
September 30, 2020	594,580	176,448	1,877,913	101,156	11,190	2,761,287
Net book value						
December 31, 2019	359,533	209,419	130,650	68,386	-	767,988
September 30, 2020	580,211	403,904	226,125	81,166	32,547	1,323,953

Depreciation for the nine months ended September 30, 2020 and September 30, 2019, is allocated as follows:

	Depreciation expense \$	Research and development \$	Total \$
September 30, 2019			
Research and development equipment	-	61,368	61,368
Right-of-use assets	25,767	38,298	64,065
Pilot plant	-	293,909	293,909
Corporate equipment and software	17,107	-	17,107
	42,874	393,575	436,449
September 30, 2020			
Research and development equipment	-	70,793	70,793
Right-of-use assets	60,607	39,708	100,315
Pilot plant	-	49,899	49,899
Corporate equipment and software	20,898	-	20,898
Leasehold improvements	-	11,190	11,190
	81,505	171,590	253,095

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

Unaudited – Prepared by Management

For the nine months ended September 30, 2020 and September 30, 2019

4. PROPERTY AND EQUIPMENT (continued)Right-of-use assets and Lease liabilities

The Company has agreements to lease office space, and laboratory facilities. The Company has determined that its lease contracts are leases as defined under IFRS 16 – *Leases* (“IFRS 16”). In analyzing the identified contracts, the Company applied the lessee accounting model pursuant to IFRS 16 and considered all of the facts and circumstances surrounding the inception of the contract (but not future events that are not likely to occur). Lease liabilities were calculated with a discount rate of 9%. The Company has identified the following leases:

Location	Asset	Type	Useful life of lease at inception	Useful life of lease at September 30, 2020
Burnaby, BC	Building	Corporate head office (main)	6.0 Years	2.0 Years
Burnaby, BC	Building	Corporate head office (expansion)	1.2 Years	0.7 Years
Burnaby, BC	Building	Laboratory	6.0 Years	2.0 Years
Burnaby, BC	Building	Laboratory	3.0 Years	2.9 Years

A reconciliation of the carrying amount of the lease liabilities as at September 30, 2020 and December 31, 2019 and changes during the period/year then ended is as follows:

	September 30, 2020 \$	December 31, 2019 \$
Lease liabilities		
Beginning of period/year	253,395	317,195
Additions	294,800	-
Lease payments	(126,835)	(95,506)
Lease interest (finance costs)	20,207	31,706
End of period/year	441,567	253,395
 Current portion of lease liabilities	 199,687	 101,719
Non-current portion of lease liabilities	241,880	151,676
 Maturity analysis - contractual undiscounted cash flows		
Less than one year	229,167	101,719
One to five years	254,190	182,669
Total undiscounted lease liabilities	483,357	284,388

Short-term leases are leases with a lease term of twelve months or less. As at September 30, 2020, and December 31, 2019, the Company did not have any short-term leases. As at September 30, 2020 and December 31, 2019, the Company included the available three-year extension options on its leases within the measurement of the lease liabilities, and there were no leases with residual value guarantees.

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

Unaudited – Prepared by Management

For the nine months ended September 30, 2020 and September 30, 2019

5. INTANGIBLE ASSETS

Intangible assets include sixteen (16) issued patents associated with the Company's technology (Note 1). These patents were issued by various jurisdictions including: Canada, China, Japan, Korea, Taiwan, and the United States. The patents have expiries ranging between fourteen (14) to nineteen (19) years from the patent issuance date. The Company was not issued any patents during the nine months ended September 30, 2020.

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

	Issued patents \$
<u>Cost</u>	
December 31, 2018	13,877
Additions	11,637
December 31, 2019	25,514
<u>Accumulated amortization</u>	
December 31, 2018	-
Amortization	1,235
December 31, 2019	1,235
<u>Cost</u>	
December 31, 2019 and September 30, 2020	25,514
<u>Accumulated amortization</u>	
December 31, 2019	1,235
Amortization	1,182
September 30, 2020	2,417
<u>Net book value</u>	
December 31, 2019	24,279
September 30, 2020	23,097

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

Unaudited – Prepared by Management

For the nine months ended September 30, 2020 and September 30, 2019

6. GOVERNMENT ASSISTANCE

The Company receives funding from the Government of Canada for its research activities through various programs. During the nine months ended September 30, 2020 and September 30, 2019, the following amounts were recognized as a reduction to research expenses:

	September 30, 2020 \$	September 30, 2019 \$
Cash received:		
Sustainable Development Technology Canada (SDTC)	3,055,202	1,181,944
Innovation Assistance Program (IAP)	241,225	-
Automotive Supplier's Innovation Program (ASIP)	217,446	168,691
Industrial Research Assistance Program (NRC-IRAP)	164,167	52,431
Other Grants	2,700	15,000
	3,680,740	1,418,066
Non-cash amortization and deferrals	(928,480)	(865,613)
	2,752,260	552,453

Deferred government assistance:

As at September 30, 2020, \$1,604,853 is recorded within deferred government assistance in relation to SDTC Program #2 (below) (December 31, 2019 - \$676,373). The Company records the receipt of SDTC grant instalments initially as a liability (deferred government assistance) and recognizes the grant as a reduction to research expenses on a pro rata basis upon incurring the required expenditures associated with the current Milestone project phase at the time.

Sustainable Development Technology Canada ("SDTC"):SDTC Program #2 (active):

Effective July 1, 2019, the Company executed a contribution agreement with SDTC for a non-repayable grant of up to \$5,000,000 in respect of the Company's "Scaling Advanced Battery Materials" project. During the nine months ended September 30, 2020, the Company received an additional one-time non-repayable grant of \$250,000 from SDTC in relation to COVID-19 pandemic relief, thereby increasing the SDTC Program #2 contribution from SDTC to \$5,250,000 (collectively, the "grant").

On May 6, 2020, the Company announced that the Innovative Clean Energy ("ICE") Fund of the Province of British Columbia's Ministry of Energy, Mines and Petroleum Resources will be contributing \$3,033,000 to the SDTC Program #2. The funds are non-repayable, and the Company will receive the funds in alignment with the SDTC grant as described above.

The funds from SDTC are payable to the Company in five instalments including the release of a final 10% hold-back of \$500,000 to the Company upon satisfactory review and approval of the project by SDTC. The instalments from SDTC are to be paid to the Company at the beginning of each of the four (4) project phases ("Milestones") through to June 30, 2024. Each instalment payment is subject to the Company meeting the specific project Milestones and having available cash resources to match each instalment from SDTC.

During the year ended December 31, 2019, the Company received the instalment for Milestone 1 from SDTC in the amount of \$973,814. Effective May 31, 2020, the Company had successfully completed Milestone 1 and on September 21, 2020, the Company received the instalment for Milestone 2 from SDTC and ICE in the aggregate amount of \$2,805,202.

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

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For the nine months ended September 30, 2020 and September 30, 2019

6. GOVERNMENT ASSISTANCE (continued)**Sustainable Development Technology Canada (“SDTC”) (continued):**SDTC Program #1 (completed):

Effective June 1, 2016, the Company executed a contribution agreement with SDTC for a non-repayable technology commercialization grant of up to \$2,081,297 for a lithium-ion battery materials pilot plant project. During the year ended December 31, 2019, the Company received the final payment of \$208,130. Accordingly, the Company had received the entire grant amount of \$2,081,297 by December 31, 2019.

National Research Council of Canada’s Industrial Research Assistance Program (“NRC-IRAP”):NRC-IRAP Program #5 (active):

Effective August 1, 2018, the Company executed an agreement with NRC-IRAP which provides the Company with a non-repayable contribution of up to \$349,000 for the development of coatings for high durability lithium-ion battery cathodes. Under the terms of the agreement, NRC-IRAP will reimburse the Company for 80% of salaries paid to Company employees involved in this project.

During the nine months ended September 30, 2020, the Company received a total of \$164,167 (2019 - \$52,431) in connection with this grant.

Innovation Assistance Program (“IAP”) from NRC-IRAP:

Effective April 1, 2020, the Company executed an agreement with IAP which provided the Company with a non-repayable contribution of up to \$243,936 in relation to COVID-19 pandemic relief relating to the Company’s development of coatings for high durability lithium-ion battery cathodes. Under the terms of the agreement, IAP reimbursed the Company for 100% of salaries paid to Company employees involved in this project through to June 24, 2020.

During the nine months ended September 30, 2020, the Company received a total of \$241,225 (2019 - \$nil) in connection with this grant.

Automotive Supplier’s Innovation Program – a program of Innovation, Science and Economic Development Canada (ISED) (“ASIP”) (completed):

Effective June 1, 2016, the Company executed an agreement with ASIP which provided the Company with a non-repayable contribution of up to \$1,950,522. The proceeds from the grant were incurred by the Company in relation to the preparation, design, construction, optimization and operation of its pilot plant.

During the nine months ended September 30, 2020, the Company received the final payment of \$217,446 (2019 - \$168,691) in connection with this grant. The ASIP program effectively concluded in June 2020.

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

Unaudited – Prepared by Management

For the nine months ended September 30, 2020 and September 30, 2019

6. GOVERNMENT ASSISTANCE (continued)**Other Grants:**

During the nine months ended September 30, 2020, the Company received additional government grants for training and employment totalling \$2,700 (2019 - \$15,000).

The cumulative amount of program funding received from the Government of Canada for all periods are as follows:

	September 30, 2020 \$	December 31, 2019 \$
Sustainable Development Technology Canada (SDTC)	6,110,313	3,055,111
Automotive Supplier's Innovation Program (ASIP)	1,950,952	1,733,506
Industrial Research Assistance Program (NRC-IRAP)	776,848	612,681
Innovation Assistance Program (IAP) (from NRC-IRAP)	241,225	-
Scientific Research & Experimental Development (SR&ED)	98,661	98,661
Other Grants	80,059	77,359
	9,258,058	5,577,318

7. SHARE CAPITAL AND RESERVES

The authorized share capital of the Company consists of unlimited common shares without par value. All issued common shares are fully paid.

Transactions for the issue of share capital during the nine months ended September 30, 2020:

- a) On February 21, 2020, the Company completed a non-brokered private placement consisting of the issue of 9,565,000 units at a price of \$1.15 per unit for gross proceeds of \$10,999,750. Each unit consists one common share and one-half of a common share purchase warrant with each whole warrant exercisable into one common share at an exercise price of \$1.60 until February 21, 2023. The residual value of the warrants attached to the units was determined to be \$nil.

Cash finders' fees totalling \$557,221 and legal fees of \$61,137, were incurred in respect of the placement. Additionally, the Company issued 467,740 finders' warrants having a fair value of \$281,300. These share issue costs were recorded as a reduction of share capital.

The Company recorded the fair value of the finders' warrants issued using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of warrants – three years, stock price volatility – 60.00%, no dividend yield, and a risk-free interest rate yield – 1.28%.

- b) The Company issued 2,584,898 common shares on the exercise of stock options at prices between \$0.25 and \$1.57 per share, for proceeds of \$979,145. In addition, \$783,197 representing the fair value of the stock options granted and vested was re-allocated from reserves to share capital.
- c) The Company issued 1,616,600 common shares on the exercise of warrants at a price of \$1.60 per share, for proceeds of \$2,586,560. In addition, \$195,865 representing the fair value of certain of the warrants (finders' warrants) on initial issuance was re-allocated from reserves to share capital.

Transactions for the issue of share capital during the nine months ended September 30, 2019:

- d) The Company issued 110,000 common shares on the exercise of stock options at prices ranging between \$0.35 and \$0.70 per share, for proceeds of \$58,900. In addition, \$41,373 representing the fair value of the stock options on initial vesting was re-allocated from reserves to share capital.
- e) The Company issued 856,665 common shares on the exercise of warrants at a price of \$1.25 per share, for proceeds of \$1,070,832. In addition, \$4,368 representing the fair value of certain of the warrants (finders' warrants) on initial issuance was re-allocated from reserves to share capital.

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

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7. SHARE CAPITAL AND RESERVES (continued)**Stock options**

The Company has a stock option plan under which the maximum number of stock options issued cannot exceed 10% of the Company's currently issued and outstanding common shares. The exercise price of each stock option shall not be less than the discounted market price of the Company's common shares as calculated on the date immediately prior to the date of grant. The stock options can be granted for a maximum term of ten years, and vest at the discretion of the Board of Directors.

A summary of the status of the Company's stock options as at September 30, 2020 and December 31, 2019, and changes during the period/year then ended is as follows:

	Period ended September 30, 2020		Year ended December 31, 2019	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of period/year	5,843,425	0.86	5,937,500	0.84
Granted	1,487,250	2.53	195,000	1.34
Exercised	(2,584,898)	0.38	(177,500)	0.43
Cancelled	(77,500)	1.34	(111,575)	1.48
Options outstanding, end of period/year	4,668,277	1.65	5,843,425	0.86

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7. SHARE CAPITAL AND RESERVES (continued)**Stock options (continued)**

As at September 30, 2020, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise price \$	Expiry date
100,000	100,000	0.38	April 8, 2021
50,000	50,000	0.50	September 13, 2021
25,000	25,000	0.70	March 10, 2022
25,000	25,000	0.67	June 5, 2022
50,000	50,000	1.08	September 13, 2022
150,000	150,000	1.14	January 3, 2023
50,000	50,000	1.19	January 9, 2023
219,027	219,027	1.57	July 12, 2023
25,000	25,000	1.08	September 10, 2023
2,387,000	2,387,000	1.28	November 12, 2023
100,000	100,000	1.35	March 21, 2024
1,437,250	1,140,000	2.52	July 20, 2023
50,000	-	2.81	September 8, 2023
4,668,277	4,321,027		

During the nine months ended September 30, 2020, the Company granted 1,487,250 stock options to Officers, Directors, employees and consultants (2019 - 195,000 stock options were granted to an employee and consultants of the Company). The Company recorded the fair value of the options granted using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair values were determined using the following weighted average assumptions:

	September 30, 2020	September 30, 2019
Risk-free interest rate	0.3%	1.6%
Expected life of stock options (years)	3.0	4.1
Historical volatility	71.4%	80.0%
Dividend rate	0%	0%

The total share-based payments expense for the nine months ended September 30, 2020 was \$1,514,660 (2019 - \$412,132), which includes only those stock options that vested during the period then ended.

During the nine months ended September 30, 2020, 77,500 (2019 – nil) stock options were cancelled upon termination of consulting contracts. As a result, the original share-based payments expense of \$47,864 was reversed from reserves and credited to deficit.

During the nine months ended September 30, 2020, there were no stock options that expired unexercised. During the nine months ended September 30, 2019, 76,450 stock options expired unexercised. As a result, the original share-based payments expense of \$73,564 was reversed from reserves and credited to deficit.

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7. SHARE CAPITAL AND RESERVES (continued)**Stock options (continued)**

The following table summarizes information about the stock options outstanding as at September 30, 2020:

Exercise prices \$	Options #	Weighted average remaining life (years)	Weighted average exercise price \$
0.25 - 0.74	200,000	0.89	0.49
1.08 - 1.28	2,662,000	3.03	1.26
1.35 - 1.57	319,027	3.00	1.50
2.52 - 2.81	1,487,250	2.81	2.53
	4,668,277	2.87	1.65

See Note 13 for details of stock options exercised subsequent to September 30, 2020.

Warrants

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

A summary of the Company's common share purchase warrants as at September 30, 2020 and December 31, 2019, and changes during the period/year then ended is as follows:

	Period ended September 30, 2020		Year ended December 31, 2019	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of period/year	676,500	1.60	1,879,555	1.25
Issued - attached to units	4,782,500	1.60	676,500	1.60
Issued - finders' warrants	467,740	1.60	-	-
Exercised	(1,616,600)	1.60	(856,665)	1.25
Expired	-	-	(1,022,890)	1.25
Warrants outstanding, end of period/year	4,310,140	1.60	676,500	1.60

As at September 30, 2020, the Company has warrants outstanding and exercisable as follows:

Warrants #	Weighted average exercise price \$	Expiry Date	Weighted average remaining life (years)
263,000	1.60	October 23, 2020	0.06
4,047,140	1.60	February 21, 2023	2.39
4,310,140	1.60		2.24

See Note 13 for details of warrants exercised and expired subsequent to September 30, 2020.

During the year ended December 31, 2019, the Company completed a warrant exercise incentive program which facilitated the early exercise of outstanding warrants which had an expiry of September 8, 2019. The program commenced on August 8, 2019 and completed on August 23, 2019. Under the program, 676,500 warrants were exercised into common shares at a price of \$1.25 each for proceeds of \$845,625. Additionally, the Company issued one warrant (the "incentive warrants") for every warrant exercised under the program. The incentive warrants are exercisable into common shares at a price of \$1.60 each until October 23, 2020. The incentive warrants are subject to accelerated expiry terms. There was no value recognized on issuance of the incentive warrants during the year ended December 31, 2019.

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8. 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:

Nature of transaction or balance	Nature of relationship	Transactions nine months ended September 30, 2020	Transactions nine months ended September 30, 2019	Balances outstanding September 30, 2020	Balances outstanding December 31, 2019
		\$	\$	\$	\$
Legal fees	(1)	99,128	89,648	40,660	16,883
Management and directors' fees	(2)	365,000	45,000	55,125	5,250
Salaries and benefits / Research expenses	Officers (*)	703,750	160,992	136,050	-
Share-based payments	Officers/Directors (*)	1,339,100	-	-	-
Expense reimbursements	Officer	-	-	-	2,731
		2,506,978	295,640	231,835	24,864

(*) Salaries and benefits including amounts allocated to research expenses (recoveries) are paid to the Company's CEO (Dan Blondal), CTO (Stephen Campbell), and President (John Lando). Share-based payments includes the value of stock options vested which involve all Directors and Officers of the Company.

(1) Legal fees are incurred with Patent Filing Specialists Inc., a company controlled by an independent director of the Company (Joseph Guy). The transactions incurred during the nine months ended September 30, 2020, are included within professional fees (2019 – professional fees and intangible assets).

(2) Management fees are paid to Bedrock Capital Corp. a company controlled by Paul Matysek, Chairman/Director; and to Donaldson Brohman Martin, CPA Inc. (DBM CPA) where the CFO (Dan Martino) of the Company is employed. Directors' fees are accrued to the Company's two independent directors (Joseph Guy and Lyle Brown).

9. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash investing and financing activities during the nine months ended September 30, 2020 and September 30, 2019 as follows:

	September 30, 2020 \$	September 30, 2019 \$
Non-cash investing activities:		
Property and equipment included in accounts payable and accrued liabilities	104,189	-
Transfer of deposits to property and equipment	16,569	-
Non-cash financing activities:		
Addition of right-of-use asset (Note 4)	294,800	317,195
Fair value of finders' warrants issued	281,300	-
Re-allocation of reserves on stock options exercised	783,197	41,373
Re-allocation of reserves on stock options cancelled/expired	47,864	73,564
Re-allocation of reserves on warrants exercised	195,865	4,368
Re-allocation of reserves on warrants expired	-	22,027

During the nine months ended September 30, 2020 and September 30, 2019, no amounts were paid for interest or income taxes.

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For the nine months ended September 30, 2020 and September 30, 2019

9. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

A reconciliation of the carrying amount of short-term investment as at September 30, 2020 and December 31, 2019 and changes during the period/year then ended is as follows:

	September 30, 2020 \$	December 31, 2019 \$
Short-term investment		
Beginning of period/year	198,911	-
Purchase	1,000,000	196,749
Interest income received or accrued	6,324	2,162
Maturity	(199,851)	-
End of period/year	1,005,384	198,911

As at September 30, 2020 and December 31, 2019, the Company's short-term investment included a non-redeemable guaranteed investment certificate ("GIC") held with a Canadian chartered bank bearing interest at 1.50% and 2.10% per annum, respectively.

10. MANAGEMENT OF CAPITAL

The Company considers items included in shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new common shares. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. The Company's capital structure as at September 30, 2020, is comprised of its components of shareholders' equity. There were no changes to the Company's approach to capital management during the nine months ended September 30, 2020.

The Company currently has no source of revenues, though it receives funding from government assistance programs (Note 6), and certain research cost recoveries from strategic partners. In order to fund future research activities and pay for operating expenses, the Company will spend its existing working capital and raise additional funds as needed. The Company's ability to continue as a going concern on a long-term basis and realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation is primarily dependent upon continued government assistance programs, financial support and/or contributions of its industry partners, the ability to raise additional financing from equity markets, and the ability to generate future profitable operations.

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For the nine months ended September 30, 2020 and September 30, 2019

11. FINANCIAL INSTRUMENTS**Financial instruments - fair value**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Financial instruments - classification

Financial assets:	Classification:	Subsequent measurement:
Cash and cash equivalents	FVTPL	Fair value
Short-term investment	Amortized cost	Amortized cost
Receivables	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost

Financial liabilities:	Classification:	Subsequent measurement:
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Accounts payable to related parties	Amortized cost	Amortized cost
Lease liabilities	Amortized cost	Amortized cost

The Company's financial instruments with the exception of cash and cash equivalents approximate their fair values. Cash and cash equivalents under the fair value hierarchy is based on Level 1 quoted prices in active markets for identical assets or liabilities. The carrying value of lease liabilities approximates its fair value due to being discounted with a rate of interest that approximates market rates.

Financial instruments - risk

The Company's financial instruments can be exposed to certain financial risks including liquidity risk, credit risk, interest rate risk, price risk, and currency risk.

a) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources. The Company has historically relied upon equity financings and government assistance programs to satisfy its capital requirements and will continue to depend upon these sources to finance its activities.

Nano One Materials Corp.**Notes to the Condensed Interim Financial Statements**

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11. FINANCIAL INSTRUMENTS (continued)**Financial instruments - risk (continued)****b) Credit risk**

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk on its cash and cash equivalents, short-term investment, other receivables, and deposits.

The Company minimizes its credit risk on its cash and cash equivalents and short-term investment, by holding the funds/investment with a high-credit quality Canadian bank. Management believes that the Company's credit risk attributable to its other receivables is low.

The Company is also exposed to credit risk relating to its deposits in which management believes the risk to be low. The Company's deposits are subject to the expected credit loss model for impairment testing. The Company applies the IFRS 9 simplified approach to the deposits to measure expected credit loss which uses a lifetime expected loss allowance. The deposits have been assessed based on debtor circumstances and are considered to be low risk. Moreover, certain deposits relate to future purchases of equipment of which the Company expects to receive in the near-term.

c) Interest rate risk

The Company is exposed to interest rate risk because of fluctuating interest rates. Fluctuations in market rates do not have a significant impact on the Company's operations due to the short-term to maturity and no penalty cashable features of its cash equivalents. For the nine months ended September 30, 2020, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the period by approximately \$48,000 (2019 - \$7,000).

d) Price risk

Equity price risk is defined as the potential adverse impact on the Company's results of operations and the ability to obtain equity financing due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors the individual equity movements to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

e) Currency risk

Currency risk is the risk of fluctuation in profit or loss that arises from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company is exposed to currency risk as it incurs certain transactions in the United States dollar and the Euro. Additionally, as at September 30, 2020, the Company held certain financial assets and liabilities that were denominated in these foreign currencies. For the nine months ended September 30, 2020, every 10% fluctuation in foreign exchange rates would have had an insignificant impact on loss and comprehensive loss for the period.

12. SEGMENTED INFORMATION

The Company operates in one business segment being the development of a patented process for the production of cathode active materials for lithium-ion battery applications in electric vehicles, energy storage systems, and consumer electronics (Note 1). The Company's non-current assets are located in Canada with the exception of certain patents within intangible assets that have been issued from patent regulators in foreign jurisdictions (Note 5).

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13. SUBSEQUENT EVENTS

- (a) In October 2020, the Company issued 30,250 common shares on the exercise of stock options at a weighted average exercise price of approximately \$0.69 per share, for proceeds of \$20,743.
- (b) In October 2020, the Company issued 327,875 common shares on the exercise of warrants at a price of \$1.60 per share, for proceeds of \$524,600. Additionally, 33,000 warrants expired unexercised on October 23, 2020.
- (c) On October 29, 2020, the Company completed a short-form prospectus financing consisting of the issue of 5,282,900 units at a price of \$2.72 per unit for gross proceeds of \$14,369,488. Each unit consists one common share and one-half of a common share purchase warrant with each whole warrant exercisable into one common share at an exercise price of \$3.55 until October 29, 2022.

Cash finders' fees totalling \$862,169 and other fees of \$120,740, have been incurred to the date of these financial statements in respect of the financing resulting in net proceeds to the Company of \$13,386,579 upon closing. Additionally, the Company issued 422,632 finders' warrants exercisable at \$2.72 each until October 29, 2022, as well as 79,242 common shares to the finders as a corporate finance fee.