

Unaudited Interim Condensed Consolidated Financial  
Statements of

## **LOOP ENERGY INC.**

(Expressed in Canadian dollars)

As at June 30, 2021 and for the three and six months  
ended June 30, 2021 and 2020

# LOOP ENERGY INC.

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

	As at June 30, 2021 \$	As at December 31, 2020 \$
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	84,439,207	3,200,951
Accounts receivable (note 3)	1,356,082	542,942
Tax credit receivable (note 17)	1,416,167	1,206,784
Inventory (note 4)	827,970	1,141,738
Prepaid expenses and advances	2,320,677	831,630
<b>Total current assets</b>	<b>90,360,103</b>	<b>6,924,045</b>
Non-current assets		
Equity-accounted investment (note 5)	141,068	230,686
Equipment and leasehold improvements (note 6)	3,025,630	2,311,100
Right-of-use assets (note 8(a))	1,084,147	285,953
Deferred financing costs (note 14(a))	-	500,000
<b>Total non-current assets</b>	<b>4,250,845</b>	<b>3,327,739</b>
<b>Total assets</b>	<b>94,610,948</b>	<b>10,251,784</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	1,555,120	2,521,381
Current portion of lease liabilities (note 8(b))	492,143	160,213
Current portion of long-term debt (note 9)	164,999	514,992
Convertible debentures (note 11)	-	3,577,023
Deferred revenue and recoveries (note 10)	2,576,358	2,213,574
Warranty provision (note 13)	60,000	-
<b>Total current liabilities</b>	<b>4,848,620</b>	<b>8,987,183</b>
Non-current liabilities		
Long-term debt (note 9)	274,523	316,663
Lease liabilities (note 8(b))	753,104	289,621
Warranty provision (note 13)	187,771	-
<b>Total non-current liabilities</b>	<b>1,215,398</b>	<b>606,284</b>
<b>Total liabilities</b>	<b>6,064,018</b>	<b>9,593,467</b>
Shareholders' equity:		
Common shares (note 14)	126,676,870	15,675,495
Preferred shares (note 14)	-	14,989,712
Reserves	5,670,878	2,770,294
Deficit	(43,800,818)	(32,777,184)
<b>Total shareholders' equity</b>	<b>88,546,930</b>	<b>658,317</b>
<b>Total liabilities and equity</b>	<b>94,610,948</b>	<b>10,251,784</b>
Subsequent events (note 22)		

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 Canadian dollars, except share data)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenues (note 16)	1,089,551	-	1,089,551	-
Cost of sales	1,785,664	-	1,785,664	-
Gross margin	(696,113)	-	(696,113)	-
Expenses:				
General and administrative	1,975,745	741,687	5,462,607	1,486,524
Product development	2,562,463	1,175,291	5,157,522	2,625,670
Business development	616,209	(45,009)	1,000,365	22,331
Technology development	214,236	18,884	348,869	18,884
	5,368,653	1,890,853	11,969,363	4,153,409
Less cost recoveries:				
Research and development tax credits (note 17)	-	(252,788)	(209,383)	(599,227)
Sustainable Development Technology Canada (note 10)	(33,347)	(33,347)	(1,662,827)	(132,753)
Automotive Supplier Innovation Program	-	-	-	(54,083)
Other grants	(5,402)	(522)	(5,402)	(522)
	(38,749)	(286,657)	(1,877,612)	(786,585)
Net expenses	5,329,904	1,604,196	10,091,751	3,366,824
Loss before the undernoted	(6,026,017)	(1,604,196)	(10,787,864)	(3,366,824)
Other income (expenses):				
Foreign currency exchange income (loss)	(61,804)	14,538	(7,343)	9,909
Interest income	35,416	10,738	52,859	15,969
Equity-accounted loss (note 5)	(44,786)	(50,778)	(85,984)	(101,555)
Finance expense (note 12)	(54,443)	(138,165)	(195,302)	(254,952)
	(125,617)	(163,667)	(235,770)	(330,629)
Loss and comprehensive loss	(6,151,634)	(1,767,863)	(11,023,634)	(3,697,453)
Loss per common share – basic and diluted	(0.18)	(0.10)	(0.38)	(0.21)
Weighted average number of common shares outstanding	33,583,549	17,982,464	28,755,816	17,982,464

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 (Deficiency)

(Expressed in Canadian dollars, except share data)

	Common shares #	Common shares \$	Preferred shares #	Preferred shares \$	Reserves \$	Deficit \$	Total shareholders' equity (deficiency) \$
Balance, December 31, 2020	17,983,506	15,675,495	6,944,445	14,989,712	2,770,294	(32,777,184)	658,317
Conversion of preferred share to common shares (note 14(a))	6,944,445	14,989,712	(6,944,445)	(14,989,712)	-	-	-
Conversion of convertible debentures (note 11)	2,399,999	3,684,832	-	-	(88,350)	-	3,596,482
Issuance of common shares, net of costs (note 14(a))	6,250,000	92,322,094	-	-	-	-	92,322,094
Warrants (note 14(b))	-	-	-	-	1,661,749	-	1,661,749
Exercise of stock options (note 15)	6,250	4,737	-	-	(4,737)	-	-
Share-based payments (note 15)	-	-	-	-	1,331,922	-	1,331,922
Loss for the period	-	-	-	-	-	(11,023,634)	(11,023,634)
Other	11	-	-	-	-	-	-
Balance, June 30, 2021	33,584,211	126,676,870	-	-	5,670,878	(43,800,818)	88,546,930
Balance December 31, 2019	17,982,464	15,672,209	2,777,778	4,999,982	2,303,540	(23,855,747)	(880,016)
Issuance of preferred shares, net of costs	-	-	4,166,667	9,989,730	-	-	9,989,730
Share-based payments (note 15)	-	-	-	-	255,758	-	255,758
Loss for the period	-	-	-	-	-	(3,697,453)	(3,697,453)
Balance, June 30, 2020	17,982,464	15,672,209	6,944,445	14,989,712	2,559,298	(27,553,200)	5,668,019

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 Canadian dollars)

	Six months ended June 30,	
	2021	2020
	\$	\$
<b>Operating activities</b>		
Loss and comprehensive loss	(11,023,634)	(3,697,453)
Items not affecting cash:		
Depreciation	444,508	314,568
Finance expense (note 12)	195,302	254,952
Equity-accounted loss (note 5)	85,984	101,555
Inventory write-down (note 4)	1,469,445	-
Warrants (note 14 (b))	1,661,749	-
Share-based payments (note 15)	1,331,922	255,758
Unrealized foreign exchange	(13,902)	(4,193)
	(5,848,626)	(2,774,813)
Changes in non-cash working capital and other items:		
Accounts receivable	(813,140)	67,234
Tax credit receivable	(209,383)	624,788
Inventory	(1,107,097)	-
Prepaid expenses and advances	(1,489,047)	(464,288)
Deferred financing fees	500,000	-
Accounts payable and accrued liabilities	(966,261)	(120,641)
Deferred revenue and recoveries	362,784	269,599
Provisions (note 13)	247,771	-
<b>Net operating cash flow</b>	<b>(9,322,999)</b>	<b>(2,398,121)</b>
<b>Investing activities</b>		
Purchase of equipment and leasehold improvements (note 6)	(1,062,701)	(288,029)
<b>Net investing cash flow</b>	<b>(1,062,701)</b>	<b>(288,029)</b>
<b>Financing activities</b>		
Issuance of common shares, net of share issuance costs (note 14)	92,322,094	-
Issuance of preferred shares, net of share issuance costs	-	9,989,730
Repayment of long-term debt (note 9)	(426,001)	(38,001)
Interest paid	(82,278)	(218,168)
Lease payments (note 8(b))	(207,395)	(100,093)
<b>Net financing cash flow</b>	<b>91,606,420</b>	<b>9,633,468</b>
<b>Cash and cash equivalents</b>		
Change during the period	81,220,720	6,947,318
Impact of foreign exchange on cash and cash equivalents	17,536	(10,348)
Cash and cash equivalents, beginning of the period	3,200,951	2,168,047
Cash and cash equivalents, end of the period	84,439,207	9,105,017

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

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars, except share data)

As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

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## 1. General information:

Loop Energy Inc. and its wholly-owned subsidiaries (collectively, the "Company") is primarily involved in the development of fuel cell technology. The Company was incorporated under the laws of British Columbia on August 9, 2012.

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 14(a)) and began trading on the Toronto Stock Exchange under the symbol "LPEN".

The registered office of the Company is 2900 - 550 Burrard Street, Vancouver, BC, V6C 0A3. During 2021, the Company relocated its head office to 660 - 2700 Production Way, Burnaby, BC, V5A 4V7. The address of the Company's plant is 2880 Production Way, Burnaby, BC, V5A 4T6.

## 2. Basis of presentation:

### (a) Statement of compliance and accounting policies:

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, 2020. The interim condensed consolidated financial statements have been prepared under the assumption that the Company operates on a going concern basis and have been presented in Canadian dollars, which is also the Company's functional currency. The Company operates in one segment and as at June 30, 2021 all of the Company's non-current assets are located in Canada with the exception of its equity-accounted investment, which is a company domiciled in China.

Except as described below, 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, 2020.

#### *Warranty provision*

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

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of the Company on August 11, 2021.

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars, except share data)

As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

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## 2. Basis of presentation (continued):

### (b) Subsidiaries:

The following provides information about the Company's wholly owned consolidated subsidiaries as at June 30, 2021:

Name of Subsidiary	State or Jurisdiction of Incorporation	Proportion of Ownership Interest
1123640 B.C. Ltd	Canada	100%
Loop Energy Technologies (Shanghai) Co. Ltd. <sup>(1)</sup>	China	100%

(1) On June 30, 2021, the Company incorporated a wholly owned subsidiary, Loop Energy Technologies (Shanghai) Co. Ltd.

### (c) New standards, interpretations, amendments and policies adopted by the Company

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

### (d) *Estimation uncertainty*

Except as described below, the significant estimates and judgments used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the Company's consolidated financial statements as at and for the year ended December 31, 2020. Actual results may differ from these estimates.

#### *Warranty provision*

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

#### *COVID-19*

The Company has not identified any new significant developments related to the COVID-19 pandemic which would impact the judgments, estimates and assumptions that affect the reported and contingent amount of assets, liabilities, revenues and expenses, including whether any additional indicators of impairment were present for the six months ended June 30, 2021. The Company will continue to monitor the COVID-19 situation and review its critical estimates and judgements as circumstances evolve.

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars, except share data)

As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

### 3. Accounts receivable:

	June 30, 2021	December 31, 2020
	\$	\$
GST receivable	154,885	88,804
Receivables from joint venture	476,059	347,316
Customer receivables	725,138	106,822
Accounts receivable	<b>1,356,082</b>	<b>542,942</b>

### 4. Inventory:

	June 30, 2021	December 31, 2020
	\$	\$
Raw materials	505,697	450,391
Work in progress	-	127,479
Finished goods	322,273	563,868
Inventory	<b>827,970</b>	<b>1,141,738</b>

During the three and six months ended June 30, 2021, the Company recorded a write down of its inventory to its net realizable value of \$637,807 and \$1,469,445, respectively (three and six months ended June 30, 2020- \$nil). Write-downs of \$313,467 during the three and six months ended June 30, 2021 are included in cost of sales, and \$324,340 and \$1,155,978, respectively, are included in product development expense. The classification of write downs is dependent upon the nature of inventory.

### 5. Equity-accounted investment:

During 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 manufactures and sells Fuel Cell ("FC") range extenders in the Chinese market and will purchase FC stacks from the Company.

The following table presents the changes in the balance of the Company's equity-accounted investment in InPower-Loop JV for the six months ended June 30, 2021 and the year ended December 31, 2020:

	June 30, 2021	December 31, 2020
	\$	\$
Balance, beginning of the period	230,686	455,644
Intercompany elimination	-	(44,520)
Foreign exchange	(3,634)	19,887
Equity-accounted loss	(85,984)	(200,325)
Balance, end of period	<b>141,068</b>	<b>230,686</b>

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars, except share data)

As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

## 6. Equipment and leasehold improvements:

	Equipment \$	Leasehold improvements \$	Computer hardware \$	Computer software \$	Total \$
<b>Cost</b>					
Balance, December 31, 2020	2,066,010	1,311,005	139,446	136,413	3,652,874
Additions	912,941	63,327	55,079	31,354	1,062,701
Balance, June 30, 2021	2,978,951	1,374,332	194,525	167,767	4,715,575
<b>Accumulated depreciation</b>					
Balance, December 31, 2020	672,919	543,387	44,509	80,959	1,341,774
Depreciation	143,113	159,116	28,969	16,973	348,171
Balance, June 30, 2021	816,032	702,503	73,478	97,932	1,689,945
<b>Carrying amounts</b>					
December 31, 2020	1,393,091	767,618	94,937	55,454	2,311,100
June 30, 2021	2,162,919	671,829	121,047	69,835	3,025,630

Depreciation expense for equipment and leasehold improvements during the three and six months ended June 30, 2021 was \$187,140 and \$348,171, respectively (three and six months ended June 30, 2020 - \$133,916 and \$257,377, respectively), which is primarily included in product development expenses in the statements of loss and comprehensive loss.

## 7. Accounts payable and accrued liabilities:

	June 30, 2021 \$	December 31, 2020 \$
Trade payables and accrued expenses	1,375,400	2,164,682
Trade and other payables due to related parties (note 18(b) and (c))	-	263,839
Payroll accruals	179,720	92,860
Accounts payable and accrued liabilities	1,555,120	2,521,381

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

### (a) Right-of-use assets:

The following table presents the changes in the balance of the Company's right-of-use assets for the six months ended June 30, 2021 and the year ended December 31, 2020:

	June 30, 2021 \$	December 31, 2020 \$
Balance, beginning of the period	285,953	400,334
Additions <sup>(1)</sup>	943,111	-
Depreciation	(144,917)	(114,381)
Balance, end of period	1,084,147	285,953

(1) During the first quarter of 2021, the Company entered into a lease for an additional premise through September 29, 2024.

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars, except share data)

As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

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

Depreciation expense for the right-of-use assets during the three and six months ended June 30, 2021 was \$94,390 and \$144,917, respectively (three and six months ended June 30, 2020 - \$28,595 and \$57,191, respectively), which is primarily included in product development expenses in the statements of loss and comprehensive loss.

### (b) Lease liabilities:

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 six months ended June 30, 2021 and the year ended December 31, 2020:

	June 30, 2021 \$	December 31, 2020 \$
Balance, beginning of the period	449,834	588,842
Additions	943,111	-
Finance expense	59,697	61,179
Lease payments	(207,395)	(200,187)
Balance, end of the period	1,245,247	449,834
Current portion	492,143	160,213
Non-current portion	753,104	289,621
Balance, end of period	1,245,247	449,834

As at June 30, 2021, the undiscounted contractual obligations of the Company's lease liabilities were as follows:

	Total \$
Maturity analysis – contractual undiscounted cash flows:	
2021	264,494
2022	528,988
2023	425,443
2024	241,424
Total undiscounted lease liabilities as at June 30, 2021	1,460,349

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars, except share data)

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## 9. Long-term debt:

	June 30, 2021 \$	December 31, 2020 \$
Unsecured loan, maturing March 1, 2024, bearing no interest (a)	416,610	458,743
Unsecured promissory notes, with no maturity date, bearing no interest (b)	22,912	372,912
Total long-term debt	439,522	831,655
Less current portion of long-term debt	164,999	514,992
Long-term portion	274,523	316,663

- a) During the three and six months ended June 30, 2021, the Company recorded non-cash finance expenses of \$16,532 and \$33,868, respectively (three and six months ended June 30, 2020 - \$16,571 and \$34,151, respectively) related to an accretion of an associated discount on the loan.
- b) During the three months ended June 30, 2021, the Company repaid \$350,000 relating to this long-term debt facility.

As at June 30, 2021 the contractual maturities of the Company's long-term debt were as follows:

	Total \$
2021	98,906
2022	151,992
2023	151,992
2024	151,992
Total	554,882

## 10. Deferred revenue and recoveries:

	June 30, 2021 \$	December 31, 2020 \$
Sustainable Development Technology Canada ("SDTC")	2,433,089	2,081,483
Contracts with customers	143,269	132,091
Total	2,576,358	2,213,574

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars, except share data)

As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

## 10. Deferred revenue and recoveries (continued):

During the first quarter of 2021, the Company received a third milestone payment of \$1,620,684, related to an agreement for the development of the Company's technology, which was recorded as a deferred recovery.

A payment received during 2018 of \$666,946 related to the purchases of equipment is being amortized over a five-year period commensurate with the average depreciable life of the equipment being used. During the three and six months ended June 30, 2021, \$33,347 and \$66,695, respectively (three and six months ended June 30, 2020 - \$33,347 and \$66,695, respectively) was recognized as part of the SDTC cost recovery.

During March 2021, SDTC increased the total funding commitment to \$8,268,750 and provided an additional \$393,750, with \$223,760 being recognized as a cost recovery during the first quarter of 2021, in relation to the completed first and second milestones.

The following table presents the changes in the balance of the Company's SDTC deferred recoveries for the six months ended June 30, 2021 and the year ended December 31, 2020:

<b>SDTC</b>	<b>June 30, 2021 \$</b>	<b>December 31, 2020 \$</b>
Balance, beginning of the period	2,081,483	1,905,930
Receipt of third milestone payment	1,620,684	-
Receipt of additional funding payment	393,750	375,000
Completion of second milestone	(1,372,373)	-
Amortization of equipment cost recovery	(66,695)	(133,389)
Recognition of additional funding for first and second milestone	(223,760)	(66,058)
Balance, end of period	2,433,089	2,081,483

## 11. Convertible debentures:

During the first quarter of 2021, the balance of the outstanding debentures of \$3,600,000 was 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.

Prior to the settlement, debentures with a principal amount of \$850,000 were held by related parties (December 31, 2020 - \$850,000) (note 18).

<b>Convertible debentures</b>	<b>June 30, 2021 \$</b>	<b>December 31, 2020 \$</b>
Balance, beginning of the period	3,577,023	3,549,847
Finance expense	101,737	459,669
Cash interest paid	(82,278)	(328,796)
Cash interest accrued in accounts payable and accrued liabilities	-	(103,697)
Conversion into common shares	(3,596,482)	-
Balance, end of period	-	3,577,023

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars, except share data)

As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

## 12. Finance expense:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Interest and accretion of convertible debt (note 11)	-	130,651	101,737	254,038
Accretion of long-term debt (note 9)	16,532	16,571	33,868	34,151
Gain on debt modification	-	(25,889)	-	(65,900)
Finance expense – lease liabilities (note 8(b))	37,911	16,832	59,697	32,663
Total	54,443	138,165	195,302	254,952

## 13. Warranty provision:

	June 30,	December 31,
	2021	2020
	\$	\$
<b>Warranty provision</b>		
Balance, beginning of the period	-	-
Provisions made during the period	247,771	-
Balance, end of period	247,771	-
Current portion	60,000	-
Non-current portion	187,771	-
Long-term portion	247,771	-

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.

The Company recorded warranty provisions of \$247,772 for the three and six months ended June 30, 2021 (three and six months ended June 30, 2020 - \$nil) related entirely to new product sales.

## 14. Share capital:

### (a) 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 \$1,677,906 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:

- 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;

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars, except share data)

As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

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## 14. Share capital (continued):

- 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 were 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; and
  - d) converted all of the issued and outstanding convertible debentures into 2,399,999 common shares (note 11).
- (b) Warrants:

In February 2021, the Company issued warrants to purchase 314,500 common shares exercisable at a price of \$16.00 per common share for a period of one year. The associated fair value of \$1,661,749 was recorded as general and administrative expenses at the date of issuance. The valuation of the warrants was calculated using the Black-Scholes method of valuation using the following assumptions:

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

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

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	Number of Warrants #	Weighted Average Exercise Price \$
Balance, December 31, 2020	66,667	1.50
Granted	314,500	16.00
Balance, June 30, 2021	381,167	13.46

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# LOOP ENERGY INC.

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## 15. Share-based payments:

During the first quarter of 2021, the Company adopted 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, performance share units and other share-based awards.

The following table presents the changes in the balance of the outstanding stock options:

	Number of Stock Options #	Weighted Average Exercise Price \$
Balance, December 31, 2020	2,601,665	1.03
Forfeited	(2,083)	0.99
Exercised	(6,250)	0.99
Granted	303,965	15.27
Balance, June 30, 2021	2,897,297	2.53
Exercisable, June 30, 2021	2,409,659	1.11

During the six months ended June 30, 2021, the Company granted a total of 303,965 stock options (six months ended June 30, 2020 – 140,000) with a weighted average fair value of \$11.08 per option (six months ended June 2020 - \$1.36). The share-based compensation expense for the Company's stock options was calculated using the Black-Scholes method of valuation using the following assumptions:

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

During the first quarter of 2021, 341,700 performance options granted during the year ended December 31, 2017, vested upon the completion of the initial public offering and the Company recognized a share-based compensation expense of \$257,666.

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

	Three months ended June 30, 2021	June 30, 2020	Six months ended June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Product development	184,362	10,328	350,777	51,144
Business development	143,240	-	243,552	-
General and administrative	325,372	33,750	737,593	204,614
	652,974	44,078	1,331,922	255,758

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## 16. Revenues:

The Company's primary source of revenues is the sale of its fuel cells to its customers. The Company's revenues during the three and six months ended June 30, 2021 all relate to goods transferred at a point in time and all of the Company's revenues relate to revenue from contracts with customers.

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
China	995,257	-	995,257	-
Europe	94,294	-	94,294	-
	1,089,551	-	1,089,551	-

## 17. Scientific research and experimental development tax credits:

The Company has estimated its scientific research and experimental development tax credits claim for the three and six months ended June 30, 2021 to be a recovery of \$209,383, respectively (three and six months ended June 30, 2020 – recovery of \$252,788 and \$599,227, respectively) relating to tax credits during the period prior to the Company becoming a public company. As at June 30, 2021 the Company has a tax credit receivable associated with its scientific research and experimental development tax credits of \$1,416,167 (December 31, 2020 - \$1,206,784), related to the filing for the year ended December 31, 2020 and for the period for January 1, 2021 to February 24, 2021.

## 18. Related party transactions:

(a) Key management personnel compensation:

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries and benefits	351,980	220,833	728,230	399,166
Share-based payments	390,714	12,926	921,602	145,483
Director fees	31,250	-	62,500	-
	773,944	233,759	1,712,332	544,649

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

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As at June 30, 2021 and for the three and six months ended June 30, 2021 and 2020

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## 18. Related party transactions (continued):

- (b) The Company is a party to the following transactions with related parties:
- (i) A principal of Collings Family Investments Ltd. and The Collings Stevens Family Foundation is a director of the Company. During the first quarter of 2021, the convertible debentures held by Collings Family Investments Ltd. and The Collings Stevens Family Foundation were converted to 333,334 common shares of the Company. During the three and six months ended June 30, 2021, the Company recorded interest expense of \$nil and \$11,671, respectively, (three and six months ended June 30, 2020 - \$15,153 and \$30,301, respectively), in finance expense in the Company's interim condensed consolidated statements of loss and comprehensive loss related to the convertible debentures held by Collings Family Investments Ltd. and The Collings Stevens Family Foundation.
  - (ii) A principal of Murdoch Family Trust is a director of the Company. During the first quarter of 2021, the convertible debentures held by Murdoch Family Trust were converted to 200,000 common shares of the Company. During the three and six months ended June 30, 2021, the Company recorded interest expense of \$nil and \$8,170, respectively, (three and six months ended June 30, 2020 - \$9,092 and \$18,181, respectively), in finance expense in the Company's interim condensed consolidated statements of loss and comprehensive loss related to the convertible debentures held by Murdoch Family Trust.
  - (iii) A principal of Truckenbrodt Clean Energy Consulting is a director of the Company. During the first quarter of 2021, the convertible debentures held by Truckenbrodt Clean Energy Consulting were converted to 33,000 common shares of the Company. During the three and six months ended June 30, 2021, the Company recorded interest expense of \$nil and \$1,167, respectively, (three and six months ended June 30, 2020 - \$1,515 and \$3,030, respectively), in finance expense in the Company's interim condensed consolidated statements of loss and comprehensive loss related to the convertible debentures held by Truckenbrodt Clean Energy Consulting.
  - (iv) As at June 30, 2021, various members of key management are owed \$31,250 (December 31, 2020 - \$4,200) for services rendered which is included in accounts payable and accrued liabilities.
- (c) As at June 30, 2021, the Company had \$476,059 (December 31, 2020 - \$347,316) in accounts receivable and \$nil (December 31, 2020 - \$259,639) in accounts payable and accrued liabilities, and for the three and six months ended June 30, 2021, the Company recorded \$262,409 in revenues, 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.

# LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 19. Employee remuneration:

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Product development	1,375,325	594,305	2,394,862	1,424,400
General and administrative	799,290	348,123	1,476,864	893,299
Business development	252,057	-	418,672	-
Technology development	137,666	-	219,692	-
Total	2,564,338	942,428	4,510,090	2,317,699

## 20. Financial Instruments:

### Fair value

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities as at June 30, 2021 approximates their fair value given their short-term nature. The carrying value of the long-term debt as at June 30, 2021 approximates fair value given the discount rates used to recognize the liabilities in the interim condensed consolidated statement of financial position and market rates of interest.

### Fair value hierarchical levels

The Company does not have any financial instruments measured at fair value in the interim condensed consolidated statements of financial position and therefore there were no transfers between the levels of the fair value hierarchy during the three and six-months ended June 30, 2021. 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 six-months ended June 30, 2021.

## 21. Financial Risk Management and Capital Management:

There have been no significant developments in the Company's financial risk factors and capital management as included in the Company's consolidated financial statements as at and for the year ended December 31, 2020.

## 22. Subsequent Events:

In July 2021, the Company, through its subsidiary Loop Energy Technologies (Shanghai) Co. Ltd., signed a factory lease agreement, effective from July 1, 2021 until December 31, 2024, with options to extend the lease for up to an additional six-years from the initial lease term and to increase the leased area at any point during the lease term, which are exercisable by the Company. The lease provides a rent-free period to the Company until December 31, 2021, at which point the lease cost is ¥ 1,195,375, or \$229,393, per annum.