



Unaudited Interim Condensed Consolidated  
Financial Statements of

## **LOOP ENERGY INC.**

(Expressed in thousands of Canadian dollars)

As at September 30, 2022 and for the three  
and nine months ended September, 2022 and  
2021

# LOOP ENERGY INC.

Unaudited Interim Condensed Consolidated Statements of Financial Position  
(Expressed in thousands of Canadian dollars)

	As at September 30, 2022 \$	As at December 31, 2021 \$
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	36,949	67,030
Accounts receivable (note 3)	3,237	2,066
Tax credit receivable (note 15)	182	1,416
Inventory (note 4)	3,927	1,280
Prepaid expenses and advances	7,105	6,564
<b>Total current assets</b>	<b>51,400</b>	<b>78,356</b>
Non-current assets		
Accounts receivable (note 3)	289	477
Property, plant and equipment (note 5)	13,659	5,260
<b>Total non-current assets</b>	<b>13,948</b>	<b>5,737</b>
<b>Total assets</b>	<b>65,348</b>	<b>84,093</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	5,312	2,846
Current portion of lease liabilities (note 7)	900	715
Current portion of long-term debt (note 8)	175	175
Deferred revenue and recoveries (note 9)	666	2,479
Warranty provision (note 11)	427	112
<b>Total current liabilities</b>	<b>7,480</b>	<b>6,327</b>
Non-current liabilities		
Lease liabilities (note 7)	2,983	1,350
Long-term debt (note 8)	3,226	219
Deferred revenue and recoveries (note 9)	2,275	849
Warranty provision (note 11)	471	193
<b>Total non-current liabilities</b>	<b>8,955</b>	<b>2,611</b>
<b>Total liabilities</b>	<b>16,435</b>	<b>8,938</b>
Shareholders' equity:		
Common shares (note 12)	126,517	126,310
Share-based payment reserve	8,090	6,556
Deficit	(85,631)	(57,797)
Foreign currency reserve	(63)	86
<b>Total shareholders' equity</b>	<b>48,913</b>	<b>75,155</b>
<b>Total liabilities and equity</b>	<b>65,348</b>	<b>84,093</b>

Commitments (note 5)

Subsequent events (note 9)

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

# LOOP ENERGY INC.

Unaudited Interim Condensed Consolidated Statements of Loss and Comprehensive Loss  
(Expressed in thousands of Canadian dollars, except per share amounts and share data)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenues (note 14)	1,404	206	2,647	1,296
Cost of sales (note 4)				
Cost of goods sold	3,283	620	7,761	3,661
Change in allowance for inventory write-down	736	910	1,783	812
Gross margin	(2,615)	(1,324)	(6,897)	(3,177)
Expenses:				
General and administrative	3,329	2,013	8,360	7,477
Engineering	4,126	1,891	9,887	5,891
Business development	1,794	913	4,189	1,913
Technology development	290	413	932	761
	9,539	5,230	23,368	16,042
(Cost recoveries) expenses:				
Research and development tax credits (note 15)	26	-	113	(209)
SDTC and JGF Program (note 9)	(2,042)	(33)	(2,109)	(1,696)
Other grants	(35)	-	(45)	(5)
Operating expenses	7,488	5,197	21,327	14,132
	-	-		
Loss before the undernoted	(10,103)	(6,521)	(28,224)	(17,309)
Other income (expenses):				
Foreign currency exchange(loss) income	113	102	149	95
Interest income	227	82	467	134
Equity-accounted loss	-	(144)	-	(230)
Finance expense (note 10)	(101)	(57)	(226)	(253)
<b>Net loss</b>	<b>(9,864)</b>	<b>(6,538)</b>	<b>(27,834)</b>	<b>(17,563)</b>
<b>Other comprehensive income (loss):</b>				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	9	19	(149)	19
<b>Total comprehensive loss</b>	<b>(9,855)</b>	<b>(6,519)</b>	<b>(27,983)</b>	<b>(17,544)</b>
Loss per common share - basic and diluted	(0.29)	(0.19)	(0.83)	(0.58)
Weighted average number of common shares outstanding	33,787,648	33,626,683	33,720,536	30,397,146

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements

# LOOP ENERGY INC.

Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity  
(Expressed in thousands of Canadian dollars, except share data)

	Common shares #	Common shares \$	Preferred shares #	Preferred shares \$	Share-based payment reserve \$	Deficit \$	Foreign currency reserve \$	Total shareholders' equity \$
Balance December 31, 2020	17,983,506	15,675	6,944,445	14,990	2,770	(32,777)	-	658
Conversion of preferred share to common shares	6,944,445	14,990	(6,944,445)	(14,990)	-	-	-	-
Conversion of convertible debentures	2,399,999	3,685	-	-	(88)	-	-	3,597
Issuance of preferred shares, net of costs	6,250,000	91,822	-	-	-	-	-	91,822
Warrants (note 12)	-	-	-	-	1,662	-	-	1,662
Exercise of stock options (note 13)	66,666	134	-	-	(61)	-	-	73
Share-based payments (note 13)	-	-	-	-	1,836	-	-	1,837
Net Loss	-	-	-	-	-	(17,564)	-	(17,564)
Other Comprehensive income (loss):								
Foreign currency translation	-	-	-	-	-	-	19	19
Other	11	-	-	-	-	-	-	-
Balance, September 30, 2021	33,644,627	126,306	-	-	6,119	(50,341)	-	82,104
Balance December 31, 2021	33,649,314	126,310	-	-	6,556	(57,797)	86	75,155
Exercise of stock options (note 13)	428,334	207	-	-	(81)	-	-	126
Share-based payments (note 13)	-	-	-	-	1,615	-	-	1,615
Net loss	-	-	-	-	-	(27,834)	-	(27,834)
Other comprehensive income (loss):								
Foreign currency translation	-	-	-	-	-	-	(149)	(149)
Balance, September 30, 2022	34,077,648	126,517	-	-	8,090	(85,631)	(63)	48,913

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

# LOOP ENERGY INC.

Unaudited Interim Condensed Consolidated Statements of Cash Flows  
(Expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss	(9,864)	(6,540)	(27,834)	(17,564)
Items not affecting cash:				
Depreciation (note 5)	625	340	1,328	785
Finance expense (note 10)	101	58	226	253
Equity-accounted loss	-	144	-	230
Inventory write-down (note 4)	2,001	1,208	4,886	2,677
Share-based payments (note 13)	579	504	1,615	1,836
Special advisor warrants	-	-	-	1,662
Other	(54)	38	(75)	23
Changes in non-cash working capital and other items, net (note 18)	(1,846)	(2,094)	(7,097)	(5,568)
<b>Net cash flows used in operating activities</b>	<b>(8,458)</b>	<b>(6,342)</b>	<b>(26,951)</b>	<b>(15,666)</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment (note 5)	(2,542)	(167)	(7,365)	(1,230)
Proceeds from disposition of assets	-	-	8	-
<b>Net cash flows used in investing activities</b>	<b>(2,542)</b>	<b>(167)</b>	<b>(7,357)</b>	<b>(1,230)</b>
<b>Financing activities</b>				
Share issuance costs	-	-	-	92,322
Net proceeds from exercise of stock options (note 13)	-	73	91	73
Proceeds from long-term debt (note 8)	4,863	-	4,863	-
Repayment of long-term debt (note 8)	(38)	(38)	(114)	(464)
Interest paid	-	-	-	(82)
Lease payments (note 7)	(257)	(133)	(558)	(340)
<b>Net cash flows provided by (used in) financing</b>	<b>4,568</b>	<b>(98)</b>	<b>4,282</b>	<b>91,509</b>
<b>Cash and cash equivalents</b>				
Change during the year	(6,432)	(6,607)	(30,026)	74,613
Impact of foreign exchange on cash and cash equivalents	56	(22)	(55)	(4)
Cash and cash equivalents, beginning of the year	43,325	84,439	67,030	3,201
Cash and cash equivalents, end of period	36,949	77,810	36,949	77,810

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

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## 1. Nature of Business:

Loop Energy Inc. (the "Company") and its wholly-owned subsidiaries are primarily involved in the development of fuel cell technology. The Company was incorporated under the laws of British Columbia, Canada on June 21, 2000 and trades on the Toronto Stock Exchange under the symbol "LPEN".

The registered office of the Company is 2900 - 550 Burrard Street, Vancouver, BC, V6C 0A3. During 2021, the Company relocated its head office to 660 - 2700 Production Way, Burnaby, BC, V5A 4V7.

## 2. Basis of presentation:

### Statement of compliance:

These interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounts Standards ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Company's consolidated financial statements as at and for the year ended December 31, 2021.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company on November 2, 2022.

### Basis of measurement:

The interim condensed consolidated financial statements have been prepared on the historical cost basis using the accrual basis of accounting, except for cash flow information.

### Future operations:

While the Company has incurred losses to date, its strategy to mitigate this uncertainty is to continue its drive to attain profitable operations that are sustainable by executing a business plan that continues to focus on revenue growth, improving gross margins, maintaining discipline over operating expenses, managing working capital requirements, and securing additional financing to fund operations as needed until the Company does achieve profitable operations that are sustainable. Failure to implement this plan could have a material adverse effect on the Company's financial condition and or results of operations.

These interim condensed consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at September 30, 2022, the Company has working capital, defined as current assets less current liabilities, of \$43,920, which the Company expects will provide sufficient liquidity to execute its operating plans for at least the next twelve months.

### Functional and presentation currency:

These interim condensed consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

### Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The accounts of the Company's subsidiaries are prepared for the same reporting period as the Company, using

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

consistent accounting policies. All intercompany balances, transactions, revenues and expenses are eliminated in full in these consolidated financial statements and unrealized gains or losses on transactions are eliminated upon consolidation.

## Subsidiaries:

The following provides information about the Company's wholly owned consolidated subsidiaries as at September 30, 2022:

<b>Name of Subsidiary</b>	<b>State or Jurisdiction of Incorporation</b>	<b>Proportion of Ownership Interest</b>
1123640 B.C. Ltd	Canada	100%
1299502 B.C. Ltd	Canada	100%
Loop Energy Technologies (Shanghai) Co. Ltd.	China	100%

## Comparative information

The comparative information in the condensed consolidated statement of loss and comprehensive loss for the three and nine-month periods ended September 30, 2022 include the reclassification of \$668 and \$1,825, respectively, in inventory write-downs from engineering expense to cost of sales to reflect the presentation adopted at December 31, 2021.

## Estimation uncertainty

The significant estimates and judgments used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the Company's consolidated financial statements as at and for the year ended December 31, 2021. Actual results may differ from these estimates.

## Significant accounting policies:

There are no new standards or interpretations, not yet adopted, that are expected to have a material impact on the Company's financial statements.

The Company operates in one segment and as at September 30, 2022 \$10,562 of the Company's non-current assets are located in Canada and \$3,386 are located in China.

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the Company's annual consolidated financial statements as at and for the year ended December 31, 2021.

## 3. Accounts receivable:

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
	<b>\$</b>	<b>\$</b>
Customer receivables	2,008	779
GST receivable and other	863	565
Receivables from equity-accounted investment	-	484
Government grant receivable (note 9)	655	715
<b>Accounts receivable</b>	<b>3,526</b>	<b>2,543</b>
Current portion	3,237	2,066
Non-current portion	289	477
	<b>3,526</b>	<b>2,543</b>

Receivables from equity-accounted investment and customer receivables are recorded, net of an allowance for an

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

expected credit loss of \$935 (December 31, 2021 - \$114), with credit losses recorded in general and administrative expenses.

## 4. Inventory:

	September 30, 2022 \$	December 31, 2021 \$
Raw materials	3,457	578
Work in progress	296	-
Finished goods	174	702
<b>Inventory</b>	<b>3,927</b>	<b>1,280</b>

As at September 30, 2022, inventory is presented net of an allowance for write-downs of \$3,583 (December 31, 2021 - \$1,800). During the three and nine months ended September 30, 2022, the Company recorded a total of \$2,001 and \$4,886, respectively, in write-downs of its inventory to its net realizable value (three and nine months ended September 30, 2021 - \$1,207 and \$2,677, respectively).

Cost of sales for the three and nine months ended September 30, 2022 is comprised of the cost of inventories recognized as an expense of \$2,269 and \$5,753, overheads of \$552 and \$1,339, warranty costs of \$462 and \$669, and the change in allowance for write-downs of inventory of \$736 and \$1,783, respectively.

## 5. Property, plant and equipment:

	Equipment \$	Leasehold improvements \$	Computer hardware \$	Computer software \$	Right-of- use assets \$	Total \$
<b>Cost</b>						
Balance, December 31, 2021	3,580	1,492	298	293	2,449	8,112
Additions	5,987	1,048	528	127	2,273	9,970
Disposals	(11)	-	-	-	-	(11)
Effect of movements in foreign exchange rates	7	-	-	-	(32)	(32)
<b>Balance, September 30, 2022</b>	<b>9,563</b>	<b>2,540</b>	<b>826</b>	<b>420</b>	<b>4,690</b>	<b>18,039</b>
<b>Accumulated depreciation</b>						
Balance, December 31, 2021	1,055	891	137	121	648	2,852
Depreciation	513	377	118	63	464	1,535
Disposals	(4)	-	-	-	-	(4)
Effect of movements in foreign exchange rates	-	-	-	-	(3)	(3)
<b>Balance, September 30, 2022</b>	<b>1,564</b>	<b>1,268</b>	<b>255</b>	<b>184</b>	<b>1,109</b>	<b>4,380</b>
<b>Carrying amounts</b>						
December 31, 2021	<b>2,525</b>	<b>601</b>	<b>161</b>	<b>172</b>	<b>1,801</b>	<b>5,260</b>
September 30, 2022	<b>7,999</b>	<b>1,272</b>	<b>571</b>	<b>236</b>	<b>3,581</b>	<b>13,659</b>

As at September 30, 2022, the Company has contractual obligations to incur \$4.0 million of future capital expenditures.

Included in the cost of equipment is \$2.0 million of assets under construction that are not being depreciated as they are not yet available for use.

The Company recognized depreciation expense for property, plant and equipment with allocations to the functional



# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

expense as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Cost of sales	198	-	492	-
Engineering	313	171	495	586
General and administrative	85	128	253	158
Business development	16	24	41	24
Technology development	13	17	47	17
	<b>625</b>	<b>340</b>	<b>1,328</b>	<b>785</b>

At September 30, 2022, \$206 of depreciation expense was recorded in inventory.

## 6. Accounts payable and accrued liabilities:

	September 30, 2022	December 31, 2021
	\$	\$
Trade payables and accrued expenses	3,938	1,933
Trade and other payables due to related parties (note 16)	160	21
Payroll accruals	1,214	892
Accounts payable and accrued liabilities	<b>5,312</b>	<b>2,846</b>

## 7. Lease liabilities:

As at September 30, 2022, the Company leases premises for the Company's office and manufacturing space. The lease liabilities have been calculated using discount rates ranging from 8.0% - 10.55% per annum and the leases expire between June 2023 and July 2028.

The following table presents the changes in the balance of the Company's lease related items for which the Company was a lessee for nine months ended September 30, 2022 and the year ended December 31, 2021:

	September 30, 2022	December 31, 2021
	\$	\$
Balance, beginning of year	2,065	450
Additions	2,270	1,894
Effect of movements in foreign exchange rates	(36)	41
Finance expense (note 10)	174	152
Lease payments	(590)	(472)
Balance, end of period	<b>3,883</b>	<b>2,065</b>
Current portion	900	715
Non-current portion	2,983	1,350
Balance, end of period	<b>3,883</b>	<b>2,065</b>

As at September 30, 2022, the undiscounted contractual obligations of the Company's lease liabilities were as follows: Remainder of 2022: \$243; 2023: \$1,011; 2024: \$976; 2025: \$749; 2026: \$763; 2027: \$753; and \$512 thereafter.

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

## 8. Long-term debt:

On March 31, 2022, the Company entered into an agreement with Pacific Economic Development Canada for funding, Job and Growth Fund-Innovation Program ("JGF Program"), of up to \$9.75 million, to assist with project costs associated with increases in the Company's manufacturing capacity. Under the terms of the agreement the funding is repayable over 60 consecutive months commencing on April 1, 2025 and is non-interest bearing. The funds are to be received as certain milestones are accomplished over a period up to March 31, 2024. During the three-months period ended September 30, 2022, the Company submitted the first claim and received \$4,863 from approved funding of up to \$9.75 million. In accordance with the terms of the JGF Program agreement, the Company shall not dispose of any asset acquired or developed which is funded in whole or in part by the funding received without receipt of prior written consent and the Company shall not pay any distribution of retained earnings to shareholders until the loan contribution has been repaid in full.

The Company's long-term obligation is comprised of:

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
	<b>\$</b>	<b>\$</b>
Unsecured loan, maturing March 1, 2024, bearing no interest (a)	296	371
Unsecured promissory notes, with no maturity date, bearing no interest	23	23
Unsecured JGF Program loan, maturing March 31, 2030, bearing no interest (b)	3,082	-
Total long-term debt	3,401	394
Less current portion of long-term debt	175	175
Long-term portion	<b>3,226</b>	<b>219</b>

- (a) During the nine months ended September 30, 2022, the Company repaid \$114 relating to this long-term debt facility and recorded non-cash finance expenses of \$39 (nine months ended September 30, 2021 - \$50) (note 10) related to accretion of an associated discount on the loan.
- (b) During the three months ended September 30, 2022, the Company received \$4,863 relating to JGF Program funding. The loan was recorded at its present value and the Company applied an effective interest rate of 9.75% to discount the cash flows of the non-interest-bearing loan. The remaining balance of the loan is classified as deferred revenue and recoveries (note 9). The Company recorded non-cash finance expenses of \$12 (note 12) during the three months ended September 30, 2022 related to accretion of the associated discount on the loan.

As at September 30, 2022 the contractual maturities of the Company's long-term debt were as follows: 2022: \$61; 2023: \$152; 2024: \$152; 2025: \$729; 2026: \$973; 2027: \$973 and \$2,188 thereafter.

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

## 9. Deferred revenue and recoveries:

	September 30, 2022 \$	December 31, 2021 \$
SDTC	464	2,366
Contracts with customers	235	247
JGF Program	1,587	-
Shanghai Industrial Zone Economic Development	655	715
Balance, end of period	<b>2,941</b>	<b>3,328</b>
Current portion	666	2,479
Non-current portion	2,275	849
Balance, end of period	<b>2,941</b>	<b>3,328</b>

### Sustainable Development Technology Canada ("SDTC")

During 2017, the Company signed an agreement with SDTC to receive funding of \$7,500 related to the development of the Company's technology and the Company received a first milestone payment of \$1,204 in 2017. A follow-on payment of \$667 related to purchases of equipment, which is amortized over a five-year period commensurate with the average depreciable life of the equipment, was received in 2018 and a second milestone payment of \$1,372 was received in 2019. During 2020, SDTC increased the funding commitment to \$7,875 and provided an additional payment of \$375 with \$66 recognized in relation to the first milestone. During 2021, SDTC increased the total funding commitment to \$8,269 and provided an additional \$394, with \$224 being recognized as a cost recovery during 2021, relating to the completed first and second milestones, and the Company received a third milestone prepayment of \$1,621, which was recorded as a deferred cost recovery.

During the three months ended September 30, 2022 the Company recognized the \$1,621 third milestone payment and \$182 in additional funding received as a cost recovery in relation to completion of third milestone. Subsequent to September 30, 2022, the Company received SDTC a further advance payment of \$782 to fund the fourth milestone project.

The following table presents the changes in the balance of the Company's SDTC deferred recoveries for the nine months ended September 30, 2022 and the year ended December 31, 2021:

SDTC	September 30, 2022 \$	December 31, 2021 \$
Balance, beginning of year	2,366	2,081
Receipt of prepayment for third milestone	-	1,621
Receipt of additional funding payment	-	394
Completion of second milestone	-	(1,372)
Completion of third milestone	(1,621)	-
Amortization of equipment cost recovery	(99)	(134)
Recognition of additional funding received in relation to completed milestones	(182)	(224)
Balance, end of period	<b>464</b>	<b>2,366</b>

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

## JGF Program

As disclosed in Note 8, the Company entered into an agreement with Pacific Economic Development Canada and received its first JGF Program funding of \$4,863 during the quarter ended September 30, 2022. The loan was recorded at its present value of \$3,070 on the payment receipt date with the discount of \$1,793 being recorded as deferred cost recovery. The Company recognized \$206 as a cost recovery for the three and nine months ended September 30, 2022 (three and nine months ended September 30, 2021 - nil) in relation to salaries incurred with the remaining recovery to be recognized over the life of the property, plant and equipment acquired which such funds.

The following table presents the changes in the balance of the Company's JGF Program deferred recoveries for the nine months ended September 30, 2022 and the year ended December 31, 2021:

<b>JGF Program</b>	<b>September 30, 2022 \$</b>	<b>December 31, 2021 \$</b>
Balance, beginning of year	-	-
Receipt of first funding payment	1,793	-
Non-capital costs recovery	(206)	-
Balance, end of period	<b>1,587</b>	-

## Shanghai Jiading Industrial Zone

During 2021, the Company, through its subsidiary Loop Energy Technologies (Shanghai) Co. Ltd, entered into a lease agreement for an additional premise through December 31, 2027 (which includes the expected exercise of a three-year extension option by the Company). As part of the agreement, Shanghai Jiading Industrial Zone Economic Development Co., Ltd., a government entity, will reimburse the Company for the lease cost through December 31, 2024. At the inception of the lease, the total value of the government grant was \$684, which the Company has recognized as a deferred recovery, and the future amounts receivable under the lease agreement are recorded in accounts receivable (note 3). The Company has obligations associated with the government grant such that the Company must reach a certain threshold of tax payments by December 31, 2024. If the Company is unable to meet this threshold, the Company is required to proportionately repay the government grant relative to the shortfall of the tax payments.

## 10. Finance expense:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30</b>	
	<b>2022 \$</b>	<b>2021 \$</b>	<b>2022 \$</b>	<b>2021 \$</b>
Interest and accretion of convertible debt	-	-	-	102
Accretion of long-term debt (note 8)	26	15	52	50
Finance expense - lease liabilities (note 7)	75	43	174	101
Total	<b>101</b>	<b>58</b>	<b>226</b>	<b>253</b>

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

## 11. Warranty provision:

	September 30, 2022 \$	December 31, 2021 \$
Balance, beginning of period	305	-
Provisions made during the period, net	593	305
Balance, end of period	<b>898</b>	<b>305</b>
Current portion	427	112
Non-current portion	471	193
Long-term portion	<b>898</b>	<b>305</b>

The provisions for product warranty reflect the estimated costs of replacement and associated services costs that will be incurred by the Company with respect to the products sold.

For the nine-months ended September 30, 2022, the Company recorded warranty provisions of \$593, net of claims, and incurred \$76 in related expenses (September 30, 2021 \$283 and nil respectively).

## 12. Share capital:

The Company has unlimited authorized common shares without par value.

### Initial Public Offering

On February 25, 2021, the Company closed its Initial Public Offering (the "Offering") of 6,250,000 common shares at a price of \$16.00 per share for aggregate gross proceeds of \$100,000. In connection with the Offering, the Company paid a cash commission of \$6,000 and incurred additional share issuance costs of \$2,199.

### Warrants:

The Company has issued warrants that allow the holder to acquire additional common shares of the Company. Warrant transactions are summarized as follows:

	Number of Warrants #	Weighted Average Exercise Price \$
Balance, December 31, 2021	381,167	13.46
Expired	314,500	16.00
Balance, September 30, 2022	<b>66,667</b>	<b>1.50</b>

In February 2021, the Company issued warrants to purchase 314,500 common shares exercisable at a price of \$16.00 per common share for a period of one year. The associated fair value of \$1,662 was recorded as general and administrative expenses at the date of issuance. The valuation of the warrants was calculated using the Black-Scholes method of valuation using the following assumptions:

Risk-free interest rate	0.32%
Expected life of options	1 year
Expected annualized volatility	85%
Dividend	0%

In February 2022, these 314,500 warrants expired unexercised.

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

As at September 30, 2022, warrants outstanding enabling holders to acquire common shares are as follows:

Number of Warrants Outstanding #	Exercise Price \$	Expiry Date
66,667	1.50	January 10, 2024

### 13. Share-based payments:

The Company has a long-term incentive plan (the "Plan") to provide incentives to its officers, directors, employees and certain non-employees. Under the Plan, the Company has reserved up to 10% of the issued and outstanding common shares of the Company to be issued. The Plan allows for the grant of stock options, deferred share units, restricted share units ("RSUs"), performance share units and other share-based awards. As at September 30, 2022, the Company had only granted stock options and RSUs under the Plan.

The exercise price of each option is determined by the volume weighted average trading closing price of the Company's common shares on the TSX for the five trading days immediately preceding the date of grant and is set by the Board of Directors of the Company. The stock options have a maximum term of ten years and vesting periods as determined by the Board of Directors.

The fair value of each RSU grant is measured at the fair-value price at date of grant and generally vest annually in equal amounts over three years from the grant date, or as determined by the Board of Directors of the Company. Each RSU is equal in value to one of the Company's common shares. RSUs do not require the payment of any monetary consideration to the Company. Instead, they represent the right to receive common shares, or a payment representing common shares, following the attainment of vesting criteria determined at date of grant, notably a requirement that an individual remains eligible for awards for a specified period of time. The option to settle the RSUs in common shares or cash is at the Company's election, and the Company intends to settle the RSUs with common shares issued from treasury.

### Stock options:

The following table presents the changes in the balance of the outstanding stock options under the Company's stock option plan:

	Number of Stock Options #	Weighted Average Exercise Price \$
Balance, December 31, 2021	2,822,921	2.53
Forfeited	(37,500)	3.92
Exercised	(428,334)	0.96
Granted	-	-
Expired	(13,399)	16.00
Balance, September 30, 2022	<b>2,343,688</b>	<b>2.72</b>
Exercisable, September 30, 2022	<b>2,042,666</b>	<b>1.76</b>

The weighted average share price on the date of exercise for options exercised during the nine months ended September 30, 2022 was \$2.48.

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

During the nine months ended September 30, 2022, 323,334 stock options with an exercise price of \$0.99 were exercised by a former employee and shareholder via a short-term loan payable by September 30, 2022 and secured by 290,000 common shares which were issued and are being held by the Company. For accounting purposes, the 290,000 common shares held by the Company are being treated as treasury shares until the loan is paid and will be accounted for as an exercise of the option upon payment of the loan. The loan will be repaid by December 15, 2022.

During the nine months ended September 30, 2022, the Company granted a total of nil stock options (nine months ended September 30, 2021 - 303,965) with a weighted average fair value of \$nil per option (September 30, 2021 - \$11.08). The share-based compensation expense for the Company's stock options granted during the nine months ended September 30, 2021 was calculated using the Black-Scholes method of valuation using the following assumptions:

	<b>2021</b>
Risk-free interest rate	1.23%
Expected life of options	8.6 years
Expected annualized volatility	74%
Dividend	0%
Forfeiture rate	0%

Expected annualized volatility was determined through the comparison of historical share price volatilities used by similar publicly listed companies in similar industries.

## RSUs:

The following table presents the changes in the balance of the outstanding RSUs:

	Number of RSUs #
Balance, December 31, 2021	197,238
Forfeited	(174,031)
Vested	-
Granted	785,877
Balance, September 30, 2022	<b>809,084</b>

During the nine months ended September 30, 2022, the Company granted restricted share unit compensation awards to certain officers, directors and employees, with respect to 785,877 RSUs, with an aggregate grant date fair value of \$2,195. Each RSU is equal in value to one of the Company's common shares. Each award represents the specified number of the Company's common shares plus reinvested distributions from the grant date to the vesting date. The awards vest annually in equal amounts over three years from the grant date. Upon vesting, the awards are paid to each grantee in the form of common shares or cash.

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

The Company recognized share-based payments expense for stock options and RSUs, with allocations to the functional expense as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Engineering	121	157	312	507
General and administrative	337	212	971	949
Business development	112	104	314	348
Technology development	9	32	18	32
	<b>579</b>	<b>505</b>	<b>1,615</b>	<b>1,836</b>

## 14. Revenues:

The Company's primary source of revenues is the sale of its fuel cells to its customers. The Company's revenues during the nine months ended September 30, 2022 all relate to goods transferred at a point in time and all of the Company's revenues relate to revenue from contracts with customers.

The following tables disaggregates revenues by the timing of revenues and the geographical region based on the location of the Company's customers:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Europe	1,360	148	2,237	243
Asia-Pacific (excluding China)	44	-	327	-
North America	-	-	83	-
China	-	58	-	1,053
	<b>1,404</b>	<b>206</b>	<b>2,647</b>	<b>1,296</b>

## 15. Scientific research and experimental development ("SR&ED") tax credits:

Prior to becoming a public company in February 2021 SR&ED tax credits were refundable to the Company and recorded as a tax credit receivable. During the nine-month period ended September 30, 2021 the Company recorded its estimated SR&ED tax credits claim for the period to February 25, 2021 and recorded a recovery of \$209.

As at September 30, 2022 the Company has a SR&ED tax credit receivable of \$182 (December 31, 2021 - \$1,416) comprised of a receivable related to the period January 1, 2021 to February 25, 2021. During the nine months ended September 30, 2022, the Company received payment of \$1,122 in relation to its SR&ED tax receivable from 2020 and the Company recorded a reduction to its previously estimated tax credit receivables resulting in an expense for the period of \$113. To the extent the SR&ED claim is adjusted and accepted, it would impact the amount of the tax credit receivable, tax losses and undeducted SR&ED costs carried forward.

## 16. Related party transactions:

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company,



# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

as well as entities that are under common control or controlled by related parties. Transactions were incurred in the normal course of business and are recorded at amounts agreed upon by the related parties.

#### *With entities with Common Directors*

During the first half of 2021, \$850 of convertible debentures, held by entities for which the principals were directors of the Company, were converted to 566,334 common shares of the Company. During the nine months ended September 30, 2021, the Company recorded interest expense of \$21, in finance expense in the Company's interim condensed consolidated statements of loss and comprehensive loss related to the convertible debentures held by these entities.

#### *With the Company's joint venture*

As at September 30, 2022, the Company had a receivable of \$295 from In-Power Loop Energy Technology (Beijing) Co, Ltd (December 31, 2021 - \$484) for sale of ancillary parts of the module for which an allowance for credit loss of \$295 has been recorded. As at September 30, 2022, the Company owed to In-Power Loop Energy Technology (Beijing) Co, Ltd \$160 in accounts payable and accrued liabilities (December 31, 2021 - \$21) for service support provided to a customer on behalf of the Company.

#### **Key management personnel compensation:**

The key management of the Company includes the members of the Board of Directors and certain of the officers of the Company and their total compensation expenses were as follows:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Salaries and benefits	377	542	1,308	1,270
Share-based payments	409	301	1,087	1,265
Director fees	44	31	120	94
	830	874	2,515	2,629

#### **17. Employee remuneration:**

Employee benefit expense are classified in the interim condensed consolidated statements of loss and comprehensive loss as follows:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cost of Sales	175	-	649	-
Engineering	2,198	1,436	5,415	3,831
General and administrative	1,412	825	3,831	2,302
Business development	947	462	2,380	880
Technology development	125	209	331	429
Total	4,857	2,932	12,606	7,442

#### **18. Supplemental cash flow information:**

The changes in non-cash working capital and other items related to operating activities for the three-month and nine-month periods ended September 30, 2022 and 2021 are as follows:

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Accounts receivable	(267)	(844)	(950)	(1,657)
Tax credit receivable	1,148	-	1,235	(209)
Inventory	(4,333)	(1,552)	(7,326)	(2,659)
Prepaid expenses and advances	640	(936)	(544)	(2,425)
Deferred financing fees	-	-	-	500
Accounts payable and accrued liabilities	2,676	548	2,197	(418)
Deferred revenues and recoveries	(2,113)	654	(2,302)	1,017
Warranty provision, net	403	36	593	283
Total	<b>(1,846)</b>	<b>(2,094)</b>	<b>(7,097)</b>	<b>(5,568)</b>

The purchase of property, plant and equipment included in the Company's statement of cash flows includes deposits and advances for property, plant and equipment and is adjusted for property, plant and equipment included in accounts payable and accrued liabilities.

## 19. Financial instruments and risk:

### Fair value

The carrying value of cash and cash equivalents, accounts receivable, advances and accounts payable and accrued liabilities as at September 30, 2022 approximates their fair value given their short-term nature or the discount rates used in assessing the fair value. The carrying value of the long-term debt as at September 30, 2022 approximates fair value given the discount rates used to recognize the liabilities in the interim condensed consolidated statement of financial position and market rates of interest.

### Fair value hierarchical levels

The Company does not have any financial instruments measured at fair value in the interim condensed consolidated statements of financial position and therefore there were no transfers between the levels of the fair value hierarchy during the three and nine months ended September 30, 2022. Additionally, there were no changes in the Company's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the three and nine months ended September 30, 2022.

### Capital Management and Financial Risk Management

As at September 30, 2022, the capital structure of the Company consists of \$65 million (December 31, 2021 - \$84 million) in shareholders' equity and debt. In accordance with the terms of the JGF Program (note 8), that the Company shall not pay any distribution of retained earnings to shareholders until the loan contribution has been repaid in full.

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity given the assumed risks of its operations. The Company considers shareholders' equity as capital. The Company manages capital through its operating and financial budgeting and forecasting processes on a regular basis. The Company reviews its working capital and future cash flow forecasts which are reviewed and approved by the Board of Directors. The Company continually

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts and share data)

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

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makes strategic and financial updates to both capital expenditure and operational budgets in order to adapt to changes in risk factors, proposed expenditure programs and market conditions.

## **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations. The Company's exposure to credit risk on customer accounts receivable is influenced mainly by the individual characteristics of each debtor. The Company currently only has a small number of customers and is therefore able to monitor credit risk on an individual account basis periodically and apply lifetime expected loss provisions where any uncertainty on collectability is identified.

For the nine-months ended September 30, 2022, the Company's largest customer accounted for approximately 78% of sales and the second largest accounted for 7% (nine months ended September 2021 - 57% and 25%, respectively).

At September 30, 2022, one customer accounted for 95% of the outstanding customer receivable (December 31, 2021 - two customers accounted for 49% and 35%).

There have been no significant developments in the Company's financial risk factors as included in the Company's consolidated financial statements as at and for the year ended December 31, 2021.