Unaudited Interim Condensed Consolidated Financial Statements of

LOOP ENERGY INC.

(Expressed in thousands of Canadian dollars)

As at September 30, 2023 and for the three and nine months ended September 30, 2023 and 2022

LOOP ENERGY INC.

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

	As at September 30, 2023 $	As at December 31, 2022 $
ASSETS		
Current assets:		
Cash and cash equivalents	5,611	24,524
Accounts receivable (note 3)	306	3,842
Inventory (note 4)	2,306	4,288
Prepaid expenses and advances	1,003	2,001
Total current assets	9,226	34,655
Non-current assets		
Accounts receivable (note 3)	-	239
Property, plant and equipment (note 5)	17,494	20,344
Total non-current assets	17,494	20,583
Total assets	26,720	55,238
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	3,412	3,939
Current portion of lease liabilities (note 7)	1,237	972
Current portion of long-term debt (note 8)	175	175
Deferred revenue and recoveries (note 9)	686	1,656
Warranty provision (note 11)	290	184
Total current liabilities	5,800	6,926
Non-current liabilities		
Lease liabilities (note 7)	2,410	2,764
Long-term debt (note 8)	5,953	3,928
Deferred revenue and recoveries (note 9)	2,006	1,737
Warranty provision (note 11)	420	373
Total non-current liabilities	10,789	8,802
Total liabilities	16,589	15,728
Shareholders' equity:		
Common shares (note 12)	127,641	126,828
Share-based payment reserve	8,178	7,966
Deficit	(125,506)	(95,284)
Foreign currency reserve	(182)	-
Total shareholders' equity	10,131	39,510
Total liabilities and equity	26,720	55,238

Going concern (note 2)

Commitments (note 18)

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

LOOP ENERGY INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Revenues (note 14)	416	1,404	1,653	2,647
Cost of sales (note 4)				
Cost of goods sold	1,199	3,283	4,985	7,761
Change in allowance for inventory write-down	2,941	736	6,002	1,783
Gross margin	(3,724)	(2,615)	(9,334)	(6,897)
Expenses:				
General and administrative	2,561	3,329	6,888	8,360
Engineering	2,458	4,126	8,328	9,887
Business development	859	1,794	3,183	4,189
Technology development	150	290	663	932
Impairment loss (note 5)	4,810	-	4,810	-
	10,838	9,539	23,872	23,368
Cost recoveries:				
Research and development tax credits	-	26	-	113
SDTC and JGF Program (note 9)	(233)	(2,042)	(3,430)	(2,109)
Other grants	126	(35)	13	(45)
	(107)	(2,051)	(3,417)	(2,041)
Operating expenses	10,731	7,488	20,455	21,327
Loss before the undernoted	(14,455)	(10,103)	(29,789)	(28,224)
Other income (expenses):				
Foreign currency exchange	(115)	113	(209)	149
Interest income	89	227	391	467
Finance expense (note 10)	(241)	(101)	(615)	(226)
Net loss	(14,722)	(9,864)	(30,222)	(27,834)
Other comprehensive loss:				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	(64)	9	(182)	(149)
Total comprehensive loss	(14,786)	(9,855)	(30,404)	(27,983)
Loss per common share – basic and diluted	(0.43)	(0.29)	(0.88)	(0.83)
Weighted average number of common shares outstanding	34,372,534	33,787,648	34,246,727	33,720,536

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

LOOP ENERGY INC.

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

	Common shares \#	Common shares $	Share-based payment reserve $	Deficit $	Foreign currency reserve $	Total shareholders' equity $
Balance December 31, 2021	33,649,314	126,310	6,556	(57,797)	86	75,155
Exercise of stock options (note 13)	428,334	207	(81)	-		126
Share-based payments (note 13)	-	-	1,615	-	-	1,615
Net loss	-	-	-	(27,834)	-	(27,834)
Other comprehensive loss:						
Foreign currency translation	-	-	-	-	(149)	(149)
Balance, September 30, 2022	34,077,648	126,517	8,090	(85,631)	(63)	48,913
Balance December 31, 2022	34,005,791	126,828	7,966	(95,284)	-	39,510
Exercise of stock options (note 13)	183,333	217	(81)	-	-	136
Shares issued on RSU redemption	201,558	596	(636)	-	-	(40)
Share-based payments (note 13)	-	-	929	-	-	929
Net loss	-	-	-	(30,222)	-	(30,222)
Other comprehensive loss:						
Foreign currency translation	-	-	-	-	(182)	(182)
Balance, September 30, 2023	34,390,682	127,641	8,178	(125,506)	(182)	10,131

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

LOOP ENERGY INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Operating activities				
Net loss	(14,722)	(9,864)	(30,222)	(27,834)
Items not affecting cash:				
Depreciation (note 5)	895	625	2,315	1,328
Impairment loss (note 5)	4,810	-	4,810	-
Finance expense (note 10)	241	101	615	226
Inventory write-down (note 4)	2,965	2,001	6,969	4,886
Share-based payments (note 13)	278	579	960	1,615
Other	(4)	(54)	(46)	(75)
Changes in non-cash working capital and other items, net (note 17)	1,361	(1,846)	(2,051)	(7,097)
Net cash flows used in operating activities	(4,176)	(8,458)	(16,650)	(26,951)
Investing activities				
Purchase of property, plant and equipment (note 5)	(719)	(2,542)	(4,577)	(7,365)
Proceeds from disposition of assets	-	-	34	8
Net cash flows used in investing activities	(719)	(2,542)	(4,543)	(7,357)
Financing activities				
Net proceeds from exercise of stock options (note 13)	-	-	136	91
Proceeds from long-term debt (note 8)	810	4,863	2,885	4,863
Repayment of long-term debt (note 8)	(38)	(38)	(114)	(114)
Lease payments (note 7)	(249)	(257)	(630)	(558)
Net cash flows provided by financing activities	523	4,568	2,277	4,282
Cash and cash equivalents				
Change during the period	(4,372)	(6,432)	(18,916)	(30,026)
Impact of foreign exchange on cash and cash	56	56	3	(55)
Cash and cash equivalents, beginning of the period	9,927	43,325	24,524	67,030
Cash and cash equivalents, end of period	5,611	36,949	5,611	36,949

Supplemental cash flow information (note 17)

The accompanying notes are an integral part of the unaudited interim condensed 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. The Company's head office is located at 660 - 2700 Production Way, Burnaby, BC, V5A 4V7.

2. Basis of presentation:

Statement of compliance:
These interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounts Standards ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Company's consolidated financial statements as at and for the year ended December 31, 2022.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company on November 7, 2023.

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

Going Concern:
These interim condensed consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company realized a net loss of $30,222 for the nine months ended September 30, 2023 (nine months ended September 30, 2022 - $27,834) and had negative cash flows from operations of $16,650 (nine months ended September 30, 2022 - $26,951). 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 six months 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 September 30, 2023, the Company has working capital, being current assets less current liabilities, of $3,426.

These unaudited interim condensed 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)

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

Basis of consolidation:
The unaudited interim condensed 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 unaudited interim condensed consolidated financial statements and unrealized gains or losses on transactions are eliminated upon consolidation.

Subsidiaries:
The following provides information about the Company's wholly owned consolidated subsidiaries as at September 30, 2023:

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%

Estimation uncertainty
The significant estimates and judgments used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the Company's annual consolidated financial statements as at and for the year ended December 31, 2022, with the addition of estimation uncertainty associated with the determination of the recoverable amount of assets and it's cash-generating unit ("CGU") when conducting impairment testing. The Company has determined the fair value less cost to sell of certain identified assets based on the best information available, including a non-binding letter of intent to purchase certain equipment received from a potential buyer. The Company determined the recoverable amount of its CGU based on a value-in-use model that requires management to apply judgement and estimation, including forecast future sales and costs, the terminal value and the discount rate used.

Actual results may differ from these estimates.

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

The Company operates in one segment and as at September 30, 2023 $16,138 of the Company's non-current assets are located in Canada and $1,356 are located in China.

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the Company's annual consolidated financial statements as at and for the year ended December 31, 2022. In addition, as a result of impairments taken during the three-month period ended September 30, 2023, impairment of assets is now considered a material accounting policy, as described below.

Impairment of assets

The Company assesses at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or cash generating unit's ("CGU") fair value less costs to sell and its value in use.

A CGU is defined under IAS36 as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. The Company has identified one CGU, being the development and manufacturing of fuel cell technologies.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in the Consolidated Statement of Loss and Comprehensive Loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs to sell, recent or potential market transactions are considered. If no such transactions can be identified, an appropriate valuation model is used.

For assets previously impaired, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such an indication exists, the Company estimates the assets or CGUs recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

If the recoverable amount of an individual asset is determinable, the Company limits the impairment to the recoverable amount of the individual asset.

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

3. Accounts receivable:

	September 30, 2023 $	December 31, 2022 $
Customer receivables	193	2,086
GST receivable and other	113	1,399
Government grant receivable (note 9)	-	596
Accounts receivable	**306**	**4,081**
Current portion	306	3,842
Non-current portion	-	239
	306	**4,081**

Customer receivables are recorded, net of an allowance for an expected credit loss of $1,793 (December 31, 2022 - $935), with credit losses recorded in general and administrative expenses.

4. Inventory:

	September 30, 2023 $	December 31, 2022 $
Raw materials	1,847	2,807
Finished goods	459	1,481
Inventory	**2,306**	**4,288**

As at September 30, 2023, inventory is presented net of an allowance for write-downs of $10,945 (December 31, 2022 - $4,943).

During the three and nine months ended September 30, 2023, the Company recorded a total of $2,965 and $6,969 respectively, in write-downs of its inventory to its net realizable value (three and nine months ended September 30, 2022 – $2,001 and $4,886, respectively).

Cost of sales for the three and nine months ended September 30, 2023 (compared to three and nine months ended September 30, 2022) comprised the cost of inventories recognized as an expense of $952 and $3,652 (2022 - $2,269 and $5,753), overheads of $227 and $1,055 (2022 - $552 and $1,339), warranty costs of $20 and $278 (2022 - $462 and $669), and the change in allowance for write-downs of inventory of $2,941 and $6,002 (2022 - $736 and $1,783), respectively.

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

5. Property, plant and equipment:

	Equipment $	Leasehold improvements $	Computer hardware $	Computer software $	Right-of-use assets $	Total $
Cost						
Balance, December 31, 2022	**14,034**	**5,427**	**789**	**434**	**4,707**	**25,391**
Additions	3,347	1,185	2	-	955	5,489
Disposals	-	(36)	-	-	-	(36)
Remeasurement	-	-	-	-	(464)	(464)
Effect of movements in foreign exchange rates	(112)	(106)	(8)	(9)	(115)	(350)
Balance, September 30, 2023	**17,269**	**6,470**	**783**	**425**	**5,083**	**30,030**
Accumulated depreciation and impairment losses						
Balance, December 31, 2022	**1,794**	**1,383**	**332**	**216**	**1,322**	**5,047**
Depreciation	986	829	220	69	655	2,759
Impairment loss	1,567	1,514	178	82	1,469	4,810
Disposals	-	(2)	-	-	-	(2)
Effect of movements in foreign exchange rates	(1)	(8)	(7)	1	(63)	(78)
Balance, September 30, 2023	**4,346**	**3,716**	**723**	**368**	**3,383**	**12,536**
Carrying amounts						
December 31, 2022	**12,240**	**4,044**	**457**	**218**	**3,385**	**20,344**
September 30, 2023	**12,923**	**2,754**	**60**	**57**	**1,700**	**17,494**

Included in the cost of equipment is $2.2 million of assets under construction that are not being depreciated as they are not yet available for use and $1.6 million of deposits paid for equipment to be delivered in 2023.

During the three months ended September 30, 2023, the Company assessed that indicators of impairment existed due to the Company's decision to execute operating cost reductions including closure of production in China and divesting the fuel cell module business.

As a result of the above indicators of impairment, the Company estimated the recoverable amount of the assets being the higher of its fair value less costs of disposal ("FVLCD") and its value-in-use. Since the recoverable amounts of the assets were less than the carrying amounts, the Company recognized a total impairment loss of $4.8 million on respective asset classes as disclosed in table above.

In determining the impairment loss, the Company has assessed its right-of-use assets and associated leasehold improvements assets and has fully impaired the carrying value of such assets to the extent that the corresponding leased space is no longer expected to be used to generate cash flows. With respect to determining the impairment amounts of specifically identified equipment, computer hardware and computer software, the Company considered the FVLCD of such assets. In China FVLCD for equipment was based on indicative values resulting from a non-binding letter of intent received from a potential buyer of specific assets. In Canada the Company has impaired any equipment specific to the manufacture of fuel cell modules. The Company then assessed if the recoverable amount of its CGU exceeds its remaining carrying value. Management prepared a value-in-use cash flow model to determine the recoverable amount of the CGU based on cash flows anticipated to be achieved in the continuing fuel cell stack business, discounted at a rate of 18%. Based on such model the recoverable amount of the CGU exceeded its carrying value, indicating no further impairment was required.

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

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

	Three months ended September 30, 2023 $	Three months ended September 30, 2022 $	Nine months ended September 30, 2023 $	Nine months ended September 30, 2022 $
Cost of sales	145	198	407	492
Engineering	388	313	1,025	495
General and administrative	337	85	798	253
Business development	14	16	44	41
Technology development	11	13	41	47
	895	**625**	**2,315**	**1,328**

At September 30, 2023, $444 (September 30, 2022 - $206) of depreciation expense was recorded in inventory.

6. Accounts payable and accrued liabilities:

	September 30, 2023 $	December 31, 2022 $
Trade payables and accrued expenses	2,435	2,705
Trade and other payables due to related parties (note 15)	-	40
Payroll accruals	953	1,194
Others	24	-
Accounts payable and accrued liabilities	**3,412**	**3,939**

7. Lease liabilities:

As at September 30, 2023, 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% - 13.0% per annum and the leases expire between September 2024 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 nine months ended September 30, 2023 and the year ended December 31, 2022:

	September 30, 2023 $	December 31, 2022 $
Balance, beginning of year	3,736	2,065
Additions	955	2,270
Effect of movements in foreign exchange rates	(52)	(32)
Finance expense (note 10)	254	255
Lease payments[1]	(782)	(822)
Remeasurement	(464)	-
Balance, end of period	**3,647**	**3,736**
Current portion	1,237	972
Non-current portion	2,410	2,764
Balance, end of period	**3,647**	**3,736**

1) Includes $152 of payments recorded in accounts payable as at September 30, 2023.

As at September 30, 2023, the undiscounted contractual obligations of the Company's lease liabilities were as follows: 2023: $322; 2024: $1,216; 2025: $792; 2026: $814; 2027: $809 and $457 thereafter.

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

8. Long-term debt:

On March 31, 2022, the Company entered into an agreement with Pacific Economic Development Canada for funding, Jobs 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. 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:

	September 30, 2023 $	December 31, 2022 $
Unsecured loan, maturing December 1, 2024, bearing no interest (a)	175	269
Unsecured promissory notes, with no maturity date, bearing no interest	23	23
Unsecured JGF Program loan, maturing March 31, 2030, bearing no interest (b)	5,930	3,811
Total long-term debt	6,128	4,103
Less current portion of long-term debt	175	175
Long-term portion	**5,953**	**3,928**

(a) During the nine months ended September 30, 2023, the Company repaid $114 relating to this long-term debt facility and recorded non-cash finance expenses of $20 (nine months ended September 30, 2022 - $39) (note 10) 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. During the nine months ended September 30, 2023, the Company received a third and fourth tranche aggregating to $2,884. The Company applied an effective interest rate of 12.25% and 12.50% to discount the cash flows of the non-interest-bearing loan applicable to each tranche. The loan was valued at aggregate amount of $1,778 on the payment receipt date. The remaining balance of the loan is classified as deferred recoveries (note 9). The Company recorded non-cash finance expenses of $140 and $341 during the three and nine months ended September 30, 2023, respectively, related to accretion of the associated discount on the loan.

As at September 30, 2023 the contractual maturities of the Company's long-term debt were as follows: 2023: $61; 2024: $152; 2025: $1,328; 2026: $1,771; 2027: $1,771 and $3,985 thereafter.

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

9. Deferred revenue and recoveries:

	September 30, 2023 $	December 31, 2022 $
SDTC	33	1,213
Contract with customers	159	-
JGF Program	2,325	1,617
Shanghai Industrial Zone Economic Development	175	563
Balance, end of period	2,692	3,393
Current portion	686	1,656
Non-current portion	2,006	1,737
Balance, end of period	**2,692**	**3,393**

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 2022, the Company received an advance payment of $782 related to fourth milestone project, which was recognized completely in the three months ended March 31, 2023 on completion of the fourth milestone.

During the three months ended March 31, 2023, the Company also received from SDTC a final payment of $1,854 in relation to completion of fifth milestone, which was recognized completely alongside additional funding of $297 upon completion of the fourth and fifth milestone.

The following table presents the changes in the balance of the Company's SDTC deferred recoveries for the nine months ended September 30, 2023 and the year ended December 31, 2022:

SDTC	September 30, 2023 $	December 31, 2022 $
Balance, beginning of year	1,213	2,366
Completion of third milestone	-	(1,621)
Receipt of prepayment for fourth milestone	-	782
Completion of fourth milestone	(782)	-
Receipt of payment for fifth milestone	1,854	-
Completion of fifth milestone	(1,854)	-
Amortization of equipment cost recovery	(101)	(132)
Recognition of additional funding received in relation to completed milestones	(297)	(182)
Balance, end of period	**33**	**1,213**

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

JGF Program

As disclosed in Note 8, 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. During the nine months ended September 30, 2023, the Company received an aggregate of $2,884 for the third and fourth tranche and recorded an aggregate discount of $1,106 as deferred cost recovery. During the three and nine months ended September 30, 2023, the Company recognized an aggregate of $200 and $396 (three and nine months ended September 30, 2022 – nil) as cost recovery for operating expenses incurred and 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 nine months ended September 30, 2023:

JGF Program	September 30, 2023 $
Balance, beginning of year	1,617
Deferred recovery for third and fourth tranche	1,106
Costs recovery	(398)
Balance, end of period	**2,325**

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 March 31, 2027 (which included the expected exercise of a three-year extension option by the Company, that the Company no longer expects to exercise). 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 March 31, 2024. At the inception of the lease, the total value of the government grant was $684, which the Company has recognized as a deferred recovery, and the future amounts receivable under the lease agreement are recorded in accounts receivable (note 3). The Company has obligations associated with the government grant such that the Company must reach a certain threshold of tax payments by March 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. As at September 30, 2023, the Company had decided to shut down production in China and does not expect to receive further subsidy under the program. Accordingly, the Company reduced the government subsidy receivable to nil (note 3) and adjusted deferred recovery to reflect amounts to be potentially repaid to the government.

10. Finance expense:

	Three months ended September 30,		Nine months ended September 30	
	2023 $	2022 $	2023 $	2022 $
Accretion of long-term debt (note 8)	147	26	361	52
Finance expense – lease liabilities (note 7)	94	75	254	174
Total	**241**	**101**	**615**	**226**

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

11. Warranty provision:

	September 30, 2023 $	December 31, 2022 $
Balance, beginning of period	557	305
Provisions made during the period, net	153	252
Balance, end of period	**710**	**557**
Current portion	290	184
Non-current portion	420	373
Long-term portion	**710**	**557**

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

For the nine months ended September 30, 2023, the Company recorded warranty provisions of $277 and incurred $124 in related expenses (September 30, 2022 $593 and $76 respectively).

12. Share capital:

The Company has unlimited authorized common shares without par value.

Warrants:
The Company has issued warrants that allow the holder to acquire additional common shares of the Company. During the nine months ended September 30, 2023 there were no transactions with respect to outstanding warrants.

As at September 30, 2023, warrants outstanding enabling holders to acquire common shares are as follows:

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

13. Share-based payments:

The Company has a long-term incentive plan (the "Plan") to provide incentives to its officers, directors, employees and certain non-employees. Under the Plan, the Company has reserved up to 10% of the issued and outstanding common shares of the Company to be issued. The Plan allows for the grant of stock options, deferred share units, restricted share units ("RSUs"), performance share units and other share-based awards. As at September 30, 2023, 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.

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

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

Stock options:

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

	Number of Stock Options #	**Weighted Average Exercise Price $**
Balance, December 31, 2022	2,118,688	2.85
Forfeited	(33,302)	10.17
Exercised	(183,333)	0.74
Expired	(196,876)	0.92
Balance, September 30, 2023	**1,705,177**	**3.16**
Exercisable, September 30, 2023	**1,623,375**	**2.62**

The weighted average share price on the date of exercise for options exercised during the nine months ended September 30, 2023 was $1.00 (December 31, 2022 - $2.33).

During the nine months ended September 30, 2022, 323,334 stock options with an exercise price of $0.99 were exercised by a former employee and shareholder via a short-term loan payable by 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 at such time.

RSUs:

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

	Number of RSUs #
Balance, December 31, 2022	675,353
Forfeited	(83,883)
Vested	(299,533)
Granted	883,245
Balance, September 30, 2023	**1,175,182**

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

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Engineering	40	121	140	312
General and administrative	187	337	614	971
Business development	46	112	157	314
Technology development	5	9	18	18
	278	**579**	**929**	**1,615**

14. Revenues:

The Company's primary source of revenues is the sale of its fuel cells to its customers. The Company's revenues during the nine months ended September 30, 2023 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:

	Three months ended September 30,		**Nine months ended September 30,**	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Europe	226	1,360	992	2,237
Asia-Pacific (excluding China)	40	44	153	327
Australia	-	-	260	-
North America	150	-	248	83
	416	**1,404**	**1,653**	**2,647**

15. 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 the Company's joint venture
As at September 30, 2023, the Company had a receivable of $295 from In-Power Loop Energy Technology (Beijing) Co, Ltd (December 31, 2022 - $295) for sale of ancillary parts of the module for which an allowance for credit loss of $295 has been recorded. As at September 30, 2023, the Company owed to In-Power Loop Energy Technology (Beijing) Co, Ltd $nil in accounts payable and accrued liabilities (December 31, 2022 - $40).

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

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:

	Three months ended September 30, 2023 $	Three months ended September 30, 2022 $	Nine months ended September 30, 2023 $	Nine months ended September 30, 2022 $
Salaries and benefits[1]	357	377	1,305	1,308
Share-based payments	371	409	684	1,087
Director fees	115	44	241	120
	843	830	2,230	2,515

1) During the nine months ended September 30, 2023, $31 of salaries and benefits were settled with RSUs.

16. Employee remuneration:

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

	Three months ended September 30, 2023 $	Three months ended September 30, 2022 $	Nine months ended September 30, 2023 $	Nine months ended September 30, 2022 $
Cost of Sales	65	175	561	649
Engineering	1,178	2,198	4,900	5,415
General and administrative	1,166	1,412	3,056	3,831
Business development	651	947	2,419	2,380
Technology development	85	125	328	331
Total	3,145	4,857	11,264	12,606

17. Supplemental cash flow information:

The changes in non-cash working capital and other items related to operating activities for the three and nine months ended September 30, 2023 and 2022 are as follows:

	Three months ended September 30 2023 $	Three months ended September 30 2022 $	Nine months ended September 30 2023 $	Nine months ended September 30 2022 $
Accounts receivable	1,532	(267)	3,764	(950)
Tax credit receivable	-	1,148	-	1,235
Inventory	73	(4,333)	(4,529)	(7,326)
Prepaid expenses and advances	1,554	640	994	(544)
Accounts payable and accrued liabilities	(1,404)	2,676	(641)	2,197
Deferred revenues and recoveries	(413)	(2,113)	(1,792)	(2,302)
Warranty provision, net	19	403	153	593
Total	**1,361**	**(1,846)**	**(2,051)**	**(7,097)**

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.

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

The following table presents the change in the balance of long-term debt arising from financing activities for the nine months ended September 30, 2023 and 2022:

	September 30, 2023 $	September 30, 2022 $
Balance, beginning of the period	4,103	394
Proceeds from long-term debt	2,884	4,862
Fair value discount on long-term debt	(1,106)	(1,793)
Repayment of long-term debt	(114)	(114)
Accretion of long-term debt (note 10)	361	52
Balance, end of the period	**6,128**	**3,401**

18. Financial instruments and risk:

Fair value

The carrying value of cash and cash equivalents, accounts receivable, advances and accounts payable and accrued liabilities as at September 30, 2023 approximates their fair value given their short-term nature or the discount rates used in assessing the fair value. The fair value of long-term debt was less than its carrying value by $364 as a result of change in discount rate.

Fair value hierarchical levels

The Company does not have any financial instruments measured at fair value in the interim condensed consolidated statements of financial position and therefore there were no transfers between the levels of the fair value hierarchy during the three and nine months ended September 30, 2023. Additionally, there were no changes in the Company's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the three and nine months ended September 30, 2023.

Capital Management and Financial Risk Management

As at September 30, 2023, the capital structure of the Company consists of $16.3 million (December 31, 2022 - $43.6 million) in shareholders' equity and debt. In accordance with the terms of the JGF Program (note 8), the Company shall not pay any distribution of retained earnings to shareholders until the loan contribution has been repaid in full.

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

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

There were no changes to the Company's approach to capital management during the nine months ended September 30, 2023.

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 (see note 2). 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 September 30, 2023, the Company had working capital, being current assets less current liabilities, of $3,426. This working capital and the anticipated proceeds from the sale of components of its module business and certain fixed assets are expected to be sufficient to fund operations (with the implementation of the operating cost reduction program) to the end of Q1 2024.

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 September 30, 2023:

	Carrying amount $	Contractual cash flows $	Within 1 year $	1 to 3 years $	thereafter $
Accounts payable and accrued liabilities	3,412	3,412	3,412	-	-
Lease liabilities	3,647	4,410	1,291	2,218	901
Long-term debt	6,128	9,068	175	2,695	6,198
	13,187	**16,890**	**4,878**	**4,913**	**7,099**

In addition, as at September 30, 2023, 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	170	170	-	-
	170	**170**	**-**	**-**

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 $5.9 million, represents the Company's maximum exposure to credit risk.

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

For the nine months ended September 30, 2023, the Company's largest customer accounted for approximately 29% of sales and the second largest accounted for 16% (nine months ended September 2022 – 78% and 7%, respectively).

At September 30, 2023, excluding a $935 historic aged receivable fully provided for in the preceding year, two customers accounted for 91% of the remaining customer receivable (December 31, 2022 – one customer accounted for 87%). At September 30, 2023, the Company has $59 in receivables 0-120 days past due and $992 of outstanding customer receivables more than 120 days past due for which an allowance for credit loss of $858 has been recorded.

There have been no significant developments in the Company's financial risk factors as included in the Company's consolidated financial statements as at and for the year ended December 31, 2022.