



The Engine Driving Zero-Emissions

LOOP ENERGY INC.

Management's Discussion and Analysis

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2022

(in Canadian dollars, amounts expressed in thousands except number of shares, per share amounts and number of units)

DATED MARCH 28, 2023

Loop Energy Inc. ("Loop", "Company", "we", "us" or "our") has prepared the following management's discussion and analysis ("MD&A") for the three months and year ended December 31, 2022 as of March 28, 2023. This MD&A has been prepared in accordance with National Instrument 51-102F1 and should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and have been filed with the securities regulatory authorities on SEDAR at www.sedar.com. All references to "\$" are references to Canadian dollars, unless otherwise stated. The functional currency of certain of the Company's subsidiaries is the Renminbi and all balances have been translated to the presentation currency of the Company, the Canadian dollar.

Additional information relating to the Company, including our Annual Information Form for the year ended December 31, 2022, is available on SEDAR at www.sedar.com and is also available on our website at www.loopenergy.com. The Company's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "LPEN".

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1. OVERVIEW AND HIGHLIGHTS

1.1 Loop Energy

Loop Energy is an industry-leading developer, manufacturer and supplier of hydrogen fuel cell systems for vehicle original equipment manufacturers (“OEMs”) and power generation system manufacturers. Our products are reshaping the industry with an unmatched combination of fuel efficiency, power density and fuel durability with our proprietary patented designs and technological advancements.

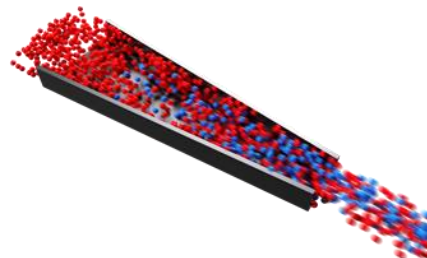
Our mission is to contribute to global decarbonization. Our current focus is to extend the range, power, and efficiency of fleets of return-to-base electric buses, trucks and coaches. We believe this will be key to ignite growth in the hydrogen economy.

We estimate our total assessable market (TAM) value within return-to-base fleets at C\$1.2 billion¹ today. We believe our broader strategy has the potential to create access to a TAM that has the potential to reach up to C\$64 billion¹ in the aggregate by 2032.

The Company was incorporated under the laws of British Columbia, Canada on June 21, 2000 and is headquartered in Burnaby, British Columbia. The Company has manufacturing facilities in Burnaby, British Columbia and Shanghai, China, and has opened a service centre in the United Kingdom (UK) to support growing customer demand in Europe.

1.1.1 Our eFlow™ Technology

A fuel cell is an environmentally clean electrochemical device that combines hydrogen fuel with oxygen to produce electricity. There are approximately 20 established manufacturers of fuel cells in the market today. Only Loop’s products feature its eFlow™² technology which is based on a patented modified (narrowing) geometry. Using a tapered, rather than rectangular, channel we can better control the flows of hydrogen, oxygen and coolant in the fuel stack.



Our tests show this technology maintains optimal performance temperatures and increases the unit’s efficiency, peak power and operational longevity. Our conclusion is that our proprietary eFlow™ technology offers up to 10x greater density uniformity of current, increased flow velocity and robust water removal³.

¹ Source: Company estimates, Bloomberg NEF, MarketsandMarkets Hybrid Train Market, The North American Locomotive Review 2022, H2FC SUPERGEN, Global Market Insights, Fueling the Future of Mobility, Hydrogen Council Reports, and publicly available information.

² This trademark is protected under applicable intellectual property laws and is the Company’s property. The Company’s trademark may appear without the ™ symbol in this MD&A, but such absence is not intended to indicate, in any way, that the Company will not assert, to the fullest extent under applicable law, the Company’s rights to this trademark. All other trademarks and trade names used in this MD&A are the property of their respective owners.

³ Source: Transport in PEMFC Stacks summary presentation for US Department of Energy, H2 Program. Based on Loop’s internal testing and comparisons of published studies of the performance of fuel cells from other manufactures and competitors. In order to quantify the benefit of eFlow™ technology directly, Loop purchased commercially available materials from a top competitor, built them into a Loop eFlow™ fuel cell stack, and then operated this stack at Loop’s best estimate of the competitor’s operating conditions using publicly available information.



Figure 1: Conventional vs. eFlow™ Fuel Cell Bipolar Plate

Our initial focus for eFlow™'s patented modified geometry, has been fuel cells. We have successfully commercialized eFlow™ into our fuel cell products and are seeing strong customer demand for its industry leading performance. We have also been investigating the potential positive impact that eFlow™ can have on Polymer Electrolyte Membrane (PEM) Electrolyzers. The Company recently completed third-party validation testing with Fraunhofer Institute for Solar Energy Systems ISE in partnership with Fraunhofer USA, demonstrating that eFlow™'s trapezoid flow field design can increase green hydrogen production. The Company is now inviting expressions of interest for strategic partners to complete commercial trials of the use of its patented eFlow™ technology in PEM electrolyzers.

1.1.2 Commercial Strategy

Given our competitive technology advantage we believe Loop's rate of market penetration will be driven by the total cost of ownership ("TCO") we deliver for customers, both in absolute terms and relative to competitors.

We expect the combination of decreasing TCO and accelerating demand will create an ongoing positive feedback loop, allowing us to leverage Wright's Law - a reliable framework for cost reduction as a function of cumulative production. As we continue to scale operations, we expect average unit cost to decrease. Decreased unit cost will result in greater demand which, in turn, will increase production scale and decrease costs until market saturation is reached.

Our proven eFlow™ technology is expected to deliver lower TCO, due to the improvement in fuel efficiency, which makes up a significant portion of the TCO, and its uniform current distribution that prevents hotspots, making our products inherently more durable, thereby extending lifecycles and reducing service and maintenance costs.

Our fuel cell products are now far easier to install in electric vehicles - times are measured in days not weeks, even for new vehicle platforms. We also anticipate that the high-quality components used in our production will pay back for customers - via the cumulative uptime, efficiency, power uniformity and longevity that we expect our stacks will deliver over years of constant use.

Our strategy of having a local presence in the key geographical markets in which we operate will enable us to provide on-the-ground support for our customers. We believe that this will not only lower TCO while enhancing customer experience and retention, but it will also increase our market visibility. For this purpose, we have recently opened a service center in the United Kingdom for integration support, fleet maintenance and service.

To ensure the full benefits of these initiatives are realized, Loop manages sales, account development and retention via a tight customer adoption cycle (see figure 2). To qualify for our Customer Adoption Cycle (“CAC”), every customer must place at least one purchase order and have an articulated plan to scale to full production (“Pilot Phase”).

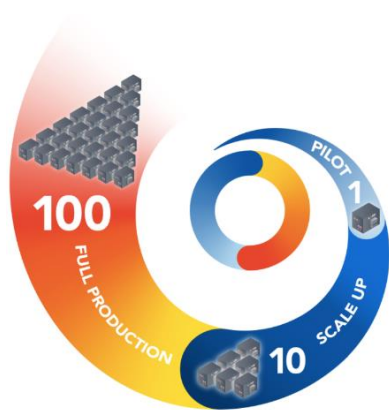


Figure 2: Customer Adoption Cycle (CAC)

Every customer that enters the CAC starts with a single unit for technical evaluation. Once the technical evaluation is complete, they enter the scale up phase, which often means testing several units in a fleet (“Scale-Up Phase”). The final step is full production at commercial levels (“Production Phase”).

We believe that our performance in 2023 will prove our competitive advantage to the market and drive demand for our products in the medium to heavy-duty transportation sector.

Material handling vehicles such as forklifts and yard trucks present a tertiary application for our fuel cell systems whilst stationary power applications also offer multiple commercial opportunities in the medium to long term. Some of the most promising applications include diesel generator replacement in market verticals such as construction sites, back-up power and off-grid power applications.

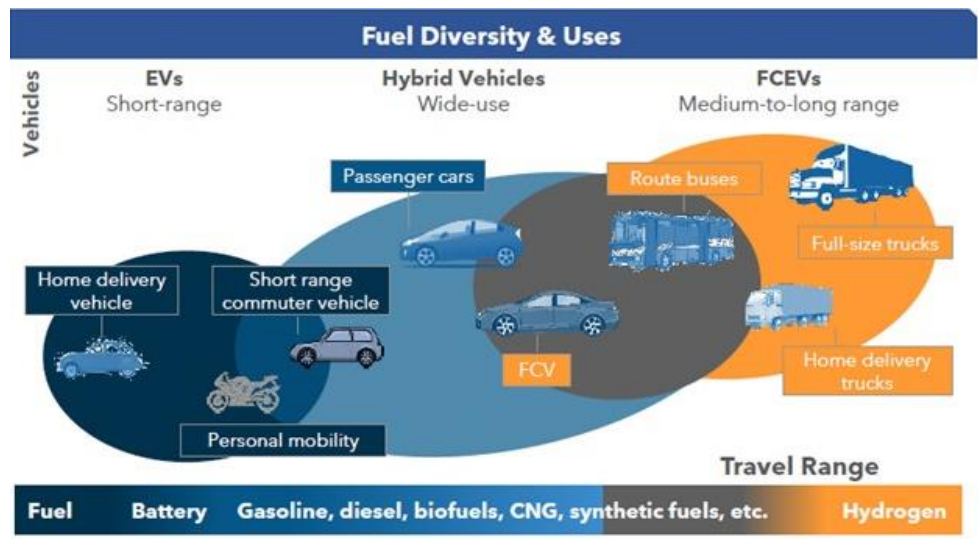


Figure 3: Fuel Diversity & Uses

1.1.3 Underlying Market Drivers

The decarbonization of transportation via electrification and fuel switching has the potential to greatly impact emissions. The movement towards electrification has grown as countries take action to achieve commitments made in the Paris Agreement. These actions include the banning of diesel vehicles in major city centers and the progressive phasing out of internal combustion engine vehicles (“ICEVs”). Energy security concerns highlighted by the recent and ongoing conflict in Ukraine have provided further emphasis on the push away from the world’s dependency on fossil fuels.

This movement is apparent in the recent growth in the number of electric vehicles (“EVs”), most commonly battery-powered (“BEVs”). Several governments around the world are combining regulatory changes with financial support for the transition to zero emission vehicle technologies, recent examples include REPowerEU in Europe and the Inflation Reduction Act in the USA. With expanding e-commerce freight demands, we believe that zero emission vehicles are one of the only viable options for a sustainable future. Commercial vehicles powered solely by lithium-ion batteries are a part of the solution.

However, fully battery-powered commercial vehicles are currently unable to economically meet many of the critical functional characteristics required for mass-market adoption. Commercial EVs, medium and heavy-duty BEVs currently suffer from reduced operating performance as the substantial weight, and the dimensions of battery packs limit range, reduce payload capacity and necessitate long re-charging times - all increasing TCO.

We believe hydrogen fuel cells combined with lithium-ion batteries (“FCEV”) are the optimal solution. In this hybrid, hydrogen fuel cells act as on-board chargers and address these BEVs shortcomings. While smaller deployments of FCEVs and hydrogen refueling infrastructure are costlier, benefits are compounded when fleets are deployed at scale. We believe that when FCEV fleet sizes increase, hydrogen infrastructure becomes less costly per vehicle than BEV recharging infrastructure.

Given our level of enquiries, we believe that major fleet operators of commercial vehicles are beginning to recognize this.



Figure 4: BEV Increase payload capacity with FC Range Extender

1.2 Recent Developments

The following highlights the significant corporate, financial events and announcements of the Company since December 31, 2021:

- Launched Loop Powered Mobility & Innovation H2Bus in Slovakia (Mar 2022)
- Entered into an agreement with Innotest AG to integrate fuel cell system into Home Power Energy System (Mar 2022)
- Selected as Tevva Motor Ltd.’s (Tevva) fuel cell supplier for Tevva’s 7.5 tonne electric truck platform (Apr 2022)
- Partnered with Aliant Battery to provide Hydrogen technology for Netherlands’ Green Residential Hub (Apr 2022)

- Selected by Aluminium Revolutionary Chassis Company (ARCC) to expand into promising Australian hydrogen bus market (Jun 2022)
- Appointed Kent Thexton as Director and Chair of the Board (Jun 2022)
- Signed a Supply Agreement with Tevva Motors Ltd's (Tevva) (Jul 2022)
- Mobility and Innovation (M&I) entered Loop's Scale-Up Phase of our CAC with additional POs for 10 units (Jul 2022)
- Increased its European footprint with the opening of a service facility in the UK (Aug 2022)
- Launched its landmark S1200 fuel cell system, cutting hydrogen cost-parity with diesel by up to eight years (Sep 2022)
- Two new companies entered the Pilot Phase of Loop's Customer Adoption Cycle, Avia Ingenieria and Opex/Hevolucion, expanding Loop's presence in Europe and entering the emerging South American market (Oct 2022)
- Rampini Carlo SpA, an Italian bus manufacturer, launched its first hydrogen-electric bus, the HYDRON, powered by Loop Energy, at the Next Mobility Exhibition in Milan, Italy (Oct 2022)
- Reduced headcount and operating expenses (December 2022)
- Appointed Paul Cataford to the Board of Directors and as interim Corporate Secretary and CFO, replacing Damian Towns. In conjunction with this appointment Allan Collings and Peter Johansson resigned from the board (Dec 2022)
- Appointed Brad Miller to the Board of Directors. In conjunction with this appointment, Neil Murdoch resigned from the board (Jan 2023)
- Partnered with H2 Portable, a Canadian developer of hydrogen-electric mobile power solutions, to develop zero-emission gensets (Feb 2023)
- Selected by Wiggins Lift Co., a leading American material handling vehicle manufacturer, to provide the fuel cell system for its new hydrogen-powered eBull forklift product (Feb 2023)
- Reduced headcount and operating expenses (March 2023)
- Completed third-party validation of the use of Loop's patented eFlow™ technology in PEM electrolyzers in partnership with Fraunhofer USA and the German Fraunhofer Institute for Solar Energy Systems ISE (Mar 2023)

1.3 Outlook

Continuing to Execute

2022 was a record year for Loop Energy in terms of revenue, order in-take, and strategic customer engagement. Although the year has not been without its challenges, with the tightening of capital markets impacting the Company's ability to raise funds, lockdowns in China impacting global supply chains and energy security becoming a more prominent issue with Russia's invasion of Ukraine, we have met these challenges head on. We have now achieved and exceeded a number of our original 2022 objectives, among them POs received, introduction of our new plate platform and the launch of our 120kW (S1200) product.

Go to Market Strategy ("GTMS")

With 70 POs received in 2022, we have more than tripled 2021 efforts and surpassed our original 2022 guidance of 60 POs. As we look forward to 2023, it is important to identify two major trends impacting our industry landscape. On the one hand, the overall drive to electrification of commercial vehicles, materials handling equipment and power generation equipment remains strong. On the other hand, recent headwinds in the capital markets, rising electricity costs, and overall inflationary pressure, have resulted in extended timelines for both new and existing projects. As a result, our record 2022 results were short of our revised guidance of 100 POs for the calendar year of 2022. We further anticipate that the impact on 2023 will be similar with lower anticipated deliveries extending over a longer time period.

At the same time, our market positioning continues to strengthen. The numbers of customers in our Customer Adoption Cycle ("CAC"), which now stands at 21 (17 customers in the Pilot Phase, 2 in the Scale-up Phase, and 2 in the Production Phase), has grown over 16% in the last quarter and 91% year to date. Our order book remains heavily weighted towards the EMEA region, representing 87% of POs received in 2022. However, with North America and Asian-Pacific markets contributing to 13% of POs, a measure of healthy diversification has begun.

In Q2 2022 we were named fuel cell supplier to Tevva, a British electric and hydrogen truck manufacturer. In Q3 2022 we were delighted to be joined by another two customers in our CAC, Avia Ingenieria and Opex/Hevolucion. In October, Loop Energy joined Rampini Carlo SpA with its launch of its HYDRON bus representing our fourth customer to launch a hydrogen-electric bus platform powered by e-Flow fuel cells.

In Q4 2022 Loop delivered the first three fuel cell systems to H2 Portable, a Canadian developer of hydrogen-electric mobile power solutions. The fuel cells will be integrated into hydrogen-electric gensets designed to provide clean, reliable, on-demand power to movie sets, construction sites and other locations with limited grid power access. In addition, in Q1 2023 Loop was selected by Wiggins Lift Co., a leading American material handling vehicle manufacturer, to provide the fuel cell system for its new hydrogen-powered eBull forklift product. Loop Energy will deliver the system and begin commissioning in Q2 2023 to support commercial deployment of the hydrogen-electric forklifts in late 2023.

Our CAC remains a key element to ensure that we are working with customers that have a trajectory and desire to scale to full production. Since the adoption of our CAC, we have had four customers progress from the Pilot Phase to the Scale-Up Phase, of which two further progressed to the Production Phase.

The Pilot Phase of our CAC starts with the first PO and a documented path to full production and future orders, including things such as conditional purchase orders. We believe that our success is measured by the number of fuel cells ordered from our customers.

Building on our Advantage

In September we were proud to announce the launch of our 120kW unit (S1200) with our patented new larger bipolar plate. We believe the S1200, with its improved power efficiency, significantly advances hydrogen fuel cells achieving parity with diesel. In parts of Europe, a customer using an S1200 with its 60% system fuel efficiency could have lower fuel costs than a traditional diesel engine. We expect the S1200 will be available to early adopters in 2023 and will impact our sales mix from 2024 onwards.

Our larger bipolar plate is a significant step in our next generation of products. It also forms a key part of our cost out strategy for our existing product lines, which was another key milestone for our development team in 2022. We remain very focused on our core applications of commercial mobility or vehicles but understand our products offer compelling solutions for adjacent markets - including heavy materials handling, generators, charging stations and specialty vehicles. Our current solutions portfolio now includes 30kW, 50kW, 60kW and 120kW units.

We previously referenced Wright's Law, which describes the ability to drive cost reduction with increased volumes. We continue to work on integrating certain upstream activities to drive further cost reduction. We had a stated objective of reducing our cost per unit by 25% in 2022, and we are pleased to announce that by Q4 2022 we had achieved a 35% reduction in our unit costs compared to full year 2021.

Growing our Capacity

During 2022, we increased our manufacturing space in Canada by 60%, bringing our total space in Canada, including our engineering and administrative offices, to just over 37,000 sq ft. This increase has enabled us to expand our manufacturing areas and house our global technical services group.

After receiving its license to manufacture in Q1 2022, our Shanghai facility was impacted by China's "dynamic zero" policy, where there were lockdowns in place for just under 100 days. Notwithstanding these challenges, we opened our Shanghai facility in late July and are pleased to announce that our Loop Shanghai facility has now achieved ISO 9001 certification. Our lease agreement provides an option to triple our production space, should we require it. In the UK we have improved and expanded our capacity to care for our customers by opening our UK service center. The UK facility was another key objective in 2022 which enables us to maintain and advance our customer centric approach in Europe.

In 2022 we took the prudent step of growing our inventory levels to ensure any impacts from global supply chains are mitigated as much as possible. Our raw materials, before allowance for write-downs, increased from \$1.4 million to

\$6.1 million in Q4 2022, and our inventory levels, before allowance for write-downs, being up over 200% from the start of the year.

Further exploiting our technology advantage

Our initial commercial success is built off our ability to deliver greater performance, efficiency and durability via our patented modified geometry. While we have been focused on commercializing this technological advantage in the fuel cell market, we are now readying the business to exploit our technological advance in adjacent markets. One such market is the electrolyzer market. Our initial external studies have indicated eFlow™, with its modified architecture, creates a more stable and uniform operating environment in the PEM water electrolysis test cells compared to conventional flow fields with parallel channels, resulting in greater hydrogen production and improved efficiency. Testing also shows the enhanced uniform operating environment should have a beneficial impact on durability.

Capital Requirements

At the time of our initial public offering (“IPO”) (February 2021), we indicated that the proceeds from our IPO would provide adequate funding for 24 months of operations based on our business plans at that time. The financial capital markets and the Company’s ability to attract new funding are not as positive today as they were in 2021. Despite good performance against operational objectives and milestones, the Company’s prospects for raising new funds are limited. While the Canadian government, at all levels, has been very supportive in the past, the prospects of raising new government funding over the next 6 months is limited. We continue to engage with, and are actively evaluating, various government programs to access non-dilutive funding. These include the \$9.75 million financial contribution from the Jobs and Growth Fund (“JGF”) pursuant to an agreement we signed with the Pacific Economic Development Canada in Q2 2022. In Q3 2022 and Q4 2022 we drew an aggregate of \$6.0 million of JGF funding.

As a next mover in the fuel cell industry, we continue to be able to capitalize on our leading technology position by leveraging off the experiences of others to help minimize our capital requirements. This funding has enabled us to maintain a cash balance of \$24.5 million as of December 31, 2022, which provides sufficient capital for the Company to continue to fund operations until the end of 2023 based on current spending. While the Company has taken steps to reduce expenses (including reducing employee headcount), the Company may not be able to successfully execute on its business plan if it is unable to complete a financing on reasonable terms, or at all.

2. DECEMBER 2022 FINANCIAL PERFORMANCE OVERVIEW

The following table highlights key financial information for the three months and year ended December 31, 2022 as compared to the prior comparative periods.

Table 1: Selected Financial information (in thousands of CAD dollars except per share data)	Three months ended		Variance	
	31-Dec-22	31-Dec-21	\$	%
Revenues	\$ 681	\$ 128	\$ 553	432%
Cost of sales				
Cost of goods sold	2,421	789	1,632	207%
Change in inventory write-down allowance	1,360	988	372	38%
Gross margin	(3,100)	(1,649)	(1,451)	88%
Expenses:	7,137	5,777	1,360	24%
Less cost recoveries:	(594)	(34)	(560)	1647%
Operation expenses	6,543	5,743	800	14%
Loss before the undernoted	(9,643)	(7,392)	(2,251)	30%
Other income (expenses)	(10)	(65)	55	-85%
Net loss	(9,653)	(7,457)	(2,196)	29%
Other comprehensive income:				100%
Foreign currency translation differences	63	67	(4)	-6%
Total comprehensive loss	(9,590)	(7,390)	(2,200)	30%
Loss per common share - basic and diluted	(0.28)	(0.22)	(0.06)	28%
	Year ended		Variance	
	31-Dec-22	31-Dec-21	\$	%
Revenues	\$ 3,328	\$ 1,424	\$ 1,904	134%
Cost of sales				
Cost of goods sold	10,182	4,450	5,732	129%
Change in inventory write-down allowance	3,143	1,800	1,343	75%
Gross margin	(9,997)	(4,826)	(5,171)	107%
Expenses:	30,505	21,819	8,686	40%
Less cost recoveries:	(2,635)	(1,944)	(691)	36%
Operation expenses	27,870	19,875	7,995	40%
Loss before the undernoted	(37,867)	(24,701)	(13,166)	53%
Other income (expenses)	380	(319)	699	-219%
Net loss	(37,487)	(25,020)	(12,467)	50%
Other comprehensive income:				
Foreign currency translation differences	(86)	86	(172)	-200%
Total comprehensive loss	(37,573)	(24,934)	(12,639)	51%
Loss per common share - basic and diluted	(1.11)	(0.80)	(0.31)	38%

2.1 Revenues and Cost of Sales :

Table 2: Revenues and Cost of Sales (in thousands of CAD dollars except units sold)	Three Months Ended		Variance	
	31-Dec-22	31-Dec-21	\$	%
Revenues	\$ 681	\$ 128	\$ 553	432%
Units sold	7	1	6	600%
Cost of sales				
Cost of goods sold	2,421	789	1,632	207%
Change in inventory write-down allowance	1,360	988	372	38%
Gross margin	(3,100)	(1,649)	(1,451)	88%

	Year Ended		Variance	
	31-Dec-22	31-Dec-21	\$	%
Revenues	\$ 3,328	\$ 1,424	\$ 1,904	134%
Units sold	49	14	35	250%
Cost of sales				
Cost of goods sold	10,182	4,450	5,732	129%
Change in inventory write-down allowance	3,143	1,800	1,343	75%
Gross margin	(9,997)	(4,826)	(5,171)	107%

The Company's primary source of revenues is the sale of its fuel cell modules. As the Company continues to commercialize its fuel cell modules, it is expected that revenue will vary from period to period.

Revenues were \$0.7 million and \$3.3 million for the three months and year ended December 31, 2022 respectively, (2021- \$0.1M and \$1.4M respectively) due to the commercialization of 9 (2021: 1) and 49 (2021: 14) fuel cell units. The average price per unit decreased in 2022 due to the customer mix and market conditions. We also note that 11 units were built and shipped in 2022 but were not delivered until 2023 and thus will be recognized in 2023 (\$0.6 M impact).

Cost of sales includes the cost of materials, direct and indirect labour and overheads incurred in the manufacturing of our products, in addition to a warranty provision for products sold, inventory write-downs as required, and the cost of parts and components sold as part of the integration process as follows:

Table 3: Cost of Sales (in thousands of CAD dollars)	Three Months Ended		Variance	
	31-Dec-22	31-Dec-21	\$	%
Cost of goods sold	\$ 2,421	\$ 789	\$ 1,632	207%
Change in inventory write-down allowance	1,360	988	372	38%
Cost of Sales	3,781	1,777	2,004	113%

	Year Ended		Variance	
	31-Dec-22	31-Dec-21	\$	%
Cost of goods sold	\$ 10,182	\$ 4,450	5,732	129%
Change in inventory write-down allowance	3,143	1,800	1,343	75%
Cost of Sales	13,325	6,250	7,075	113%

Cost of sales increased to \$3.8 million and \$13.3 million for the three months and year ended December 31, 2022 respectively (2021- \$1.8 M and \$6.3 M respectively) primarily due to increases in the cost of good sold and inventory write-down allowance.

The increase in cost of goods sold is consistent with the increase in the number of units sold with the average cost per unit trending downwards. Units sold increased to 9 (2021: 1) and 49 (2021: 14) in the three months and year ended December 31, 2022. The increase in the inventory allowance is consistent with the Company building our capacity to fulfil the increased year on year sales. We set ourselves an aggressive target of reducing unit costs by 25% in 2022 and are pleased to report that we achieved a reduction of 35% during the full year of 2022 compared to 2021.

A warranty provision, dependant upon the warranty period, is recorded for each applicable fuel cell unit sold. As the Company has just begun commercializing its fuel cell units and does not have a detailed warranty history, the warranty provision is a significant accounting estimate.

Due to the Company's current scale of production, and the start-up nature of our manufacturing operations, our cost per unit currently exceeds our selling price and we have a negative gross margin. We record our finished goods at the lower of costs and their net realizable value (estimated selling price less the estimated cost of completion and selling costs) recording a write down allowance when required, and also record a provision against our raw materials on hand.

The inventory write-down allowance increased by \$1.4 million and \$3.1 million during the three months and year ended December 31, 2022 respectively (2021: \$1.0 M and \$1.8 M respectively), mostly due to the increase in inventory on-hand. On December 31, 2022 the Company had inventory of \$2.8 million for raw materials and \$1.5 million for finished goods recorded at their net realizable value. As the inventory write-down allowance is based on the amount of inventory on hand at period end, this amount can significantly vary period over period. We expect that as we increase our scale of production and can approach a breakeven point, the write-down of inventory will decrease or will no longer be required.

2.2 Operating Expenses

Table 4: Operating expenses (in thousands of CAD dollars)	Three Months Ended		Variance	
	31-Dec-22	31-Dec-21	\$	%
General and administrative	\$ 2,372	\$ 2,600	\$ (228)	-9%
Engineering	3,089	2,194	895	41%
Business development	1,237	688	549	80%
Technology development	439	295	144	49%
Cost recoveries	(594)	(34)	(560)	1647%
Operating expenses	6,543	5,743	800	14%

	Year Ended		Variance	
	31-Dec-22	31-Dec-21	\$	%
General and administrative	\$ 10,732	\$ 10,077	\$ 655	6%
Engineering	12,976	8,085	4,891	60%
Business development	5,426	2,601	2,825	109%
Technology development	1,371	1,056	315	30%
Cost recoveries	(2,635)	(1,944)	(691)	36%
Operating expenses	27,870	19,875	7,995	40%

Operating expenses have increased across most functions as the Company is currently in a growth phase and building its foundation to deliver against its expected growth profile. A quarter-by-quarter comparison for the last eight quarters is included in section 3.2.

G&A expenses were \$2.4 million (2021: \$2.6 M) and \$10.7 million (2021: \$10.1 M) for the three months and year ended December 31, 2022. This increase is mostly related to a credit loss charge of \$0.7 million and severance payments made in December 2022 as a result of reductions in headcount.

Engineering expenses were \$3.1 million (2021: \$2.2 M) and \$13.0 million (2021: \$8.1 M) in the three months and year ended December 31, 2022. The increase was primarily related to product development supporting the Company's growth strategy including expanding the Company's product lines, the evolution of the Company's fuel stack technology with a new 120kw product launched in September 2022 and initiatives to optimize product design and costs reductions.

During the period ended December 31, 2022, the Company invested in various business development initiatives mainly related to market development activities in Europe. Business development costs increased to \$1.2 million (Q421: \$0.7 M) and \$5.4 million (2021: \$2.6 M) in the three months and year ended December 31, 2022, primarily due to increased headcount, tradeshow participation, communications, and consultancy fees to support these initiatives.

The Company has continued to engage in new initiatives related to technology research and new material development, and how the benefits of eFlow™'s patented modified geometry may apply to electrolyzers, resulting in continued technology and development expenditures.

\$2.6 million in cost recoveries were recognized in the year ended December 31, 2022, of which \$1.9 million is related to funding received under its Sustainable Development Technology Canada ("SDTC") project, mostly related to the completion of the Milestone 3 (2021: \$1.7 M, mostly related to the completion of the Second Milestone). As at December 31, 2022, the Company has \$1.2 million recorded as deferred recoveries relating to SDTC credits, after having received an additional \$0.8 million as an advance for Milestone 4 in October 2022, which the Company finalized in early 2023. The Company received a total of \$1.9 million in March 2023 in relation to the completion of Milestones 4 and 5.

In Q2 2022 the Company entered into an agreement with Pacific Economic Development Canada pursuant to which the Company is entitled to receive up to \$9.75 million of JGF funding. The Company received advances of \$4.9 million and \$1.1 million during the year ended December 31, 2022. These advances were fair valued at \$3.1 million and \$0.7 million respectively on the applicable payment receipt, with \$1.8 million and \$0.5 million, respectively, being recorded as a deferred cost recovery. The Company recognized \$0.6 million of JGF funding as cost recovery for the year ended December 31, 2022 (year ended December 31, 2021 - nil).

Net loss increased to \$9.7 million (2021: \$7.5 M net loss) and \$37.5 million (2021: \$25 M net loss) in the three months and year ended December 31, 2022, respectively, driven by the previously mentioned increases in cost of sales and operating expenses.

Revenue and operating costs are further analyzed and discussed in section 3.1.

3. REVIEW OF QUARTERLY PERFORMANCE

The following tables highlights key financial performance for the last eight quarters and year-to-date for the past three years:

3.1 Revenues and Cost of Sales

	Quarter								Annual		
	Q422	Q322	Q222	Q122	Q421	Q321	Q221	Q121	2022	2021	2020
Revenues	\$ 681	\$ 1,404	\$ 1,065	\$ 178	\$ 128	\$ 206	\$ 1,090	\$ -	\$ 3,328	\$ 1,424	\$ 546
Units sold	9	22	16	2	1	2	11	-	49	14	3
Cost of sales	3,781	4,019	3,526	1,999	1,777	1,530	2,110	833			
Cost of goods sold	2,421	3,283	3,685	793	789	620	3,041		10,182	4,450	
Inventory write-down allowance	1,360	736	(159)	1,206	988	910	(931)	833	3,143	1,800	
Cost of sales	3,781	4,019	3,526	1,999	1,777	1,530	2,110	833	13,325	6,250	-
Gross margin	(3,100)	(2,615)	(2,461)	(1,821)	(1,649)	(1,324)	(1,020)	(833)	(9,997)	(4,826)	546

Revenues

The Company's primary source of revenues is the sale of its fuel cell modules and systems, with 9 units sold in the three months ended December 31, 2022 (2021: 1) and 49 (2021: 14) units sold in the year ended December 31, 2022. As the Company is commercializing its fuel cells, it is expected that the number of units sold and revenue will vary from period to period. The increase in Q2 2022 and Q3 2022 was driven by Tevva transitioning to the Production Phase of the CAC. Q221 revenue was driven by the sale of 11 units for our first pilot bus program. As previously noted, 11 units were shipped in December 2022, but were not delivered prior to year end and thus will be recognized as revenue in Q1 2023.

Prior to Q221, the Company recognized insignificant revenues, as the Company was primarily engaged in product development and testing. Sales during this period were associated with pilot projects arising from engineering and product development activities and, as such, no separate cost of sales was presented

Cost of sales

Our cost of goods sold varies with the number of units sold with Q422, Q322, Q222 and Q221 being significantly higher than other periods, consistent with unit sales in such periods. Our average cost of goods sold per unit will also vary based on the volumes and type of units and models being sold, but we are seeing a downward trend as our volumes increase over time. We expect to see average costs further decrease as a result of design improvements, supply chain efforts and volume increase. We set ourselves an aggressive target of reducing unit costs by 25% in 2022 and are pleased to report that we achieved a 35% reduction in 2022 compared to full year 2021.

Due to the Company's current low production volumes and the build-out of our manufacturing capacity, our cost per unit currently exceeds our selling price, and as a result we have a negative gross margin. As a result, at the end of each accounting period we are required to not only write down our finished goods to their net realizable value (estimated selling price less the estimated cost of completion and selling costs), but also record a provision against our raw materials on hand.

The inventory write-down allowance above represents the movement in the write-down of raw materials and finished goods on hand during the period. As this is based on the amount of inventory on hand at period end, this amount can vary significantly period over period. We expect that as we increase our scale of production and can approach a breakeven point, the write-down of inventory will decrease or will no longer be required. The credit recorded in Q222 and Q221 reflects that the previously written down inventory was sold during the period and presented as cost of goods sold, to reflect the actual cost of inventory used. The increases in Q322 and Q422 reflect the impact of the build up of our inventory levels during the period.

Since Q221, the Company has been building its manufacturing capacity and inventory levels and as a result has had an increasing allowance on its raw materials.

3.2 Operating Expenses

Table 6: Quarterly and Annual Operating Expenses

(in thousands of CAD dollars)	Quarter								Annual		
	Q422	Q322	Q222	Q122	Q421	Q321	Q221	Q121	2022	2021	2020
General and administrative	\$ 2,372	\$ 3,329	\$ 2,633	\$ 2,398	\$ 2,600	\$ 2,015	\$ 1,976	\$ 3,487	\$10,732	\$ 10,077	\$ 3,668
Engineering	3,089	4,126	3,168	2,593	2,194	1,891	2,238	1,762	12,976	8,085	6,057
Business development	1,237	1,794	1,643	752	688	912	616	384	5,426	2,601	362
Technology development	439	290	215	427	295	412	214	135	1,371	1,056	128
Cost recoveries	(594)	(2,051)	53	(43)	(33)	(33)	(38)	(1,839)	(2,635)	(1,944)	(1,461)
Operating expenses	6,543	7,488	7,712	6,127	5,744	5,197	5,006	3,929	27,870	19,875	8,754

General & Administrative (G&A) Expenses

In February 2021 (Q121), the Company completed its IPO which resulted in additional costs associated with becoming and being a public company. Q121 also includes a one-off non-cash share-based compensation expense for warrants of \$1.7 million. The increase in Q222 compared to Q122 is mainly due to costs associated with additional headcount. The increase in Q322 compared to prior periods includes a credit loss charge of \$0.7 million.

Engineering Expenses

Engineering expenses are associated with the expansion of the Company's product lines, the evolution of the Company's fuel stack technology and initiatives to optimize product design and costs. Work on our new 120kw product based on the larger plate design, which was launched in September 2021, intensified through 2022 and was the principal driver of increased engineering expenses in the first half of 2022. The increase in Q322 is mostly due to increased headcount, to support the aforementioned larger plate design and new 120kW product.

Business development Expenses

Prior to Q121 our sales and marketing initiatives were relatively limited as we were focused on product development. Q321 saw a significant increase as the Company attended its first tradeshows to market our products. In 2022 we have increased our European sales team. Q322 and Q222 saw an increased focus on tradeshows as we continue to highlight the benefits that eFlow™ brings to the market and the launch of our new energy fuel cell, with Q422 dropping off slightly due to reduced activity compared to previous quarters. We are also experiencing a growth in our global technical services team as we look to support our customers integration of our fuel cell modules, including the opening of our UK service location in Grays, Essex to support the growth we are seeing in Europe.

Technical Development Expenses

Technical Development expenses are comprised of the Company's advanced development research. The Company has continued to engage in new initiatives related to early-stage technology research and new material development, and in particular how the benefits of eFlow™'s patented modified geometry applies to electrolyzers and the potential to produce more hydrogen in a more cost-efficient manner. The increase in Q422 is associated with such additional efforts.

Cost Recoveries

Cost recoveries primarily relates to Scientific Research and Experimental Development (SR&ED) tax credits and Sustainable Development Technology Canada ("SDTC") credits, which are recognized only when there is reasonable certainty as to their collectability or, in the case of SDTC, when milestones are completed and approved. The SR&ED tax credits only relate to the periods prior to the Company becoming a public company. During each of Q121 and Q322 the Company recognized \$1.6 million and \$1.8 million respectively of cost recoveries related to achieving certain SDTC milestones. The Company received \$0.8 million in October 2022 as an advance for Milestone 4 and received an additional \$1.9 million in Q123 after milestones 4 and 5 were completed and accepted by SDTC.

In Q322 and Q422 the Company also commenced recording recoveries in relation to the JGF loan, resulting in an increase in cost recoveries.

3.3 Net Loss

	Quarter								Annual		
	Q422	Q322	Q222	Q122	Q421	Q321	Q221	Q121	2022	2021	2020
Net Loss	\$ (9,653)	\$ (9,864)	\$ (9,923)	\$ (8,047)	\$ (7,457)	\$ (6,540)	\$ (6,152)	\$ (4,872)	\$ (37,487)	\$ (25,020)	\$ (8,921)
Loss per common share-basic and diluted	(0.28)	(0.29)	(0.29)	(0.24)	(0.22)	(0.19)	(0.18)	(0.20)	(1.11)	0.80	(0.50)

Net loss has been increasing as a result of the aforementioned increases in cost of sales and operating expenses.

4. FINANCIAL POSITION

The following tables summarize the financial position for the Company as at the end of each of the last eight quarters.

4.1 Assets

	Q422	Q322	Q222	Q122	Q421	Q321	Q221	Q121
Current assets:								
Cash and cash equivalents	\$ 24,524	\$ 36,949	\$ 43,325	\$ 55,730	\$ 67,030	\$ 77,810	\$ 84,439	\$ 91,486
Accounts receivable	3,842	3,237	2,914	2,533	2,066	1,671	1,356	566
Tax credit receivable	-	182	1,329	1,416	1,416	1,416	1,416	1,416
Inventory	4,288	3,927	1,591	1,637	1,280	1,195	828	1,463
Prepaid expenses and advances	2,001	7,105	7,748	6,575	6,564	3,256	2,322	2,997
Total current assets	34,655	51,400	56,907	67,891	78,356	85,348	90,361	97,928
Non-current assets								
Accounts receivable	239	289	345	412	477	529	-	-
Equity-accounted investment	-	-	-	-	-	-	141	186
Property, plant and equipment	20,344	13,659	10,301	8,589	5,260	5,179	4,110	3,511
Total non-current assets	20,583	13,948	10,646	9,001	5,737	5,708	4,251	3,697
Total assets	55,238	65,348	67,553	76,892	84,093	91,056	94,612	101,625

The increase in cash and cash equivalents in Q121 was primarily due to the completion of the Company's IPO. The reduced cash burn in Q322 is attributed to the draw down of non-dilutive government funding in the form of tax credits and an interest free loan. The following table summarises the net cash flow from operating, investing, and financing activities:

	Q422	Q322	Q222	Q122	Q421	Q321	Q221	Q121
Net operating cash flow	\$ (6,226)	\$ (8,458)	\$ (10,654)	\$ (7,839)	\$ (6,113)	\$ (5,883)	\$ (4,789)	\$ (3,556)
Net investing cash flow	(7,605)	(2,542)	(1,541)	(3,274)	(3,993)	(628)	(714)	(1,327)
Net financing cash flow	940	4,568	(99)	(187)	(677)	(97)	(1,562)	93,168
Foreign exchange	466	56	(111)	-	3	(21)	18	-
Net change in cash and cash equivalents	(12,425)	(6,376)	(12,405)	(11,300)	(10,780)	(6,629)	(7,047)	88,285

The change in net operating cash outflow is generally consistent with the change in net loss (refer to section 3.3). In each of Q421, Q321 and Q322, net operating cash outflow was higher than the net loss primarily due to the timing of inventory purchases with, Q421 also impacted due to the timing of payments.

Cash used in investing activities relates entirely to the purchase of capital assets and leasehold improvements. Capital assets include testing and manufacturing equipment to continue grow the Company's manufacturing, product development, testing and prototyping capabilities. As at December 31, 2022, outstanding commitments related to purchases of property, plant, and equipment were \$3.9 million.

Cash provided by financing activities in Q121 was primarily a result of the issuance of 6,250,000 common shares in connection with the Company's IPO for gross proceeds of \$100 million (refer to section 4.4). The net financing cash outflow for Q221 and Q421 primarily relates to the payment of share issuance costs related to the Company's IPO. In Q322 and Q422 the Company received \$4.9 million and \$1.1 million respectively related to its agreement with Pacific Economic Development Canada for the JGF program.

Fluctuations in accounts receivable relate to the timing and quantum of sales of fuel cell modules by quarter and the timing of receipt of payments on such sales. The timing of collection of GST receivables has also resulted in fluctuations in receivables.

The tax credit receivable relates to the Company's estimated SR&ED tax credits up to the date of the Company's IPO in February 2021, which amounts were payable in cash. As a public company, the Company's SR&ED tax credits are not refunded in cash. In Q322 the Company completed and submitted these filings and received \$1.1 million of SR&ED credits in cash, with an additional and final cash payment of \$0.2 million received in October 2022.

Inventory increased in Q121 to support the forecasted sale for ten fuel cell modules and decreased in Q221 when the fuel cell modules were received by the customer. Inventory increased in the following quarters as the Company continued to build its inventory balance to meet the growing demand of its customers. The increase in Q122 and Q322 is consistent with the build up of raw materials and finished goods to meet production requirements associated with the fulfillment of purchase orders. The amounts recorded in the Company's statement of financial position are the estimated net realizable value of inventory. As of December 31, 2022, not including write down allowance, the Company has \$9.2 million in inventory, out of which approximately 65% is raw materials.

Prepaid expenses and advances are comprised of deposits for property, plant and equipment, inventory, software and corporate G&A expenses. The increase in prepaid expenses and advances in Q121 primarily relates to prepaid insurance and property, plant and equipment deposits following the Company's IPO. Subsequent increases in Q321, Q421, Q122 and Q222 are due to increases in refundable deposits made for inventory and property, plant, and equipment, as the Company continued to expand its manufacturing capabilities to continue to meet customer demands. The decrease in Q422 is mostly due to a reclassification of \$3.9 million to property, plant and equipment for deposits paid for equipment to be delivered in 2023 that are no longer refundable.

Non-current accounts receivable primarily relates to the amounts reimbursable by a government entity to the Company relating to the lease entered into by Loop Shanghai.

Property, plant and equipment, which includes right-of-use assets associated with leases, has increased following the IPO, to expand the Company's testing and manufacturing capabilities, as well as during Q121 and Q322 when the Company entered into new office and facility leases in Canada and the UK, and during Q321 as a result of a new facility lease by Loop Shanghai.

4.2 Liabilities

	Q422	Q322	Q222	Q122	Q421	Q321	Q221	Q121
Current liabilities:								
Accounts payable and accrued liabilities	\$ 3,939	\$ 5,312	\$ 2,416	\$ 3,037	\$ 2,846	\$ 2,886	\$ 1,555	\$ 2,731
Current portion of lease liabilities	972	900	708	713	715	659	492	499
Current portion of long-term debt	175	175	175	175	175	175	165	515
Deferred revenue and recoveries	1,656	666	2,453	2,836	2,479	2,358	2,577	2,664
Warranty provision	184	427	310	138	112	103	60	-
Total current liabilities	6,926	7,480	6,062	6,899	6,327	6,181	4,849	6,409
Non-current liabilities								
Lease liabilities	2,764	2,983	2,190	1,202	1,350	1,476	753	838
Long-term debt	3,928	3,226	170	195	219	242	275	296
Deferred revenue and recoveries	1,737	2,275	757	807	849	873	-	-
Warranty provision	373	471	185	189	193	181	188	-
Total non-current liabilities	8,802	8,955	3,302	2,393	2,611	2,772	1,216	1,134
Total liabilities	15,728	16,435	9,364	9,292	8,938	8,953	6,065	7,543

Accounts payable increased in Q322 mostly due to increase in purchases for inventory and equipment and consulting services, and the difference in timing between the receipt of the goods and services and payment of the invoices.

Lease liabilities increased in Q322 as a result of new leases entered into in Canada and the UK, in Q222 due to an extension of a facility lease in Canada, in Q321 due to a new facility lease entered into by Loop Shanghai and in Q121 due to a new office lease entered into in Canada.

Long-term debt decreased in Q221 primarily due to a \$0.4 million repayment of unsecured promissory notes and increased in Q322 and Q422 as a result of the recording of the fair value of the loan payable to Pacific Economic Development Canada from funding received under the JGF program.

Deferred revenues and recoveries include SDTC credits received for which milestones to recognize the cost recoveries had yet to be achieved, deposits received from customers, a deferred government grant recovery associated with a

facility lease entered into by Loop Shanghai in Q321 and the government grant value associated with the interest free JGF funding received from Pacific Economic Development Canada. The balance of deferred revenue and recoveries will fluctuate period to period based on the timing of receipt of grants and the timing of recognition of recoveries associated with such grants.

In Q121, SDTC provided additional funding of \$2.0 million, of which \$0.3 million was recognized as a cost recovery during the same period, and we recognized a further \$1.4 million cost recovery relating to the completion of Milestone 2 of the SDTC project. In Q322 another \$1.8 million was recognized as a cost recovery associated with Milestone 3 completion. In Q422 the Company received from SDTC a further advance payment of \$0.8 million to fund the fourth milestone project which is recorded as deferred cost recovery.

On March 31, 2022, the Company entered into an agreement with Pacific Economic Development Canada for JGF funding of up to \$9.75 million in cash 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. The Company received initial advances of JGF funding in two tranches of \$4.9 million and \$ 1.1 million during Q322 and Q422 respectively. These advances were valued at \$3.1 million and \$0.7 million respectively on the applicable payment receipt date with the discount of \$1.8 million and \$0.5 million respectively being recorded as deferred cost recovery. The Company recognized \$0.4 million as a cost recovery for the year ended December 31, 2022 (year December 31, 2021 - nil) in relation to salaries incurred and \$0.2 million 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 increase in the non-current portion of deferred revenues and recoveries during Q322 is related to the non-current portion of the JGF loans from Pacific and Economic Development Canada, and in Q321 is primarily due to a government grant associated with the new facility lease entered into by Loop Shanghai and all other movements are due to the timing of customer deposits and the recognition of revenues.

Commencing in Q221, the Company recorded a warranty provision for the estimated costs of replacement and associated services costs that will be incurred by the Company with respect to the products sold.

4.3 Liquidity and Working Capital

Table 10: Liquidity and working capital

(in thousands of CAD dollars)	Q422	Q322	Q222	Q122	Q421	Q321	Q221	Q121
Cash and cash equivalents	\$ 24,524	\$ 36,949	\$ 43,325	\$ 55,730	\$ 67,030	\$ 77,810	\$ 84,439	\$ 91,486
Working capital	27,729	43,920	50,845	60,992	72,029	79,167	85,512	91,519

The Company's working capital position, being its current assets less its current liabilities, significantly increased in Q1 2021 as a result of the completion of the Company's IPO. Since then, the working capital has declined as we have spent such funds in the development of our business.

In the year ended December 31, 2022, the Company realized a net loss of \$37.5 million (December 31, 2021 - \$25.0 M) and had negative cash flows from operations of \$33.2 million (year ended December 31, 2021 - \$20.3 M). 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. 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'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 table below outlines the contractual maturities (including interest) of our financial obligations as at December 31, 2022:

Table 10.1: Obligations (In thousands of CAD dollars)	Carrying amount	Contractual cash flows	Within 1 year	1-3 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:

Table 10.2 Commitments (in thousands of CAD dollars)	Contractual cash flows	Within 1 year	1 to 3 year	thereafter
	\$	\$	\$	\$
Property plant and equipment	3,788	3,788	-	-
	3,788	3,788	-	-

4.4 Shareholders' Equity

Table 11: Shareholder's Equity (in thousands of CAD dollars)	Q422	Q322	Q222	Q122	Q421	Q321	Q221	Q121
Shareholders' equity:								
Common shares	\$ 126,828	\$ 126,517	\$ 126,517	\$ 126,402	\$ 126,310	\$ 126,306	\$ 126,677	\$ 126,708
Preferred shares	-	-	-	-	-	-	-	-
Share-based payment reserve	7,966	8,090	7,511	6,973	6,556	6,119	5,671	5,023
Deficit	(95,284)	(85,631)	(75,767)	(65,844)	(57,797)	(50,341)	(43,801)	(37,649)
Foreign currency reserve	-	(63)	(72)	69	86	19	-	-
Total shareholders' equity	39,510	48,913	58,189	67,600	75,155	82,103	88,547	94,082

In Q121, the Company completed its IPO of 6,250,000 common shares at a price of \$16.00 per share for aggregate gross proceeds of \$100 million. In connection with the IPO, the Company paid a cash commission of \$6.0 million and incurred additional share issuance costs of \$2.2 million during 2021.

As of December 31, 2022, and at the date of this MD&A the following equity instruments were outstanding:

Table 12: Equity Instruments	March 28, 2023	December 31, 2022
Common shares	34,052,189	34,005,791
Stock options	2,095,022	2,118,688
Warrants	66,667	66,667
Restricted Share Units	532,932	675,353

In the prospectus filed in connection with the IPO, the Company stated that it intended to use the net proceeds from the IPO for product and technology development, sales, general and administrative expenses and capital assets, as set for in the table below. The Company's product and technology development, sales and general and administration expenses are working capital in nature.

Table 13: Use of proceeds (in thousands of CAD dollars)

Shares	Price (per share)	Net Proceeds	Intended Use	Intended use	Actual use
6,250,000	\$16.00	\$91,801	Product and Technology development	\$19,000	\$16,000
			Sales General and Administration	7,200	24,000
			Capital Assets	66,000	20,000
			Unallocated working Capital	-	19,000
			Total	92,200	79,000

The variance between the anticipated use of proceeds described in the prospectus for the Company's IPO and the actual use of proceeds from the IPO is principally the result of the impact of the COVID-19 pandemic and geopolitical events in Europe.

As set out in the prospectus for the IPO, a significant portion of the IPO proceeds were anticipated to be used on capital investment to set up a facility in Shanghai, China. With the zero-tolerance policy in certain parts of China during the pandemic, the opening of our Shanghai facility was delayed until July 2022, resulting in a significant delay in capital investment in the facility. In addition, geopolitical events in Europe have resulted in energy security becoming an increasingly important issue in Europe. This has accelerated hydrogen adoption in Europe and created an opportunity for the Company to advance its business objectives without the same degree of capital investment. This has also led higher than anticipated sales and marketing expenditures intended to take advantage of these opportunities.

As a consequence of these developments, the Company has focused its efforts in building its product portfolio and the sales and support team needed to achieve its growth targets, and in optimizing its production capacity needs. The unallocated working capital is mostly related to expenses associated with inventory and production costs.

4.5 Related Party Transactions

The Company has related party relationships, as defined by IFRS, with its key management personnel, which includes the members of the Board of Directors and the officers of the Company. In addition to their salaries, key management personnel also participate in the Company's share-based compensation plan. Related party transactions with key management personnel were as follows:

	Q422	Q322	Q222	Q122	Q421	Q321	Q221	Q121
Salaries and benefits	\$ 388	\$ 377	\$ 400	\$ 531	\$ 737	\$ 542	\$ 352	\$ 376
Share-based payments	191	409	341	267	278	301	410	555
Director fees	41	44	38	38	38	31	31	31
	620	830	779	836	1,053	874	793	962

The increase during 2021 of related party expenses with key management personnel is primarily due to stock-based compensation issued at the time of the Company's IPO and costs associated with the departure of the Company's previous Chief Financial Officer in Q421.

As at December 31, 2022, the Company has \$0.3 million (December 31, 2021 - \$0.5M) in accounts receivable for which an allowance for credit losses has been fully provided, and \$0.04 million in accounts payable and accrued liabilities (December 31, 2021 - \$0.02) from transactions with a joint venture. The transactions were carried out in the normal course of operations and have been measured at their exchange value.

Related party transactions and balances are disclosed in note 19 of the consolidated financial statements for the years ended December 31, 2022 and 2021.

4.6 Off Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements.

4.7 Selected Annual Financial Information

Table 15: Selected Annual Financial Information (in thousands of CAD dollars)	As at December 31,			Variance	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
				%	%
Cash and cash equivalents	\$ 24,524	\$ 67,030	\$ 3,201	-63	1,994
Total assets	55,238	84,093	10,252	-34	720
Total non-current financial liabilities	6,692	1,569	606	327	158

Cash and cash equivalents decreased to \$24.5 million as at December 31, 2022, compared to \$67.0 million as at December 31, 2021 and \$3.2 million as at December 31, 2020. The decrease in cash as at December 31, 2022 is primarily due to \$33.2 million of cash used in operating activities and a \$14.9 million investment in equipment to expand our testing and manufacturing capabilities. This was partially offset by proceed from long term debt of \$6.0 million related to JGF program.

The decrease in cash and cash equivalents, as described above, partially offset by an increase in investment in capital assets to facilitate product development, testing and manufacturing capabilities, has led to the decrease in total assets as at December 31, 2022, relative to last year.

5. CRITICAL ACCOUNTING ESTIMATES, POLICIES AND RISK MATTERS

The Company's management uses its judgement when applying the Company's accounting policies in the preparation of its audited consolidated financial statements. The preparation of financial information requires management to make assumptions and estimates of the effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and on the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant in the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

5.1 Key Sources of Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the reported amount of assets, liabilities, revenues and expenses within the next financial year.

Determination of the carrying value of 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 \$6.8 million write down of its inventory to its net realizable value (December 31, 2021 - \$4.0 M).

Impairment of financial assets

In determining the expected credit loss 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.

As at December 31, 2022 the Company has recorded an allowance for an expected credit loss of \$0.9 million (December 31, 2021 - \$0.1M) for sales done in 2021

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 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. 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, which would impact cost of sales in the Company's consolidated statements of loss and comprehensive loss. 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.

As at December 31, 2022, the Company had recorded warranty provisions of \$0.6 million (December 31, 2021 - \$0.3 M).

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 in relation to the expected life of the award, expected volatility, risk-free rate and forfeiture rates. Changes in any of these inputs could cause a significant change in the share-based compensation expense charged in the statements of loss and comprehensive loss and to share-based payment reserves in a given period.

The Company recognized share-based payments expense net of recoveries on cancellations of unvested options, during the three and twelve months ended December 31, 2022 and 2021 with allocations to functional expense as follows:

Table-16 Stock options Share-Based payments	Three months ended		Year ended December 31	
	December 31			
	2022	2021	2022	2021
(in thousands of CAD dollars)	\$	\$	\$	\$
Engineering	105	89	417	596
General and Administrative	(97)	279	874	1,228
Business Development	97	79	411	427
Technology development	9	1	27	33
	114	448	1,729	2,284

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of stock options granted during 2021:

Table 17: Black-Scholes assumptions	2021
Risk-free interest rate	1.21%
Expected life of options	7.9 years
Expected annualized volatility	74%
Dividend	0%
Forfeiture rate	0%

The valuation of the warrants issued during 2021 was calculated using the Black-Scholes method of valuation using the following assumptions:

Table 18: Black-Scholes assumptions	
Risk-free interest rate	0.32%
Expected life of options	1 year
Expected annualized volatility	85%
Dividend	0%

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

5.2 Changes in Accounting Policies and Recent Accounting Pronouncements

The Company's material accounting policies are detailed in Note 3 to the Company's annual financial statements for the year ended December 31, 2022. The Company did not adopt any new accounting policies in the current period. There are no significant accounting pronouncements which are anticipated to impact the Company's financial reporting.

5.3 Financial Instruments

As at December 31, 2022, 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 \$0.3 million as a result of increases in discount rate during the period.

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:

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 ongoing 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 \$27.7 million.

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.

Contractual maturities of financial obligations (including interest) and the commitments that were not recognized as liabilities that exist as at December 31, 2022 are shown in section 4.3 in Tables 10.1 and 10.2 respectively

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 \$0.9 million (December 31, 2021 - \$0.1 M) 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.

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

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.

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:

Table 19 Foreign Currency Exchange Risk	USD	EUR	RMB	GBP	Other	Total
(in thousands of CAD dollars)	\$	\$	\$	\$	\$	\$
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

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 \$0.2 million or \$0.04 million, 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.

5.4 Risks and Uncertainties

Risk is inherent in all business activities and cannot be entirely eliminated. As a global company, we are subject to the risks arising from adverse changes in global economic and political conditions. Political conditions such as government commitments and policies towards environmental protection and renewable energy may change over time. Economic conditions in leading and emerging economies have been, and remain, unpredictable. The impact of COVID 19 on supply chains and global economic activity also continues to be unpredictable. These macroeconomic and geopolitical changes could result in decreased or delayed revenue recognition, increased costs and other potential material impacts to our business.

For full details on the risks and uncertainties affecting the Company, please refer to the Company's AIF (see section entitled "Risk Factors") for the year ended December 31, 2022, a copy of which is available on SEDAR at www.sedar.com. The risks and uncertainties described in our AIF are not the only ones that we face. Additional risks and uncertainties, including those that we do not currently know of or that we deem immaterial, could materially and adversely affect the Company's investments, prospects, cash flows, results of operations or financial condition.

5.5 Management's Report on Internal Controls

Disclosure controls and procedures

We have designed disclosure controls and procedures, as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), to provide reasonable assurance that material information is identified and communicated to senior management, including the Chief Executive Officer and Chief Financial Officer, in a timely manner to allow decisions regarding required disclosures. As of December 31, 2022, we have evaluated, under the supervision and with the participation of senior management including the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures, as defined in NI 52-109, and concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that we file or submit is recorded, processed summarized and reported within the time periods required and is accumulated and communicated to senior management to allow timely discussions regarding required disclosures.

Internal control over financial reporting

We have also designed internal controls over financial reporting (“ICFR”), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Any system of ICFR, no matter how well designed, has inherent limitations and cannot provide absolute assurance that all misstatements and instances of fraud, if any, within the Company have been prevented or detected. We have evaluated, under the supervision and with the participation of senior management including the Chief Executive Officer and Chief Financial Officer, the effectiveness of ICFR, as defined in NI 52-109, in relation to the criteria in the 2013 Internal Control - Integrated Framework published by The Committee of Sponsoring Organizations of the Treadway Commission (“2013 COSO framework”). Based on this evaluation, we have determined that ICFR was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as of December 31, 2022.

Change in internal control over financial reporting

During the year ended December 31, 2022, the Company implemented new internal controls over financial reporting as a result of new circumstances or transactions, however there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

5.6 Cautionary Statement Regarding Forward-Looking Information

This MD&A contains certain “forward-looking statements” within the meaning of Canadian securities legislation that involve risks, uncertainties and assumptions and relate to the Company’s current expectations and views of future events.

In certain cases, these forward-looking statements can be identified by words or phrases such as “forecast”, “target”, “goal”, “may”, “might”, “will”, “expect”, “anticipate”, “estimate”, “intend”, “plan”, “indicate”, “seek”, “believe”, “project”, “predict”, or “likely”, or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to the Company’s financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, plans and objectives. Particularly, statements regarding the Company’s expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information, including:

- our liquidity needs and our estimation that we will have sufficient liquidity to execute our operating plans for at least the next twelve months;
- our future growth prospects and business outlook including without limitation the expected demand for our products, the planned growth of our customer base and the expected growth of our operations globally
- our ability to secure future firm order commitments or develop further market opportunities under existing and future customer and/or partner agreements;
- our ability to meet manufacturing cost reduction targets;
- our plans to integrate certain upstream activities to drive further cost out;
- the expected rollout and timing of our planned field deployment of our next generation fuel cell stacks and the belief that the larger e-flow plate will result in significant cost reductions;
- the expected performance, durability and total cost of operation of our fuels cell systems;
- our expected manufacturing capacity and production capability;
- the timing of expected integration, testing and commissioning of our products in customer vehicles or other customer applications;
- our goal to become a leader across the entire fuel cell market;

- our plans for our production facility in Shanghai, China;
- our plans for maintaining and growing our physical presence in Europe;
- the estimated future TAM for hydrogen fuel cells and for our current target market;
- our anticipated completion of milestones with Sustainable Development Technology Canada and Pacific Economic Development Canada and receipt of associated funds as applicable;
- our belief that zero emission vehicles are one of the only viable options for a sustainable future and that hydrogen fuel cell systems (combined with Lithium-ion batteries) are the optimal solution for the commercial mobility market;
- our expectation that our patents will adequately protect our intellectual property now and in the future;
- the realization of electrification of transportation, elimination of diesel fuel and ongoing government support of such developments; and
- the extent of the disruption to and/or adverse impact on our business, operation results and financial condition as a result of the COVID-19 pandemic, including without limitation the current COVID related lockdowns in China.

Forward-looking statements are based on certain assumptions and analyses made by the Company based upon management's experience and perception of historical trends, current conditions and expected future developments, and other factors it believes are appropriate. Although the Company believes that the assumptions underlying these statements are reasonable, if any assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those anticipated in those forward-looking statements and there can be no assurance that actual results will be consistent with these forward-looking statements. Material assumptions underlying forward-looking statements in this MD&A include future expectations and assumptions regarding:

- our belief of the value of the total assessable market today and by 2030;
- our intention to become the market leader and moving to adjacent market applications;
- our expectation that eFlow™-equipped fuel cells will continue to offer performance improvements over time and the increased offerings for uniformity of current, increased flow velocity and water removal;
- our expectation that total cost of ownership will decrease and demand for our products will increase;
- our expectation that we will continue to scale production and decrease average unit cost;
- our belief that our market visibility will increase;
- the demand for, and supply of, hydrogen fuel cells for the commercial mobility and stationary power markets;
- the realization of electrification of transportation, elimination of diesel fuel and ongoing government support of such developments;
- our belief that hydrogen fuel cells combined with lithium-ion batteries are the optimal solution for the commercial mobility market;
- our target of 100 fuel cell units ordered for 2022 and our ability to increase capacity, enhance our supply chain and reduce delivery time;
- our ability to reduce costs through scale purchasing and minimize inflation impact;
- our expectation that the write-down of inventory will decrease or will no longer be required in the future;
- our expectation that revenue will vary period to period;
- the timely availability of key equipment and components required in the manufacture of our products;
- our expectation that there are no significant unmitigated safety risks associated with the use of hydrogen;
- the availability of sufficient skilled human resources and financial capital required to meet our sales, product development and production growth aspirations;

- our ability to secure adequate financing to implement our business plan and strategy on favourable terms or at all; and
- the extent of the disruption to and/or adverse impact on our business, operation results and financial condition as a result of existing and unforeseen future global events, including without limitation the COVID-19 pandemic and the current war between Russia and the Ukraine.

In addition, forward-looking-statements, by their nature, involve risks and uncertainties. Certain of these risks are included in *"Risks and Uncertainties"* in this MD&A and *"Risk Factors"* in the Company's Annual Information Form dated March 28, 2023 ("AIF"), which factors should not be considered exhaustive and should be read together with the other cautionary statements in this MD&A. Given these risks, uncertainties and assumptions, readers should not place undue reliance on forward-looking statements and the Company cautions readers that forward-looking statements are not guarantees of future performance and that its actual results of operations, financial condition and liquidity and the development of the industry in which it operates may differ materially from those made in or suggested by forward-looking statements contained in this MD&A. In addition, even if the Company's results of operations, financial condition and liquidity and the development of the industry in which it operates are consistent with the forward-looking statements contained in this MD&A, those results or developments may not be indicative of results or developments in subsequent periods. Any forward-looking statement that is made in this AIF speaks only as of the date of such statement, and the Company undertakes no obligation to update any forward-looking statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments, except as required by applicable securities laws. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should only be viewed as historical data.

5.7 Non-IFRS Financial Measures

None