LOOP ENERGY

Consolidated Financial Statements of

LOOP ENERGY INC.

(Expressed in thousands of Canadian dollars)

As at December 31, 2022 and for the years ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Loop Energy Inc.

Opinion

We have audited the consolidated financial statements of Loop Energy Inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company has incurred recurring losses and negative cash flows from operations, and will be required to obtain additional financing to maintain its level of operations.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the ***"Material Uncertainty related to Going Concern"*** section of the auditor's report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of lower of cost and net realizable of inventory

Description of the matter

We draw attention to Notes 3, 4 and 6 to the financial statements. The Entity records inventory at the lower of cost and net realizable value. In determining the lower of cost and net realizable value of inventory, the Company estimates the likelihood that inventory carrying values will be affected by changes in market pricing or demand for the products and by changes in technology or design which could make inventory on hand recoverable at less than the recorded cost. The Entity had an inventory balance of $4,288 thousand as at December 31, 2022 and during the year ended December 31, 2022 recorded write-downs of $6,785 thousand in cost of sales.

Why the matter is a Key Audit Matter

We identified the assessment of impairment of inventory as a key audit matter. There is significant judgment required in evaluating the results of our audit procedures regarding the estimation of net realizable value used in the lower of cost and net realizable value determination.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following

- For a selection of inventory, we compared the estimated net realizable value used by management in its assessment of the lower of cost, including cost to complete, and net realizable value to:
  - The sale price of the selected inventory realized subsequent to year-end, and
  - The realized sale price of the last sales invoice of the selected inventory sold in 2022.
- Obtained and inspected the inventory subledger and compared a selection of inventory costs at December 31, 2022 to the Entity's estimate of the net realizable value and recalculated any applicable inventory write-down.

Other Information

Management is responsible for the other information. Other information comprises the information in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Robert Ryan Owsnett.

Vancouver, Canada
March 28, 2023

LOOP ENERGY INC.

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

	As at December 31, 2022 $	As at December 31, 2021 $
ASSETS		
Current assets:		
Cash and cash equivalents	24,524	67,030
Accounts receivable (note 5)	3,842	2,066
Tax credit receivable (note 18)	-	1,416
Inventory (note 6)	4,288	1,280
Prepaid expenses and advances	2,001	6,564
Total current assets	34,655	78,356
Non-current assets		
Accounts receivable (note 5)	239	477
Property, plant and equipment (note 7)	20,344	5,260
Total non-current assets	20,583	5,737
Total assets	55,238	84,093
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	3,939	2,846
Current portion of lease liabilities (note 9)	972	715
Current portion of long-term debt (note 10)	175	175
Deferred revenue and recoveries (note 11)	1,656	2,479
Warranty provision (note 13)	184	112
Total current liabilities	6,926	6,327
Non-current liabilities		
Lease liabilities (note 9)	2,764	1,350
Long-term debt (note 10)	3,928	219
Deferred revenue and recoveries (note 11)	1,737	849
Warranty provision (note 13)	373	193
Total non-current liabilities	8,802	2,611
Total liabilities	15,728	8,938
Shareholders' equity:		
Common shares (note 14)	126,828	126,310
Share-based payment reserve	7,966	6,556
Deficit	(95,284)	(57,797)
Foreign currency reserve	-	86
Total shareholders' equity	39,510	75,155
Total liabilities and equity	55,238	84,093

Commitments (note 23)
Subsequent events (notes 11 and 15)

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

LOOP ENERGY INC.

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

	Year ended December 31, 2022 $	Year ended December 31, 2021 $
Revenues (note 16)	3,328	1,424
Cost of sales (note 6)		
Cost of goods sold	10,182	4,450
Change in allowance for inventory write-down	3,143	1,800
Gross margin	(9,997)	(4,826)
Expenses:		
General and administrative	10,732	10,077
Engineering	12,976	8,085
Business development	5,426	2,601
Technology development	1,371	1,056
	30,505	21,819
(Cost recoveries) expenses:		
Research and development tax credits (note 18)	113	(209)
SDTC and JGF Program (note 11)	(2,566)	(1,730)
Other grants	(182)	(5)
Operating expenses	27,870	19,875
Loss before the undernoted	(37,867)	(24,701)
Other income (expenses):		
Foreign currency exchange income	39	47
Interest income	735	227
Equity-accounted loss (note 22)	-	(275)
Finance expense (note 12)	(394)	(318)
Net loss	(37,487)	(25,020)
Other comprehensive income (loss):		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences	(86)	86
Total comprehensive loss	(37,573)	(24,934)
Loss per common share – basic and diluted	(1.11)	(0.80)
Weighted average number of common shares outstanding	33,782,374	31,216,445

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

LOOP ENERGY INC.

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 (note 14)	6,944,445	14,990	(6,944,445)	(14,990)	-	-	-	-
Conversion of convertible debentures	2,399,999	3,685	-	-	(88)	-	-	3,597
Issuance of common shares, net of costs	6,250,000	91,801	-	-	-	-	-	91,801
Warrants (note 14)	-	-	-	-	1,662	-	-	1,662
Exercise of stock options (note 15)	71,353	159			(72)			87
Share-based payments (note 15)	-	-	-	-	2,284	-	-	2,284
Net loss	-	-	-	-	-	(25,020)	-	(25,020)
Other Comprehensive income (loss):								
Foreign currency translation	-	-	-	-	-	-	86	86
Other	11	-	-	-	-	-	-	-
Balance, December 31, 2021	33,649,314	126,310	-	-	6,556	(57,797)	86	75,155
Exercise of stock options (note 15)	611,667	464	-	-	(265)	-	-	199
Cancellation of common shares held in treasury (note 15)	(266,857)	-	-	-	-	-	-	-
Shares issued on RSU redemption	11,667	54	-	-	(54)	-	-	-
Share-based payments (note 15)	-	-	-	-	1,729	-	-	1,729
Net loss	-	-	-	-	-	(37,487)	-	(37,487)
Other comprehensive income (loss):								
Foreign currency translation	-	-	-	-	-	-	(86)	(86)
Balance, December 31, 2022	34,005,791	126,828	-	-	7,966	(95,284)	-	39,510

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

LOOP ENERGY INC.

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

	Year ended December 31, 2022 $	2021 $
Operating activities		
Net loss	(37,487)	(25,020)
Items not affecting cash:		
Depreciation (note 7)	1,710	1,157
Finance expense (note 12)	394	318
Equity-accounted loss	-	275
Equity-accounted investment elimination	-	(45)
Inventory write-down (note 6)	6,785	3,972
Share-based payments (note 15)	1,729	3,946
Other	69	90
Changes in non-cash working capital and other items, net (note 21)	(6,377)	(5,034)
Net cash flows used in operating activities	(33,177)	(20,341)
Investing activities		
Purchase of property, plant and equipment (note 7)	(14,970)	(6,662)
Proceeds from disposition of assets	8	-
Net cash flows used in investing activities	(14,962)	(6,662)
Financing activities		
Share issuance costs	-	91,801
Net proceeds from exercise of stock options (note 15)	226	87
Proceeds from long-term debt (note 10)	5,970	-
Repayment of long-term debt (note 10)	(152)	(502)
Interest paid	-	(82)
Lease payments (note 9)	(822)	(472)
Net cash flows provided by financing activities	5,222	90,832
Cash and cash equivalents		
Change during the year	(42,917)	63,829
Impact of foreign exchange on cash and cash equivalents	411	-
Cash and cash equivalents, beginning of the year	67,030	3,201
Cash and cash equivalents, end of year	24,524	67,030

Supplemental cash flow information (note 21)

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

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 consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

The accounting policies set out in note 3 have been applied consistently to all years presented in these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors of the Company on March 28, 2023.

Basis of measurement:
The consolidated financial statements have been prepared on the historical cost basis using the accrual basis of accounting, except for cash flow information and inventory.

Going Concern:
These 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.

The Company realized a net loss of $37,487 for the year-ended December 31, 2022 (December 31, 2021 - $25,020) and had negative cash flows from operations of $33,177 (year ended December 31, 2021 - $20,341). The Company expects to incur further losses in the development of its business and forecasts that it will need to seek additional financing within the next year to continue as a going concern and meet its ongoing expenditures and obligations. While the Company has been successful in securing financing in the past, there can be no assurances that it will be able to do so in the future. These conditions indicate a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern.

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. As at December 31, 2022, the Company has working capital, being current assets less current liabilities, of $27,729.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

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

Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Subsidiaries are entities which the Company has exposure to, or has rights to, variable returns from its involvement with the entity and has the ability to use power over the investee to affect its returns. The accounts of the Company's subsidiaries are prepared for the same reporting period as the Company, using 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:

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtained control, and continue to be consolidated until the date when control is lost. The following provides information about the Company's wholly owned consolidated subsidiaries as at December 31, 2022:

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

Joint Ventures:

The Company accounts for its interests in jointly controlled entities using the equity method. The investment is initially recognized at cost and subsequent to initial recognition, the carrying value of the Company's interest in a joint venture is adjusted for the Company's share of comprehensive income (loss) and equity transactions of the investee. Profit and losses resulting from transactions with a joint venture are recognized in the consolidated financial statements based on the interests of unrelated investors in the investee. The carrying value of joint ventures is assessed for impairment at each reporting date. Impairment losses on equity-accounted investments may be subsequently reversed in net income.

Segment information:

The Company operates in one segment and as at December 31, 2022 $15,591 of the Company's non-current assets are located in Canada (December 31, 2021 – $4,396) and $4,992 are located in China (December 31, 2021 - $1,341).

New standards, interpretations, amendments and policies adopted by the Company:

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

In February 2021, the International Accounting Standards Board issued Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements by requiring entities to disclose their material accounting policy information instead of their significant accounting policies. The Company adopted this standard, which was effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted, effective January 1, 2021, and this adoption did not have a material impact on the Company's financial statements.

In February 2021, the International Accounting Standards Board issued narrow-scope amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important as changes in accounting estimates are applied prospectively only to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The implementation of these amendments is not expected to have a significant impact on the Company's financial statements.

3. Material accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise indicated.

Inventory:
Inventory includes raw materials, work in progress and finished goods and is recorded at the lower of cost or net realizable value. The cost of inventory is based on the weighted average principle and includes expenditures incurred in acquiring the inventory and other costs in bringing them to their existing location. In the case of work in progress and finished goods, cost includes materials, labor and an appropriate share of production overhead. Costs of materials are determined on an average per unit basis.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated selling costs. The Company estimates the valuation of inventory by determining the estimated demand, anticipated sales and any other relevant information. Net realizable value is assessed on an item-by-item basis except when they cannot be practically evaluated separately from other items.

Property, plant and equipment:

Recognition and measurement:
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset, including the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized net within other income in profit or loss.

Subsequent costs:
Subsequent expenditures are only capitalized if it is probable that the future economic benefits associated with the expenditure will flow to the Company, and their cost can be measured reliably. The carrying amount of any replaced part is derecognized.

Depreciation:
Depreciation on property, plant and equipment is calculated to write-off the net cost of each asset on a straight-line basis over its expected useful life to its estimated residual value. The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

Equipment	3-10 years
Leasehold improvements	4-6 years, and no longer than the lease term
Computer hardware	2 years
Computer software	1-3 years

Depreciation methods expected useful lives and estimated residual values are reviewed at each financial year end, with the effect of any changes recognized on a prospective basis.

Leases:
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. The Company recognizes a right-of-use asset and corresponding lease liability at the lease commencement date for contracts that are, or contain, a lease component, except for short-term leases and leases of low value.

The right-of-use assets are initially measured at cost, which includes the initial amount of the lease liability plus initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations. Subsequently, the right-of-use assets are measured at cost less accumulated depreciation and impairment losses, if any. The right-of-use assets are depreciated on a straight-line basis over the lesser of the lease term or remaining life of the underlying asset, depending on the lease terms.

The lease liabilities are initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Company is reasonably certain to exercise. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there are changes in the following: i) the lease term; ii) the Company's assessment of whether it will exercise a purchase option; iii) a change in an index or a change in the rate used to determine the payments; and iv) amounts expected to be payable under residual value guarantees.

The Company has elected to recognize lease payments of short-term leases in profit or loss on a straight-line basis over the lease term and variable payments not dependent on a rate or index in the period which the obligation for those payments is incurred. Short-term leases are leases with a term of one year or less, excluding leases with an option to extend the lease for greater than one year or an option to purchase the underlying asset, that the lessee is reasonably certain to exercise.

Government grants:
Government grants are recognized initially as deferred recoveries at fair value when there is reasonable assurance that they will be received, and that the Company will comply with the conditions associated with the grant. Government grants are recorded as either a reduction of the cost of the applicable assets, or as a cost recovery in profit or loss on a systematic basis in the periods in which the expenses are recognized and/or the related project is agreed to be complete, as determined by the terms and conditions of the government grants provided to the Company or the nature of the expenditures.

Warranty provision:
A provision for warranties is recognized when the underlying products are sold. In establishing the warranty provision, the Company estimates the likelihood that products sold will experience warranty claims and the estimated cost to resolve claims received, taking into account the nature of the contract and past and projected experience with the products, and applying a weighting of possible outcomes against the associated probabilities that the product will experience warranty claims.

Revenue recognition:
The Company generates revenues primarily from product sales, which are derived primarily from standard product sales contracts. Revenue is recognized in profit or loss in accordance with the pattern of the Company satisfying its performance obligations under a contract. This generally occurs when control of a good is transferred, or service provided, to the customer as follows:

(i) Revenue is recognized from the sale of goods when the product transfers to the customer, the customer has obtained the significant risks and rewards of ownership and the goods have been delivered to the customer's premise.

(ii) Other revenue including provision of ancillary services are recognized when a sale is made or a service has been provided.

The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer, which is generally the stand-alone selling price of the good.

Deferred revenue from customers represents cash received from customers in excess of revenue recognized on uncompleted contracts.

Cost of sales
Cost of sales includes: the cost of purchased materials, which includes acquisition costs including raw material and labor, as applicable; the cost incurred to deliver inventory to the Company's premises including freight, non-refundable taxes, duty, and other landing costs; the cost of the Company's manufacturing facilities, such as labor, rent, utilities, and depreciation; warranty provision expense for products sold; and the write-down of inventory to its net realizable value.

Foreign currency:

Foreign currency transactions:
Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiaries at the exchange rate at the dates of the transactions. Foreign currency denominated monetary assets and liabilities are translated using the rate of exchange prevailing at the reporting date and non-monetary assets and liabilities are measured at historic cost and are translated at the rate of exchange at the transaction date. The resulting foreign currency gains or losses are recognized in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated to the presentation currency using the exchange rate at the reporting date. The income and expenses of foreign operations are translated to the presentation currency using exchange rates at the dates of the transactions. Foreign currency gains or losses arising from the translation

of foreign operations are recognized in other comprehensive income and a separate component of shareholders' equity. The functional currency of Loop Energy Technologies (Shanghai) Co. Ltd. is Renminbi (RMB).

Share-based payment transactions:
The Company uses the fair-value based method of accounting for share-based payment transactions for all awards of stock options, restricted share units ("RSUs"), and warrants granted. The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the service period of the award. Fair values of stock options and warrants are calculated using the Black-Scholes valuation method as of the grant date. RSUs are valued at the fair-value price at grant date. Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest and the amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions.

The Company has issued stock options, RSUs, and warrants under its long-term incentive plan as described in notes 14 and 15. Consideration paid by employees on exercise of stock options or warrants, together with the associated amount recorded in share-based payment reserve, is credited to common shares. The redemption of RSUs are non-cash transactions that are recorded in share-based payment reserve and common shares.

Income taxes:
Income tax expense comprises current and deferred tax.

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the reporting date.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized and are measured using enacted, or substantively enacted, tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities, of a change in tax rates, is included in profit or loss in the period that includes the substantive enactment date. The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be realized.

Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases used in the computation of taxable income and carrying amounts of assets and liabilities in the consolidated financial statements.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Financial instruments:

Recognition and measurement:
All of the Company's financial assets, consisting of cash and cash equivalents and accounts receivable, and financial liabilities, consisting of accounts payable, lease liabilities, and long-term debt are measured at amortized cost.

The classification of financial assets depends on the specific business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

At initial recognition, the Company measures a financial asset or liability at its fair value plus, in the case of a financial asset not at fair value through profit or loss (or "FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets are measured at amortized cost dependent on their contractual cash flow characteristics and the business model for which they are held. Financial assets classified as amortized cost are recorded initially at fair value, then subsequently measured at amortized cost using the effective interest rate method, less any impairment.

Financial liabilities measured at amortized cost are initially recorded at fair value, net of directly attributable transaction costs. Financial liabilities are then subsequently measured at amortized cost using the effective interest rate method with gains or losses recognized in profit or loss.

Impairment:
An 'expected credit loss' ("ECL") model applies to the Company's financial assets measured at amortized cost. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of trade receivables. In applying the ECL model, loss allowances on trade receivables are measured based on lifetime ECLs, which are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company has elected to measure loss allowances for trade receivables using a provision matrix which specifies fixed provision rates depending on the number of days that a trade receivable is past due, using reference to the past default experience of the debtor and an analysis of the debtor's current financial position, which also forms a basis for the Company's future expectations for potential defaults of the debtor. As the Company only has a small number of customers, the Company also considers ECL based on an analysis of individual account level basis in assessing its ECL provision. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Fair value measurements:
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value measurement is disaggregated into three hierarchical levels: Level 1, 2 or 3. Fair value hierarchical levels are based on the degree to which the inputs to the fair value measurement are observable. The levels are as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), through correlation with market data at the measurement date and for the duration of the asset's or liability's anticipated life; and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs) and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs in determining the estimate.

Loss per share:
Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of the Company's outstanding preferred shares, convertible debentures, stock options, RSUs and warrants, and their equivalents, is reflected in diluted loss per share by the application of the "if converted" method. As the Company has recorded a loss in all periods presented in these consolidated financial statements, the conversion of outstanding convertible securities has not been included in the diluted loss per share calculation, as their effect would be anti-dilutive.

4. Critical judgments in applying accounting policies and key sources of estimation uncertainty:

The preparation of financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses that are not readily apparent from other sources, during the reporting period. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments and estimates made by management and utilized in the normal course of preparing the Company's consolidated financial statements are outlined below.

Inventory:
In determining the lower of cost and net realizable value of inventory, the Company estimates the likelihood that inventory carrying values will be affected by changes in market pricing or demand for the products and by changes in technology or design which could make inventory on hand recoverable at less than the recorded value. The Company performs regular reviews to assess the impact of changes in technology and design, sales pricing and other changes on the carrying value of inventory. Where it is determined that such changes have occurred and will have a negative impact on the value of inventory on hand, an appropriate write-down is made.

If there is a subsequent increase in the value of inventory on hand, reversals of previous write-downs to net realizable value are made. Unforeseen changes in these factors could result in additional inventory write-downs, or reversals of previous write-downs being required. During the year ended December 31, 2022, the Company recorded a $6,785 write down of its inventory to its net realizable value (December 31, 2021 - $3,972).

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

Financial assets including impairment of trade receivables:
In determining the ECL on the Company's trade receivables, the Company has elected to measure loss allowances for trade receivables using a provision matrix which specifies fixed provision rates depending on the number of days that a trade receivable is past due, using reference to past default experience of the debtor and an analysis of the debtor's current financial position, which also forms a basis for the Company's future expectations for potential defaults of the debtor. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. Receivables from equity-accounted investment and customer receivables are recorded net of an allowance for an expected credit loss of $935 (December 31, 2021 - $114).

Warranty provision:
A provision for warranty costs is recognized when the underlying products are sold. In establishing the warranty provision, the Company estimates the likelihood that products sold will experience warranty claims and the cost to resolve claims received. In making such determinations, the Company uses estimates based on the nature of the contract and past and projected experience with the products. Should these estimates prove to be incorrect, the Company may incur costs different from those provided for in the warranty provision. The Company reviews the warranty assumptions and adjusts the provision at each reporting date based on the latest information available, including the expiry of contractual obligations. Adjustments to the warranty provision are recorded in cost of sales. As at December 31, 2022, the Company had recorded warranty provisions of $557 (December 31, 2021 - $305).

Share-based payments:
To calculate the fair value of stock options and warrants, the Company uses the Black-Scholes option pricing model. This inherently requires management to make various estimates and assumptions, primarily in relation to the expected volatility, stock option life and forfeiture rates. Changes in these estimates could cause a significant change in the share-based compensation expense charged in profit or loss and to share-based payment reserve, as a component of shareholders equity, in a given period.

COVID-19:
The Company has not identified any new significant developments related to the COVID-19 pandemic which would impact the judgments, estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, including whether any additional indicators of impairment were present for the year ended December 31, 2022. The Company will continue to monitor the COVID-19 situation and review its critical estimates and judgements as circumstances evolve.

5. Accounts receivable:

	December 31, 2022 $	December 31, 2021 $
Customer receivables	2,086	779
GST receivable and other	1,399	565
Receivables from equity-accounted investment	-	484
Government grant receivable (note 11)	596	715
Accounts receivable	**4,081**	**2,543**
Current portion	3,842	2,066
Non-current portion	239	477
	4,081	**2,543**

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

Receivables from equity-accounted investment and customer receivables are recorded, net of an allowance for an expected credit loss of $935 (December 31, 2021 - $114), with credit losses recorded in general and administrative expenses.

6. Inventory:

	December 31, 2022 $	December 31, 2021 $
Raw materials	2,807	578
Finished goods	1,481	702
Inventory	**4,288**	**1,280**

As at December 31, 2022, inventory is presented net of an allowance for write-downs of $4,943 (December 31, 2021 - $1,800).

During the year ended December 31, 2022, the Company recorded a total of $6,785 in write-downs of its inventory to its net realizable value (year ended December 31, 2021 – $3,972).

Cost of sales for the year ended December 31, 2022 comprised of the cost of inventories recognized as an expense of $7,339 overheads of $2,424, warranty costs of $419, and the change in allowance for write-downs of inventory of $3,143.

7. Property, plant and equipment:

	Equipment $	Leasehold improvements $	Computer hardware $	Computer software $	Right-of-use assets $	Total $
Cost						
Balance, December 31, 2020	2,066	1,311	140	136	515	4,168
Additions	1,514	181	158	157	1,894	3,904
Effect of movement in FX	-	-	-	-	40	40
Balance, December 31, 2021	3,580	1,492	298	293	2,449	8,112
Additions	10,450	3,935	486	141	2,273	17,285
Disposal	(11)	-	-	-	-	(11)
Effect of movements in foreign exchange rates	15	-	5	-	(15)	5
Balance, December 31, 2022	**14,034**	**5,427**	**789**	**434**	**4,707**	**25,391**
Accumulated depreciation						
Balance, December 31, 2020	673	544	44	81	229	1,571
Depreciation	382	347	93	40	419	1,281
Balance, December 31, 2021	1,055	891	137	121	648	2,852
Depreciation	743	492	195	95	674	2,199
Disposal	(4)	-	-	-	-	(4)
Balance, December 31, 2022	**1,794**	**1,383**	**332**	**216**	**1,322**	**5,047**
Carrying amounts						
December 31, 2021	**2,525**	**601**	**161**	**172**	**1,801**	**5,260**
December 31, 2022	**12,240**	**4,044**	**457**	**218**	**3,385**	**20,344**

Included in the cost of equipment is $1.6 million of assets under construction that are not being depreciated as they are not yet available for use and $3.9 million of deposits paid for equipment to be delivered in 2023.

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

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

	Year ended December 31, 2022 $	2021 $
Cost of sales	624	134
Engineering	583	718
General and administrative	385	235
Business development	58	33
Technology development	60	37
	1,710	**1,157**

At December 31, 2022, $489 (December 31, 2021 - $124) of depreciation expense was recorded in inventory.

8. Accounts payable and accrued liabilities:

	December 31, 2022 $	December 31, 2021 $
Trade payables and accrued expenses	2,705	1,933
Trade and other payables due to related parties (note 19)	40	21
Payroll accruals	1,194	892
Accounts payable and accrued liabilities	**3,939**	**2,846**

9. Lease liabilities:

As at December 31, 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 the years ended December 31, 2022 and 2021:

	December 31, 2022 $	December 31, 2021 $
Balance, beginning of year	2,065	450
Additions	2,270	1,894
Effect of movements in foreign exchange rates	(32)	41
Finance expense (note 12)	255	152
Lease payments	(822)	(472)
Balance, end of period	**3,736**	**2,065**
Current portion	972	715
Non-current portion	2,764	1,350
Balance, end of period	**3,736**	**2,065**

As at December 31, 2022, the undiscounted contractual obligations of the Company's lease liabilities were as follows:2023: $1,011; 2024: $976; 2025: $749; 2026: $763; 2027: $753 and $301 thereafter.

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

10. 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 year ended December 31, 2022, the Company submitted the claims and received $5,970 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 debt obligation is comprised of:

	December 31, 2022 $	December 31, 2021 $
Unsecured loan, maturing March 1, 2024, bearing no interest (a)	269	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)	3,811	-
Total long-term debt	4,103	394
Less current portion of long-term debt	175	175
Long-term portion	**3,928**	**219**

(a) During year ended December 31, 2022, the Company repaid $152 relating to this long-term debt facility and recorded non-cash finance expenses of $50 (year ended December 31, 2021 - $64) (note 12) related to accretion of an associated discount on the loan.

(b) During the year ended December 31, 2022, the Company received a total of $5,970 relating to JGF Program funding in 2 different tranches. The Company applied an effective interest rate of 9.75% and 12.0% to discount the cash flows of the non-interest-bearing loan applicable to each tranche. The loan was valued at $3,070 and $652 for each tranche respectively on the payment receipt date. The remaining balance of the loan is classified as deferred revenue and recoveries (note 11). The Company recorded non-cash finance expenses of $89 during the year ended December 31, 2022 related to accretion of the associated discount on the loan.

As at December 31, 2022 the contractual maturities of the Company's long-term debt were as follows: 2023: $175; 2024: $152; 2025: $895; 2026: $1,194; 2027: $1,194 and $2,687 thereafter.

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

11. Deferred revenue and recoveries:

	December 31, 2022 $	December 31, 2021 $
SDTC	1,213	2,366
Contracts with customers	-	247
JGF Program	1,617	-
Shanghai Industrial Zone Economic Development	563	715
Balance, end of period	**3,393**	**3,328**
Current portion	1,656	2,479
Non-current portion	1,737	849
Balance, end of period	**3,393**	**3,328**

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 in 2021, which was recognized completely alongside additional funding of $182 in 2022 upon completion of the third milestone.

During the year ended December 31, 2022, the Company received from SDTC a further advance payment of $782 to fund the fourth milestone project which is recorded as deferred cost recovery.

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

SDTC	December 31, 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)	-
Receipt of prepayment for fourth milestone	782	-
Amortization of equipment cost recovery	(132)	(134)
Recognition of additional funding received in relation to completed milestones	(182)	(224)
Balance, end of year	**1,213**	**2,366**

Subsequent to December 31, 2022 the Company received a further payment of $1,854 from SDTC after completion of fourth and fifth milestone.

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

JGF Program

As disclosed in Note 10, the Company entered into an agreement with Pacific Economic Development Canada and received its JGF Program funding in two tranches of $4,863 and $ 1,107 during the year ended December 31, 2022. The loan was valued at $3,070 and $ 652 respectively on the payment receipt date of each tranche with the discount of $1,793 and $ 455 respectively being recorded as deferred cost recovery. The Company recognized $431 as a cost recovery for the year ended December 31, 2022 (year December 31, 2021 – nil) in relation to salaries incurred and $200 being recognized for usage of the property, plant and equipment acquired with the remaining recovery to be recognized over the life of the property, plant and equipment acquired with such funds.

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

JGF Program	December 31, 2022 $
Balance, beginning of year	-
Receipt of first funding payment	1,793
Receipt of second funding payment	455
Non-capital costs recovery	(431)
Capital costs recovery	(200)
Balance, end of year	**1,617**

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 5). 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.

12. Finance expense:

	Year ended December 31 2022 $	2021 $
Interest and accretion of convertible debt	-	102
Accretion of long-term debt (note 10)	139	64
Finance expense – lease liabilities (note 9)	255	152
Total	**394**	**318**

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

13. Warranty provision:

	December 31, 2022 $	December 31, 2021 $
Balance, beginning of period	305	-
Provisions made during the period, net	252	305
Balance, end of period	**557**	**305**
Current portion	184	112
Non-current portion	373	193
Long-term portion	**557**	**305**

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 year ended December 31, 2022, the Company recorded warranty provisions of $419, and incurred $167 in related expenses (December 31, 2021 $305 and nil respectively) for a net increase to the provision of $252.

14. 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.

At the time of the Offering the Company converted all of the Company's then issued and outstanding preferred shares into common shares and amended the Company's authorized capital such that all of the existing classes of preferred shares were deleted, and the Company's authorized capital became comprised of only an unlimited number of common shares.

Further, immediately prior to the closing of the Offering the balance of the outstanding convertible debentures of $3,600 was converted to 2,399,999 common shares of the Company in accordance with the terms of the debenture agreements.

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, 2020	66,667	1.50
Granted	314,500	16.00
Balance, December 31, 2021	381,167	13.46
Expired	314,500	16.00
Balance, December 31, 2022	**66,667**	**1.50**

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

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.

As at December 31, 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

15. 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 December 31, 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:

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

	Number of Stock Options #	**Weighted Average Exercise Price $**
Balance, December 31, 2020	2,601,665	1.03
Forfeited	(28,856)	14.91
Exercised	(71,353)	1.25
Granted	371,465	13.46
Expired	(50,000)	0.74
Balance, December 31, 2021	2,822,921	2.53
Forfeited	(79,167)	1.89
Exercised	(611,667)	0.89
Granted	-	-
Expired	(13,399)	16.00
Balance, December 31, 2022	**2,118,688**	**2.85**
Exercisable, December 31, 2022	**1,901,247**	**2.00**

The weighted average share price on the date of exercise for options exercised during the year ended December 31, 2022 was $2.33 (2021 - $6.50).

As at December 31, 2022, stock options were outstanding enabling holders to acquire common shares as follows:

	Options outstanding			Options exercisable	
Range of exercise price $	Number outstanding #	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable #	Weighted average exercise price $
0.73 – 1.00	1,551,557	2.65	0.88	1,551,557	0.88
1.50 – 2.40	286,667	6.71	2.07	206,667	1.99
5.10 – 5.34	16,666	3.88	5.34	16,666	5.34
12.99 – 16.00	263,798	6.57	15.16	126,357	15.42
	2,118,688	**4.47**	**2.85**	**1,901,247**	**2.00**

During the year ended December 31, 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 December 31, 2022 and secured by 290,000 common shares which were issued and held by the Company. For accounting purposes, the 290,000 common shares held by the Company were treated as treasury shares until the loan was settled in December 2022, which resulted in cancellation of 266,857 common shares and issuance of 23,143 common shares to the former employee.

During the year ended December 31, 2022, the Company granted a total of nil stock options (year ended December 31, 2021 – 371,465) with a weighted average fair value of $nil per option (December 31, 2021 - $9.70). The share-based compensation expense for the Company's stock options granted during the year ended December 31, 2021 was calculated using the Black-Scholes method of valuation using the following assumptions:

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

	2021
Risk-free interest rate	1.21%
Expected life of options	7.9 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, 2020	-
Granted	198,433
Forfeited	(1,195)
Balance, December 31, 2021	197,238
Granted	823,637
Forfeited	(330,939)
Vested	(14,583)
Balance, December 31, 2022	**675,353**

During the year ended December 31, 2022, the Company granted restricted share unit compensation awards to certain officers, directors and employees, with respect to 823,637 RSUs, with an aggregate grant date fair value of $2,245. 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 and the Company intends to settle the RSUs with common shares issued from treasury. Subsequent to the year end, 61,220 RSUs were forfeited.

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

	Year ended December 31,	
	2022 **$**	**2021** **$**
Engineering	417	596
General and administrative	874	1228
Business development	411	427
Technology development	27	33
	1,729	**2,284**

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

16. Revenues:

The Company's primary source of revenues is the sale of its fuel cells to its customers. The Company's revenues during the year ended December 31, 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 geographical region based on the location of the Company's customers:

	Year ended December 31, 2022 $	2021 $
Europe	2,620	326
Asia-Pacific (excluding China)	333	-
North America	316	-
China	59	1,098
	3,328	1,424

During the year ended December 31, 2022, the Company had twelve customers contributing to consolidated revenues from contracts with customer, of which top three provided for revenues of 70%, 7% and 5%, respectively. Whereas the balance of 18% of revenue was provided by remaining customers individually contributing 3% or less. (Year ended December 31, 2021 – six customers who provided for revenues of 51%, 26%, 7%, 6%, 6% and 4% respectively).

17. Income taxes:

The Company operates in countries that have differing tax laws and rates. Consequently, a consolidated weighted average tax rate will vary from year to year according to the source of earnings or losses by country and the change in applicable tax rates. A reconciliation of income taxes to the Company's statutory rates in Canada is as follows:

	Year ended December 31, 2022 $	2021 $
Net loss for the year, before tax	(37,487)	(25,020)
Statutory rate	27%	27%
Recovery of income taxes based on statutory tax rates	(10,121)	(6,755)
Differences in tax rates and change in tax rates	(64)	30
Permanent differences	603	(1,076)
Changes in unrecognized deductible temporary differences	9,582	7,801
Total income tax (recovery) expense	-	-

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

The significant components of the Company's unrecognized deductible temporary tax differences are as follows:

	December 31, 2022 $	**December 31, 2021 $**
Equipment and leaseholds	859	1,001
Long-term debt	265	368
SR&ED pools and credits	4,378	4,785
Financing fees	4,905	6,562
Lease liabilities	3,736	2,065
Non-capital losses	78,357	42,595
Investment in joint venture	750	750
Unrecognized deductible temporary tax differences	93,250	58,126

At December 31, 2022, the Company has Canadian non-capital losses of $74,146 (December 31, 2021 - $41,970) that may be applied to reduce future taxable income. If these losses are not used to offset future income, they will expire in various years between 2027 and 2042. The Company has non-capital losses in China of $4,211 (December 31, 2021 - $625) that can be carried over a period of up to five years and expire between 2026 and 2027. Additionally, as at December 31, 2021, the Company had SR&ED expenditure pools of approximately $4,378 (December 31, 2021 - $4,948) which do not expire.

18. 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 year ended December 31, 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 December 31, 2022 the Company has $nil in SR&ED tax credit receivable (December 31, 2021 - $1,416 comprised of a receivable related to the period January 1, 2020 to February 25, 2021). During the year ended December 31, 2022, the Company received payment of $1,303 in relation to its SR&ED tax receivable and the Company recorded a reduction to its previously estimated tax credit receivables resulting in an expense for the period of $113.

19. 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, 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 quarter 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 year ended December 31, 2021, the Company recorded interest expense of $21, in finance expense in the Company's consolidated statements of loss and comprehensive loss related to the convertible debentures held by these entities.

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

With the Company's joint venture
As at December 31, 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 December 31, 2022, the Company owed to In-Power Loop Energy Technology (Beijing) Co, Ltd $40 in accounts payable and accrued liabilities (December 31, 2021 - $21).

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:

	Year ended December 31,	
	2022	**2021**
	$	**$**
Salaries and benefits	1,696	2,007
Share-based payments	1,208	1,543
Director fees	161	132
	3,065	3,682

20. Employee remuneration:

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

	Year ended December 31,	
	2022	**2021**
	$	**$**
Cost of Sales	1,284	235
Engineering	6,987	4,958
General and administrative	4,735	3,605
Business development	3,255	1,054
Technology development	432	588
Total	16,693	10,440

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

21. Supplemental cash flow information:

The changes in non-cash working capital and other items related to operating activities for the years ended December 31, 2022 and 2021 are as follows:

	Year ended December 31,	
	2022 $	**2021 $**
Accounts receivable	(1,277)	(2,000)
Tax credit receivable	1,303	(209)
Inventory	(9,337)	(3,987)
Prepaid expenses and advances	4,503	(991)
Deferred financing fees	-	500
Accounts payable and accrued liabilities	587	234
Deferred revenues and recoveries	(2,408)	1,114
Warranty provision	252	305
Total	(6,377)	(5,034)

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.

The following table presents the change in the balance of long-term debt arising from financing activities for the years ended December 31, 2022 and 2021:

	December 31, 2022 $	**December 31, 2021 $**
Balance, beginning of year	394	832
Proceeds from long-term debt	5,970	-
Fair value discount on long-term debt	(2,248)	
Repayment of long-term debt	(152)	(502)
Accretion of long-term debt (note 10)	139	64
Balance, end of year	**4,103**	**394**

22. Equity accounted investment:

During 2019, the Company executed a non-exclusive joint venture agreement with Beijing In-Power Renewable Energy Co., Ltd. to create Inpower Loop Energy Technology (Beijing) Co., Ltd. (the "InPower-Loop JV"), a limited liability company in China. As part of the joint venture agreement, the Company purchased common shares equity of InPower-Loop JV of $750, resulting in ownership of 26.9% of InPower-Loop JV. During the year ended December 31, 2021 the Company recorded an equity loss of $275 to write-off the remaining value of the investment. As of December 31, 2022 the joint venture is dormant and the carrying value of the Company's investment in joint venture is $nil as at December 31, 2022 and 2021.

23. Financial instruments and risk:

Fair value

For all periods presented in these consolidated financial statements. the Company's financial instruments consists of cash and cash equivalents, accounts receivable, accounts payable, lease liabilities and long-term debt

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximates their carrying values because of the short-term nature or the discount rates used in assessing the fair value of the instrument. The fair value of long-term debt was less than its carrying value by $277 as a result of increases in discount rate during the period.

The Company does not have any financial instruments measured at fair value in the consolidated statements of financial position and therefore there were no transfers between the levels of the fair value hierarchy during the years ended December 31, 2022 and 2021.

Financial Risk Management and Capital Management

The Company is exposed to the following risks: credit risk, liquidity risk, and market risk (i.e. interest rate risk, foreign currency risk and commodity risk). The following is a description of these risks and how they are managed:

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying value of the Company's cash and cash equivalents and accounts receivable, totaling $28.2 million, represents the Company's maximum exposure to credit risk. The Company does not believe it has a significant credit risk associated with its cash and cash equivalents as such funds are on deposit with major credit worth financial institutions and thus credit risk and arises principally from the Company's receivables from customers. 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.

At December 31, 2022, one customer accounted for 87% of the outstanding customer receivables (December 31, 2021 – two customers accounted for 49% and 35%).

As at December 31, 2022, the Company has an expected credit loss provision of $935 (December 31, 2021 - $114) relating to certain historic receivables that have been fully provided for.

Excluding the above noted fully provided for receivable, as at December 31, 2022, the Company had $0.5 million in contractual payments, included in accounts receivable in the Company's consolidated statement of financial position, which are more than 90 days past due, all of which have been collected subsequent to year end. As at December 31, 2022 the Company had no balance in accounts more than 30 days and less than 90 days past due. The Company had $1.8 million in accounts receivable less than 30 days past due, which mainly relates to an outstanding balance from one customer. The Company continues to receive payments on such balances and is currently in the process of settling all balances with the counterparty and expects to collect such amounts in full.

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

The Company attempts to limit its exposure to credit risk from accounts receivables by contracting prepayments (generally 30%) from certain customers when possible.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company maintains sufficient financial liquidity to be able to meet its current operating requirements. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. As at December 31, 2022, the Company had working capital, being current assets less current liabilities, of $27,729.

The Company's primary liquidity needs for the next twelve months are to pay existing committed capital expenditures, to make scheduled repayments of debt, to pay operating expenses and to manage its working capital.

The following contractual maturities of financial obligations (including interest) exist as at December 31, 2022:

	Carrying amount $	Contractual cash flows $	Within 1 year $	1 to 3 years $	thereafter $
Accounts payable and accrued liabilities	3,939	3,939	3,939	-	-
Lease liabilities	3,736	4,553	1,011	1,725	1,817
Long-term debt	4,103	6,297	175	1,047	5,075
	11,778	**14,789**	**5,125**	**2,772**	**6,892**

In addition, as at December 31, 2022, the Company had committed to the following obligations that were not recognized as liabilities:

	Contractual cash flows $	Within 1 year $	1 to 3 years $	thereafter $
Property, plant and equipment	3,788	3,788	-	-
	3,788	**3,788**	**-**	**-**

Market risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, foreign currency exchange rates and changes in market prices due to factors other than interest rates or foreign currency exchange rates, such as changes in commodity prices or credit spreads.

Interest rate risk

Interest rate risk is the risk that the fair value of deferred cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's long-term debt is non-interest bearing and therefore does not fluctuate. Interest income on cash and cash equivalents is considered incidental and not significant to operating results.

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

Foreign currency exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign currency risk related to working capital balances denominated in foreign currencies, primarily the United States dollar, Euro and Renminbi. The following tables sets out the Company's currency exposure of financial instruments as at December 31, 2022:

			31-Dec-22			
	USD	**EUR**	**RMB**	**GBP**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Financial assets						
Current assets	2,239	445	442	1	512	3,639
Non-current assets	-	-	239	-	-	239
Total	**2,239**	**445**	**681**	**1**	**512**	**3,878**
Financial liabilities						
Current liabilities	483	76	1,021	75	-	1,655
Non-current liabilities	-	-	636	184	-	820
Total	**483**	**76**	**1,657**	**259**	**-**	**2,475**

			December 31, 2021		
	USD	**EUR**	**RMB**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**
Financial assets					
Current assets	2,515	1,547	464	9	4,535
Non-current assets	-	-	477	-	477
Total	**2,515**	**1,547**	**941**	**9**	**5,012**
Financial liabilities					
Current liabilities	649	194	289	8	1,140
Non-current liabilities	-	-	769	-	769
Total	**649**	**194**	**1,058**	**8**	**1,909**

Based on financial assets and liabilities held at December 31, 2022, a 10% increase in the United States dollar or the Euro relative to the Canadian dollar, with all other variables held constant, would result in an increase in foreign exchange gains of approximately $175 or $37, respectively, recorded against net loss. If the United States dollar or Euro weakened 10% against the Canadian dollar, there would be an equal, and opposite impact, on net income. This sensitivity analysis includes foreign currency denominated monetary items, and adjusts their translation at year-end, for a 10% change in foreign currency rates. A 10% increase or decrease in the Renminbi would not significantly impact net loss.

Commodity risk

Commodity risk is the risk of financial loss due to fluctuations in commodity prices, in particular, for the price of platinum and iridium, which are key components of the Company's fuel cell products. Platinum and iridium are scarce natural resources and therefore the Company is dependent upon a sufficient supply of these commodities. To manage its exposure to commodity price fluctuations, the Company may include platinum and or iridium pricing adjustments directly into certain significant customer contracts.

Capital management:
As at December 31, 2022, the capital structure of the Company consists of $43.6 million (December 31, 2021 - $75.5 million) in shareholders' equity and debt. In accordance with the terms of the JGF Program (note 10), the Company shall not pay any distribution of retained earnings to shareholders until the loan contribution has been repaid in full.

The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. 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. This is done primarily through debt and equity financing and is supplemented by applying for government grant programs where available. Future financings are dependent on market conditions and the ability to identify sources of investment. There can be no assurance the Company will be able to raise funds in the future.

The Company manages capital through its operating and financial budgeting and forecasting processes on a regular basis. The Company reviews its working capital and prepares future cash flow forecasts which are reviewed and approved by the Board of Directors. The Company continually 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.

There were no changes to the Company's approach to capital management during the year ended December 31, 2022.