Condensed Consolidated Interim Financial Statements of

LOOP ENERGY INC.

(Unaudited)
(Expressed in Canadian dollars)

Three months ended March 31, 2021 and 2020

LOOP ENERGY INC.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)
As at March 31, 2021 and December 31, 2020

	March 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 91,485,539	$ 3,200,951
Accounts receivable (note 3)	566,362	542,942
Tax credit receivable (note 15)	1,416,167	1,206,784
Inventory (note 4)	1,463,241	1,141,738
Prepaid expenses and advances	2,996,620	831,630
	97,927,929	6,924,045
Investment in joint venture (note 5)	185,969	230,686
Equipment and leasehold improvements (note 6)	2,332,552	2,311,100
Right-of-use assets (note 8(a))	1,178,537	285,953
Deferred financing costs (note 13)	-	500,000
	$ 101,624,987	$ 10,251,784
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 2,731,200	$ 2,521,381
Current portion of lease liabilities (note 8(b))	499,403	160,213
Current portion of long-term debt (note 9)	514,992	514,992
Convertible debentures (note 11)	-	3,577,023
Deferred revenue and recoveries (note 10)	2,663,917	2,213,574
	6,409,512	8,987,183
Long-term debt (note 9)	295,999	316,663
Lease liabilities (note 8(b))	838,455	289,621
	7,543,966	9,593,467
Shareholders' equity:		
Common shares (note 13)	126,707,567	15,675,495
Preferred shares (note 13)	-	14,989,712
Reserves	5,022,641	2,770,294
Deficit	(37,649,187)	(32,777,184)
	94,081,021	658,317
	$ 101,624,987	$ 10,251,784

Subsequent events (notes 14 and 21)

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

LOOP ENERGY INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

		For the three months ended March 31, 2021		For the three months ended March 31, 2020
Expenses:				
General and administrative	$	3,486,862	$	744,837
Product development		2,595,058		1,450,380
Business development		384,156		67,340
Technology development		134,634		-
		6,600,710		2,262,557
Less cost recovery:				
Research and development tax credits (note 15)		(209,383)		(346,439)
Sustainable Development Technology Canada (note 10)		(1,629,480)		(99,406)
Automotive Supplier Innovation Program		-		(54,082)
Net expenses		4,761,847		1,762,630
Loss before the undernoted		(4,761,847)		(1,762,630)
Other income (expenses):				
Foreign exchange income (loss)		54,457		(4,629)
Interest income		17,443		5,232
Loss from investment in joint venture (note 5)		(41,198)		(50,778)
Finance expense (note 12)		(140,858)		(116,786)
		(110,156)		(166,961)
Loss and comprehensive loss	$	(4,872,003)	$	(1,929,591)
Loss per common share – basic and diluted	$	(0.20)	$	(0.11)
Weighted average number of common shares outstanding		23,874,745		17,982,464

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

LOOP ENERGY INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)
(Unaudited)
(Expressed in Canadian dollars)

	Common shares	Preferred shares	Reserves	Deficit	Total shareholders' equity (deficiency)
Balance, December 31, 2020	$15,675,495	$ 14,989,712	$ 2,770,294	$(32,777,184)	$ 658,317
Conversion of preferred share to common shares	14,989,712	(14,989,712)	-	-	-
Conversion of convertible debentures	3,684,832	-	(88,350)	-	3,596,482
Issuance of common shares, net of costs	92,357,528	-	-	-	92,357,528
Special advisor warrants	-	-	1,661,749	-	1,661,749
Share-based payments	-	-	678,948	-	678,948
Loss for the period	-	-	-	(4,872,003)	(4,872,003)
Balance, March 31, 2021	$126,707,567	$ -	$ 5,022,641	$(37,649,187)	$ 94,081,021
Balance December 31, 2019	$15,672,209	$ 4,999,982	$ 2,303,540	$(23,855,747)	$ (880,016)
Issuance of preferred shares, net of costs	-	9,989,730	-	-	9,989,730
Share-based payments	-	-	211,681	-	211,681
Loss for the period	-	-	-	(1,929,591)	(1,929,591)
Balance, March 31, 2020	$15,672,209	$ 14,989,712	$ 2,515,221	$(25,785,338)	$ 7,391,804

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

LOOP ENERGY INC.

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

	For the three months ended March 31, 2021	For the three months ended March 31, 2020
Cash flows from operating activities:		
Loss for the period	$ (4,872,003)	$ (1,929,591)
Items not affecting cash:		
Depreciation	211,558	152,057
Finance expense	140,858	116,786
Loss from investment in joint venture	41,198	50,778
Inventory write-down (note 4)	831,638	-
Special advisor warrants (note 13 (c))	1,661,749	-
Share-based payments (note 14)	678,948	211,681
Unrealized foreign exchange	3,519	(7,276)
	(1,302,535)	(1,405,565)
Changes in non-cash working capital items:		
Accounts receivable	(23,420)	80,737
Tax credit receivable	(209,383)	(346,439)
Prepaid expenses and advances	(2,164,990)	34,178
Inventory	(1,153,141)	-
Deferred financing fees	500,000	-
Accounts payable and accrued liabilities	(797,518)	(50,992)
Deferred revenue and recoveries	450,343	275,595
Cash used in operating activities	(4,700,644)	(1,412,485)
Cash flows from investing activities		
Purchase of equipment and leasehold improvements	(182,483)	(266,922)
Cash used in investing activities	(182,483)	(266,922)
Cash flows from financing activities		
Issuance of common shares, net of share issuance costs	93,364,865	-
Issuance of preferred shares, net of share issuance costs	-	10,000,000
Repayment of long-term debt	(37,999)	(37,999)
Interest paid	(82,278)	(83,707)
Lease payments	(76,873)	(50,047)
Cash provided by financing activities	93,167,715	9,828,247
Change in cash and cash equivalents	88,284,588	8,148,840
Cash and cash equivalents, beginning of the period	3,200,951	2,168,047
Cash and cash equivalents, end of the period	$ 91,485,539	$ 10,316,887
Supplemental schedule of non-cash activities		
Conversion of preferred shares	$ 14,989,712	$ -
Share issuance costs in accounts payable	1,007,337	10,270
Addition to right-of-use assets and lease liabilities	(943,111)	-
Conversion of convertible debentures	3,596,482	-

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

1. General information:

Loop Energy Inc. (the "Company") was incorporated under the laws of British Columbia on August 9, 2012. The address of the Company's registered office is 2900 - 550 Burrard Street, Vancouver, BC, V6C 0A3. During the three-month period ended March 31, 2021, the Company has expanded to a new office and moved its head office to 660 - 2700 Production Way, Burnaby, BC, V5A 4V7. The Company's plant is occupying the address at 2880 Production Way, Burnaby, BC, V5A 4T6. The Company primarily is involved in the development of fuel cell technology.

On February 25, 2021, the Company completed a share consolidation on the basis of 1 new common share for every 3 pre-consolidation common shares. All share and per share information have been amended retrospectively to reflect the share consolidation. Concurrently, the Company completed an Initial Public Offering (note 13(b)) and began trading on the Toronto Stock Exchange under the symbol “LPEN”.

2. Basis of presentation:

(a) Statement of compliance and accounting policies:

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounts Standards (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board and Interpretations issued by the IFRS Interpretations Committee. These condensed consolidated interim financial statements do not include all of the information required for full consolidated annual financial statements and therefore should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2020.

The accounting policies and methods of computation applied are the same as those applied in the Company's annual consolidated financial statements for the year ended December 31, 2020. There are no new standards not yet adopted that are expected to have a material impact on the Company's financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 12, 2021.

2. Basis of presentation (continued):

(b) Going concern:

These condensed consolidated interim 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 has been focused on product development with minimal commercial sales activity to date. As a result, the Company has experienced significant losses in past years resulting in an accumulated deficit of $37,649,187 at March 31, 2021 and has experienced significant negative cash flow from operations. During the three-month period ended March 31, 2021, the Company completed a $100 million financing and had all of its convertible debentures converted to common shares which has eliminated the working capital deficiency, resulting in working capital of $91,518,417 at March 31, 2021 which will provide sufficient funds to execute an operating plan beyond the next twelve months.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy, capital markets and our business are not known at this time. These impacts could include the ability of the Company to raise capital, the impairment in the value of our long-lived assets, or potential future decreases in revenue or the profitability of our ongoing and future operations.

These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these condensed consolidated interim financial statements, then adjustments would be necessary to the carrying values and classification of assets and liabilities.

(c) Basis of measurement and presentation:

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

(d) Functional and presentation currency:

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

(Expressed in Canadian dollars)

2. Basis of presentation (continued):

(e) Basis of consolidation:

The condensed consolidated interim financial statements comprise the accounts of Loop Energy Inc., the parent company, and its wholly-owned subsidiary, 1123640 B.C. Ltd., after the elimination of all material intercompany balances and transactions. Subsidiaries are all entities over which the Company has exposure to variable returns from its involvement and has the ability to use power over the investee to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases.

The accounts of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Inter-company transactions, balances and unrealized gains or losses on transactions are eliminated upon consolidation.

(f) Use of estimates and judgments:

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information on significant areas of uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements relate to the determination of share-based payments (note 14) and carrying value of inventory (note 4).

The significant judgments made by management in applying the Company's accounting policies were the same as those applied in the Company's most recent annual consolidated financial statements for the year ended December 31, 2020.

3. Accounts receivable:

	March 31, 2021	December 31, 2020
GST receivable	$ 222,969	$ 88,804
Receivables from joint venture (note 5)	343,393	347,316
Customer receivables	-	106,822
	$ 566,362	$ 542,942

(Expressed in Canadian dollars)

4. Inventory:

	March 31, 2021	December 31, 2020
Raw materials	$ 446,238	$ 450,391
Work in progress	-	127,479
Finished goods	1,017,003	563,868
	$ 1,463,241	$ 1,141,738

The Company records valuation adjustments for inventory by comparing the inventory cost to its net realizable value. The process requires the use of estimates and assumptions related to future market demand, costs and prices. Such assumptions are reviewed and may have a significant impact on the valuation adjustments for inventory. Net realizable value is assessed on an item by item basis except when they cannot be practically evaluated separately from other items.

During the period ended March 31, 2021, the write down of inventory to its net realizable value amounted to $831,638 (March 31, 2020 - $nil) and is included in product development expense.

5. Investment in joint venture:

On January 22, 2019, the Company executed a non-exclusive joint venture with Beijing In-Power Renewable Energy Co., Ltd. to create Inpower Loop Energy Technology (Beijing) Co., Ltd. (the “InPower-Loop JV”), a limited liability company in China. The InPower-Loop JV will manufacture and sell Fuel Cell (“FC”) range extenders in the Chinese market and will purchase FC stacks from the Company.

As part of the joint venture transaction, the Company closed a common share equity investment in InPower-Loop JV of $750,000 at a share price of $0.50 per share resulting in ownership of 26.9% of InPower-Loop JV. The Company has the right to appoint one director to the three-person board of InPower-Loop JV. Operational decisions are made by majority vote, subject to approval by the Company’s nominee for all major matters affecting the InPower-Loop JV. The Company accounts for the investment in InPower-Loop JV using the equity method in accordance with IFRS 11, “Joint Arrangements”.

Investment in joint venture - InPower-Loop JV	Three months ended March 31, 2021	Year ended December 31, 2020
Balance, beginning of period	$ 230,686	$ 455,644
Intercompany elimination	-	(44,520)
Foreign exchange	(3,519)	19,887
Company’s share of loss	(41,198)	(200,325)
	$ 185,969	$ 230,686

(Expressed in Canadian dollars)

5. Investment in joint venture (continued):

Inpower Loop Energy Technology (Beijing) Co., Ltd.		**March 31, 2021**		**December 31, 2020**
Cash	$	419,811	$	481,947
Other current assets		721,628		746,255
Non-current assets		1,235,264		1,293,635
Current liabilities		(833,596)		(791,590)
Non-current liabilities		(383,800)		(389,800)
Net assets (100%)		1,159,307		1,340,447
Company's share of net assets (26.9%)		311,854		360,580
Eliminations related to intercompany transactions and foreign exchange		(125,885)		(129,894)
Carry amount of interest in joint venture	$	185,969	$	230,686

Inpower Loop Energy Technology (Beijing) Co., Ltd.		**March 31, 2021**		**December 31, 2020**
Revenue	$	-	$	248,589
Loss and comprehensive loss (100%)		(163,350)		(1,136,253)
Company's share of loss and comprehensive loss (26.9%)		(43,941)		(238,782)
Eliminations related to inter-company transactions		2,743		38,457
Company's share of loss	$	(41,198)	$	(200,325)

6. Equipment and leasehold improvements:

		Equipment		**Leasehold improvements**		**Computer hardware**		**Computer software**		**Total**
Cost										
Balance, December 31, 2020	$	2,066,010	$	1,311,005	$	139,446	$	136,413	$	3,652,874
Additions		129,299		17,573		13,690		21,921		182,483
Balance, March 31, 2021	$	2,195,309	$	1,328,578	$	153,136	$	158,334	$	3,835,357
Accumulated depreciation										
Balance, December 31, 2020	$	672,919	$	543,387	$	44,509	$	80,959	$	1,341,774
Depreciation		61,432		77,260		13,852		8,487		161,031
Balance, March 31, 2021	$	734,351	$	620,647	$	58,361	$	89,446	$	1,502,805
Carrying amounts										
December 31, 2020	$	1,393,091	$	767,618	$	94,937	$	55,454	$	2,311,100
March 31, 2021	$	1,460,958	$	707,931	$	94,775	$	68,888	$	2,332,552

Depreciation expense during the period was $161,031 (2020 - $123,462) and consists of $151,369 (2020 - $119,050) in product development expense and $9,662 (2020 - $4,412) in general and administrative expense.

(Expressed in Canadian dollars)

7. Accounts payable and accrued liabilities:

	March 31, 2021	December 31, 2020
Trade payables and accrued expenses	$ 2,294,051	$ 2,164,682
Trade and other payables due to related parties (note 16(b) and (c))	297,300	263,839
Payroll accruals	139,849	92,860
	$ 2,731,200	$ 2,521,381

8. Right-of-use assets and lease liabilities:

As at December 31, 2020, the Company had one lease for a premise consisting of a building for the Company's office and manufacturing space. This lease runs for a period of six years through June 30, 2023, with an option to renew the lease after that date.

In the three-month period ended March 31, 2021, the Company entered into a lease for an additional premise through September 29, 2024.

In measuring the right-of-use assets and lease liabilities, the Company has not included any renewal periods as it is not reasonably certain to renew, and any renewal decision will be based on the circumstances at such time.

(a) Right-of-use assets:

The movement of right-of-use assets during the period is as follows:

	Three months ended March 31, 2021
Balance, beginning of the period	$ 285,953
Additions	943,111
Depreciation	(50,527)
Balance, end of period	$ 1,178,537

Depreciation expense for the right-of-use assets during the period was $50,527 (2020 - $28,595) and consists of $47,495 (2020 - $27,573) in product development expense and $3,032 (2020 - $1,022) in general and administrative expense in the statement of loss and comprehensive loss.

(Expressed in Canadian dollars)

8. Right-of-use assets and lease liabilities (continued):

(b) Lease liabilities:

The Company's lease liabilities represent the present value of the remaining minimum lease payments associated with its office and manufacturing space leases. When measuring the lease liabilities, the Company discounted lease payments using an incremental borrowing rate of 12%.

		Three months ended March 31, 2021
Balance, December 31, 2020	$	449,834
Additions		943,111
Finance expense		21,786
Lease payments		(76,873)
Balance, March 31, 2021	$	1,337,858
Current portion	$	499,403
Non-current portion		838,455
Balance, end of period	$	1,337,858

		Total
Maturity analysis – contractual undiscounted cash flows:		
2021	$	395,015
2022		528,988
2023		425,443
2024 onwards		241,424
Total undiscounted lease liabilities at March 31, 2021	$	1,590,870

9. Long-term debt:

		Three months ended March 31, 2021
Balance, beginning of the period	$	831,655
Repayment of long-term debt		(37,999)
Finance expense		17,335
Balance, end of period	$	810,991

(Expressed in Canadian dollars)

9. Long-term debt (continued):

Long-term debt consists of the following:

		March 31, 2021		December 31, 2020
Unsecured loan payable, maturing March 1, 2024, bearing no interest, and repayable in monthly principal payments of $12,666 (a)	$	438,079	$	458,743
Unsecured promissory notes, with no maturity date and without interest		372,912		372,912
		810,991		831,655
Less current portion of long-term debt		514,992		514,992
	$	295,999	$	316,663

a) The Company signed a Western Innovation Initiative (“WINN”) loan funding agreement on September 15, 2017 which provided loans to the Company up to $760,000 based on matching investments for certain projects. The Company applied an effective interest rate of 15% to discount the cash flows of the non-interest-bearing loan. During the period ended March 31, 2021, the Company recorded an associated non-cash finance expense of $17,335 (2020 - $17,579) related to the accretion of the loan discount.

In the year ended December 31, 2020, the Company was granted an extension on the loan as a relief measure with monthly payments suspended from April 1, 2020 and deferred to January 1, 2021. The Company recognized a gain on modification in the amount of $40,011 in the three-month period ended March 31, 2020 with respect to such extension.

Principal repayments until maturity are as follows:

2021	$	486,896
2022		151,996
2023		151,996
2024		151,994
	$	942,882

(Expressed in Canadian dollars)

10. Deferred revenue and recoveries:

		March 31, 2021		December 31, 2020
Sustainable Development Technology Canada ("SDTC")	$	2,466,437	$	2,081,483
Contracts with customers		197,480		132,091
	$	2,663,917	$	2,213,574

On March 23, 2017, the Company signed an agreement with SDTC for funding related to the development of the Company's technology. The funding is for a total of $7,500,000 of which the Company received the first milestone payment of $1,203,680 in 2017 to initiate the project, a follow-on payment of $666,946 related to purchases of equipment for the project was advanced in 2018 and the second milestone payment of $1,372,373 was received in 2019. During the three-month period ended March 31, 2021 the third milestone payment of $1,620,684 was received and recorded as a deferred recovery.

In the three-month period ended March 31, 2021, the second milestone was completed and approved and the second milestone payment was recognized as part of the SDTC cost recovery.

The cost associated with the $666,946 for equipment costs is being amortized over a five-year period commensurate with the average depreciable life of the equipment being used in the project, with $33,347 (2020 - $33,347) being recognized as part of the SDTC cost recovery during the three-month period ended March 31, 2021.

In March 2020, SDTC increased the total funding commitment to $7,875,000 and provided an additional payment of $375,000, with $66,058 being recognized as part of the SDTC cost recovery in relation to the first milestone. In March 2021, SDTC further increased the total funding commitment to $8,268,750 and provided an additional $393,750, with $223,760 being recognized as part of the SDTC cost recovery in relation to the completed first and second milestones.

A continuity of the SDTC deferred recovery is as follows:

		Three months ended March 31, 2021
Balance, beginning of the period	$	2,081,483
Receipt of third milestone payment		1,620,684
Receipt of additional funding payment		393,750
Completion of second milestone		(1,372,373)
Amortization of equipment cost recovery		(33,347)
Recognition of additional funding for first and second milestone		(223,760)
Balance, end of period	$	2,466,437

(Expressed in Canadian dollars)

11. Convertible debentures:

The convertible debentures ("debentures") were convertible at the option of the debenture holder at any time during the term of the note into common shares of the Company, at a conversion price of $1.50 per share. The debentures had a maturity date of March 15, 2021 and carried an annual interest rate of 12% which was payable on a monthly basis.

Prior to settlement, debentures with a principal amount of $850,000 were held by related parties (December 31, 2020 - $850,000) (note 16).

During the three-month period ended March 31, 2021, the total balance of the outstanding debentures of $3,600,000 were converted to 2,399,999 common shares of the Company in accordance with the terms of the debenture agreements. The carrying value of the debentures at the time of the conversion was transferred to shareholder's equity.

Convertible debentures	Three months ended March 31, 2021
Balance, beginning of the period	$ 3,577,023
Finance expense	101,737
Cash interest paid	(82,278)
Conversion into common shares	(3,596,482)
Balance, end of period	$ -

12. Finance expense:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Accretion of convertible debt (note 11)	$ 19,459	$ 13,319
Interest paid and accrued – convertible debt (note 11)	82,278	109,064
Accretion of WINN loans (note 9(a))	17,335	-
Gain on debt modification – convertible debentures (note 11)	-	(40,011)
Finance expense – lease liabilities (note 8)	21,786	16,835
Other interest expense	-	17,579
	$ 140,858	$ 116,786

(Expressed in Canadian dollars)

13. Share capital:

(a) Authorized
Unlimited common shares without par value

(b) Issuance of shares:

	Number of common shares	Common shares	Number of preferred shares	Preferred shares
Balance, December 31, 2020	17,983,506	$ 15,675,495	6,944,445	$14,989,712
Conversion of preferred shares	6,944,445	14,989,712	(6,944,445)	(14,989,712)
Conversion of convertible debentures	2,399,999	3,684,832	-	-
Issuance of common shares	6,250,000	92,357,528	-	-
Rounding	11	-	-	-
Balance, March 31, 2021	33,577,961	$126,707,567	-	$ -

Initial Public Offering

On February 25, 2021, the Company closed its Initial Public Offering (the "Offering") of 6,250,000 common shares at a price of $16.00 per share for aggregate gross proceeds of $100,000,000. In connection with the Offering, the Company paid a cash commission of $6,000,000 and incurred additional share issuance costs of $1,642,472 of which $500,000 were included in deferred financing costs as at December 31, 2020.

Immediately prior to the closing of the Offering, the Company implemented a reorganization which:

a) amalgamated the Company with two Venture Capital Corporations, each of which had no business operations or liabilities and whose sole assets were common shares of the Company;

b) converted all of the Company's issued and outstanding preferred shares into common shares and amended the Company's authorized capital such that all of the existing classes of preferred shares are deleted and the Company's authorized capital is comprised of an unlimited number of common shares;

c) consolidated all of the Company's outstanding common shares on the basis of one new common share for every three pre-consolidation common shares (note 1); and

d) converted all of the issued and outstanding convertible debentures into 2,399,999 common shares (note 11).

(Expressed in Canadian dollars)

13. Share capital (continued):

(c) Warrants:

During the three-month period ended March 31, 2021, the Company issued warrants to purchase 314,500 common shares exercisable at a price of $16.00 per common share for a period of one year to two special advisors. The associated fair value of $1,661,749 was expensed as general and administrative expense upon issuance. The warrants were valued based on the following assumptions in a Black-Scholes valuation: annualized volatility of 85.0%, risk-free interest rate of 0.32%, expected life of 1 year and a dividend rate of nil%.

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

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2019 and 2020	66,667	$ 1.50
Granted	314,500	16.00
Balance, March 31, 2021	381,167	$ 13.47

As at March 31, 2021, 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
314,500	16.00	February 25, 2022

14. Share-based payments:

During the three-month period ended March 31, 2021, the Company adopted a new long-term incentive plan (the “Plan”) to provide incentives to its officers, directors, employees and certain non-employees. The Company has reserved up to 10% of the issued and outstanding common shares of the Company to be issued under the Plan. The Plan allows for the grant of stock options, preferred share units, restricted share units, deferred share units and other share-based awards. The exercise price of each option is set by the Board of Directors and may not be less than 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. The stock options have a maximum term of ten years and vesting periods as determined by the Board of Directors.

(Expressed in Canadian dollars)

14. Share-based payments (continued):

Stock option transactions are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance, December 31, 2020	2,601,665	$ 1.03
Forfeit	(2,083)	0.99
Granted	230,632	16.00
Balance, March 31, 2021	2,830,214	$ 2.25
Exercisable, March 31, 2021	2,361,183	$ 1.01

At March 31, 2021, stock options were outstanding enabling holders to acquire common shares as follows:

Number of Stock Options Outstanding	Number of Stock Options Vested	Exercise Price	Expiry Date
16,667	16,667	$ 0.73854	July 25, 2021
50,000	50,000	0.73854	December 1, 2021
91,666	91,666	0.73854	June 15, 2022
550,000	550,000	0.73854	September 23, 2023
133,333	133,333	0.73854	November 1, 2023
75,000	75,000	0.73854	April 15, 2024
33,333	33,333	0.73854	April 15, 2024
100,000	100,000	0.73854	May 15, 2024
1,086,667	1,086,667	0.99000	December 31, 2026
48,333	33,227	1.50000	June 30, 2027
102,917	85,315	0.99000	December 31, 2027(1)
33,333	27,083	1.50000	February 28, 2029
98,333	30,728	1.80000	February 28, 2029
180,000	33,750	2.40000	August 30, 2030
230,632	14,414	16.0000	February 25, 2031
2,830,214	2,361,183	$ 2.25240	

(1) Subsequent to March 31, 2021, 6,250 shares were exercised.

During the period ended March 31, 2021, the Company granted a total of 230,632 stock options (2020 – 140,000) with a weighted average fair value of $12.18 per option (2020 - $1.36).

(Expressed in Canadian dollars)

14. Share-based payments (continued):

During the year ended December 31, 2017, 510,000 stock options were granted which vest upon reaching the following performance conditions: 168,300 stock options vesting upon achieving a company valuation of $50 million (vested in the year ended December 31, 2020); 168,300 stock options vesting upon achieving a Company valuation of $100 million and 173,400 stock options vesting upon a liquidity event such as a listing on a recognized public stock exchange or a purchase acquisition. In the year ended December 31, 2020, the Company recognized share-based compensation expense of $126,713 with respect to the vesting of 168,300 performance options. In the three-month period ended March 31, 2021, the remaining 341,700 options were vested upon completion of the initial public offering. The Company recognized share-based compensation expense of $257,666 with respect to the vesting of the remaining 341,700 performance options.

The Company recognized share-based payments expense for options granted and vesting, net of recoveries on cancellations of unvested options, with allocations to functional expense as follows:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Product development	$ 166,414	$ 40,816
Business development	100,313	-
General and administrative	412,221	170,865
	$ 678,948	$ 211,681

In order to compute this fair value of stock options, 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 statement of loss and to equity reserves in a given period. The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of stock options granted:

	2021
Risk-free interest rate	1.31%
Expected life of options	10 years
Expected annualized volatility	72%
Dividend	0%
Forfeiture rate	0%

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

(Expressed in Canadian dollars)

15. Scientific research and experimental development tax credits:

The Company estimated its SR&ED investment tax credit claim for the three-month period ended March 31, 2021 to be a $209,383 (2020 - $343,439) cost recovery in the statement of loss and comprehensive loss. Prior to becoming a public company, SR&ED credits were refundable to the Company. At March 31, 2021 the Company has a tax credit receivable associated with SR&ED for $1,416,167 related to its filing for the year ended December 31, 2020 and for the period from January 1, 2021 to February 24, 2021.

16. Related party transactions:

(a) Key management personnel compensation:

Key management includes the members of the Board of Directors and the executive team. Key management personnel compensation comprises:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Salaries and benefits	$ 376,250	$ 178,333
Share-based payments	530,888	132,557
	$ 907,138	$ 310,890

(b) Key management personnel and director transactions:

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. A number of these entities transacted with the Company in the reporting period.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence (in addition to the transactions disclosed in notes 9 and 11) were as follows:

(i) A principal of Collings Family Investments Ltd. and The Collings Stevens Family Foundation is a director of the Company. As at March 31, 2021, the Collings Family Investments Ltd. and The Collings Stevens Family Foundation hold $nil (December 31, 2020 - $500,000) of convertible debentures. Included in finance expense for the period ended March 31, 2021 is $11,671 (2020 - $14,918), respectively, in interest paid or accrued to Collings Family Investments Ltd. and The Collings Stevens Family Foundation. The convertible debentures were converted to 333,334 common shares in the three-month period ended March 31, 2021.

16. Related party transactions (continued):

(b) Key management personnel and director transactions (continued):

(ii) A principal of Murdoch Family Trust is a director of the Company. As at March 31, 2021 the Murdoch Family Trust holds convertible debentures of $nil (December 31, 2020 - $300,000). Included in interest within finance expense for the period ended March 31, 2021 is $8,170 (2020 - $10,443) in interest paid to Murdoch Family Trust. The convertible debentures were converted to 200,000 common shares in the three-month period ended March 31, 2021.

(iii) A principal of Truckenbrodt Clean Energy Consulting is a director of the Company. As at March 31, 2021, the Truckenbrodt Clean Energy Consulting holds convertible debentures of $nil (December 31, 2020 - $50,000). Included in interest within finance expense for the period ended March 31, 2021 is $1,167 (2020 - $1,492) in interest paid to Truckenbrodt Clean Energy Consulting. The convertible debentures were converted to 33,333 common shares in the three-month period ended March 31, 2021.

(iv) Various members of management are owed $31,250 (December 31, 2020 - $4,200) for services rendered which is included in accounts payable.

(c) As at March 31, 2021, the Company had $343,393 (December 31, 2020 - $347,316) in accounts receivable and $266,050 (December 31, 2020 - $259,639) in accounts payable from a joint venture (see note 5). The transactions were carried out in the normal course of operations and are measured at the exchange amount, being the amount agreed between the parties.

17. Segmented information and major customers:

The Company operates in one segment being the development of fuel cell technology. All of the Company's non-current assets are located in Canada with the exception of its investment in joint venture, which investment is in a company domiciled in China (note 5).

18. Financial Instruments and Risk:

Fair value

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

(Expressed in Canadian dollars)

18. Financial Instruments and Risk (continued):

Fair value (continued)

Fair value measurements recognized in the condensed consolidated interim statement of financial position must be categorized in accordance with the following levels:

(i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
(ii) Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
(iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company does not have any financial instruments measured at fair value in the condensed consolidated interim statement of financial position and has therefore not transferred any financial instruments between the levels of the fair value hierarchy during the three-month period ended March 31, 2021.

Financial risk factors

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. Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and customer receivables. The Company limits its exposure to credit loss by placing its cash with major financial institutions. As at March 31, 2021, cash consisted of cash held with financial institutions in Canada. Balances exceed amounts insured by the Canada Deposit Insurance Corporation for up to $100,000.

The Company's exposure to credit risk on customer accounts receivable is influenced mainly by the individual characteristics of each debtor. The Company currently works with a small number of customers and is therefore able to monitor credit risk on an individual account basis and apply lifetime expected loss provisions where any uncertainty on collectability is identified. No such provision is required as at March 31, 2021.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	March 31, 2021	December 31, 2020
Accounts receivable	$ 566,362	$ 542,942
Cash and cash equivalents	91,485,539	3,200,951
	$ 92,051,901	$ 3,743,893

(Expressed in Canadian dollars)

18. Financial Instruments and Risk (continued):

Financial risk factors (continued)

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's approach to managing liquidity is to ensure, as much as possible, that it will always 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 (see note 2(b)).

The following contractual maturities of financial instrument obligations (including interest) exist as at March 31, 2021:

	Carrying amount	Contractual cash flows	Within 1 year	2 to 3 years	4 to 5 years
Accounts payable and accrued liabilities	$ 2,731,200	$ 2,731,200	$ 2,731,200	$ -	$ -
Long-term debt	810,991	942,882	524,904	303,984	113,994
	$ 3,542,191	$ 3,674,082	$ 3,256,104	$ 303,984	$ 113,994

Foreign exchange risk

The Company is exposed to foreign currency risk on fluctuations related to working capital balances are denominated in United States (US) dollars, Euros, Japanese Yen and Chinese Yuan. The Company anticipates that, as its operations and sales expand, the Company will be increasingly subject to fluctuations in the US dollar, Euro and Japanese Yen.

Net financial assets (liabilities)	**Foreign currency**	**Canadian dollars**
United States dollars	821,584	$ 1,033,141
Japanese Yen	84,274,072	957,353
Euros	318,585	470,199
Chinese Yuan	(256,831)	(49,286)
		$ 2,411,407

A movement of 10% in these currencies would have had a net impact of approximately $241,000 on the net loss for the period.

Interest rate risk

Interest income on cash and cash equivalents is considered incidental and not significant to budgeted operating results. The Company's cash balances are placed into interest-bearing accounts; however, interest rates continue to be low.

(Expressed in Canadian dollars)

19. Capital management:

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

There were no changes to the Company's approach to capital management during the three-month period ended March 31, 2021. The Company is not subject to externally imposed capital requirements.

20. Employee remuneration:

Employee salaries and benefits are classified in the statement of loss and comprehensive loss as follows:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Product development	$ 1,019,537	$ 830,094
General and administrative	677,574	545,177
Business development	166,615	-
Technology development	82,026	-
	$ 1,945,752	$ 1,375,271

21. Subsequent events:

Stock Options

On April 1, 2021, the Company issued an aggregate of 73,333 stock options at an exercise price of $12.99 per common share for four and five year terms to special advisors and consultants.