

Unaudited Interim Condensed Consolidated Financial
Statements of

LOOP ENERGY INC.

(Expressed in Canadian dollars)

As at September 30, 2021 and for the three and nine
months ended September 30, 2021 and 2020

LOOP ENERGY INC.

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

	As at September 30, 2021 \$	As at December 31, 2020 \$
ASSETS		
Current assets:		
Cash and cash equivalents	77,809,801	3,200,951
Accounts receivable (note 3)	1,670,733	542,942
Tax credit receivable (note 17)	1,416,167	1,206,784
Inventory (note 4)	1,194,719	1,141,738
Prepaid expenses and advances	3,256,196	831,630
Total current assets	85,347,616	6,924,045
Non-current assets		
Accounts receivable (note 3)	529,849	-
Equity-accounted investment (note 5)	-	230,686
Property, plant and equipment (note 6)	3,254,664	2,311,100
Right-of-use assets (note 8(a))	1,924,332	285,953
Deferred financing costs (note 14(a))	-	500,000
Total non-current assets	5,708,845	3,327,739
Total assets	91,056,461	10,251,784
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	2,885,754	2,521,381
Current portion of lease liabilities (note 8(b))	659,047	160,213
Current portion of long-term debt (note 9)	174,906	514,992
Convertible debentures (note 11)	-	3,577,023
Deferred revenue and recoveries (note 10)	2,358,354	2,213,574
Warranty provision (note 13)	103,000	-
Total current liabilities	6,181,061	8,987,183
Non-current liabilities		
Lease liabilities (note 8(b))	1,476,041	289,621
Long-term debt (note 9)	242,311	316,663
Deferred revenue and recoveries (note 10)	873,204	-
Warranty provision (note 13)	180,250	-
Total non-current liabilities	2,771,806	606,284
Total liabilities	8,952,867	9,593,467
Shareholders' equity:		
Common shares (note 14)	126,305,672	15,675,495
Preferred shares (note 14)	-	14,989,712
Share-based payment reserve	6,119,285	2,770,294
Deficit	(50,340,776)	(32,777,184)
Foreign currency reserve	19,413	-
Total shareholders' equity	82,103,594	658,317
Total liabilities and equity	91,056,461	10,251,784
Commitments (note 6)		
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 September 30,		Nine months ended September 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
Revenues (note 16)	206,326	353,088	1,295,877	353,088
Cost of sales	862,792	-	2,648,456	-
Gross margin	(656,466)	353,088	(1,352,579)	353,088
Expenses:				
General and administrative	2,014,740	734,538	7,477,347	2,221,062
Product development	2,558,820	2,207,550	7,716,342	4,833,220
Business development	912,430	159,208	1,912,795	181,539
Technology development	411,945	44,590	760,814	63,474
	5,897,935	3,145,886	17,867,298	7,299,295
Less cost recoveries:				
Research and development tax credits (note 17)	-	(510,565)	(209,383)	(1,109,792)
Sustainable Development Technology Canada (note 10)	(33,347)	(33,347)	(1,696,174)	(166,100)
Automotive Supplier Innovation Program	-	-	-	(54,083)
Other grants	-	(391)	(5,402)	(913)
	(33,347)	(544,303)	(1,910,959)	(1,330,888)
Net expenses	5,864,588	2,601,583	15,956,339	5,968,407
Loss before the undernoted	(6,521,054)	(2,248,495)	(17,308,918)	(5,615,319)
Other income (expenses):				
Foreign currency exchange income	102,030	11,602	94,687	21,511
Interest income	81,367	8,847	134,226	24,814
Equity-accounted loss (note 5)	(144,508)	(50,778)	(230,492)	(152,333)
Finance expense (note 12)	(57,413)	(159,663)	(252,715)	(414,613)
Other expenses	(380)	-	(380)	-
	(18,904)	(189,992)	(254,674)	(520,621)
Net loss for the period	(6,539,958)	(2,438,487)	(17,563,592)	(6,135,940)
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	19,413	-	19,413	-
Total comprehensive loss for the period	(6,520,545)	(2,438,487)	(17,544,179)	(6,135,940)
Loss per common share – basic and diluted	(0.19)	(0.14)	(0.58)	(0.34)
Weighted average number of common shares outstanding	33,626,283	17,982,679	30,397,146	17,982,536

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 (Deficiency)

(Expressed in Canadian dollars, except share data)

	Common shares #	Common shares \$	Preferred shares #	Preferred shares \$	Share-based payment reserve \$	Deficit \$	Foreign currency reserve \$	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	91,822,094	-	-	-	-	-	91,822,094
Warrants (note 14(b))	-	-	-	-	1,661,749	-	-	1,661,749
Exercise of stock options (note 15)	66,666	133,539	-	-	(60,988)	-	-	72,551
Share-based payments (note 15)	-	-	-	-	1,836,580	-	-	1,836,580
Loss for the period	-	-	-	-	-	(17,563,592)	-	(17,563,592)
Other comprehensive income (loss):								
Foreign currency translation for foreign operations	-	-	-	-	-	-	19,413	19,413
Other	11	-	-	-	-	-	-	-
Balance, September 30, 2021	33,644,627	126,305,672	-	-	6,119,285	(50,340,776)	19,413	82,103,594
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
Exercise of stock options (note 15)	1,042	3,286	-	-	(1,411)	-	-	1,875
Share-based payments (note 15)	-	-	-	-	396,153	-	-	396,153
Loss for the period	-	-	-	-	-	(6,135,940)	-	(6,135,940)
Balance, September 30, 2020	17,983,506	15,675,495	6,944,445	14,989,712	2,698,282	(29,991,687)	-	3,371,802

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)

	Nine months ended September 30,	
	2021 \$	2020 \$
Operating activities		
Net loss	(17,563,592)	(6,135,940)
Items not affecting cash:		
Depreciation	785,404	484,912
Finance expense (note 12)	252,715	414,613
Equity-accounted loss (note 5)	230,492	152,333
Equity-accounted investment elimination (note 5)	-	80,015
Inventory write-down (note 4)	2,677,290	-
Warrants (note 14 (b))	1,661,749	-
Share-based payments (note 15)	1,836,580	396,153
Other	23,114	(21,819)
	(7,467,344)	(4,629,733)
Changes in non-cash working capital and other items:		
Accounts receivable	(1,657,641)	(441,112)
Tax credit receivable	(209,383)	114,223
Inventory	(2,661,190)	-
Prepaid expenses and advances	(2,424,566)	(769,387)
Deferred financing fees	500,000	-
Accounts payable and accrued liabilities	(418,896)	458,933
Deferred revenue and recoveries	1,017,984	203,842
Warranty provision (note 13)	283,250	-
Net operating cash flow	(15,666,690)	(5,063,234)
Investing activities		
Purchase of property, plant and equipment (note 6)	(1,229,961)	(326,452)
Net investing cash flow	(1,229,961)	(326,452)
Financing activities		
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
Exercise of stock options	72,551	1,875
Repayment of long-term debt (note 9)	(464,003)	(38,003)
Interest paid	(82,278)	(245,152)
Lease payments (note 8(b))	(339,640)	(150,140)
Net financing cash flow	91,508,724	9,558,310
Cash and cash equivalents		
Change during the period	74,612,073	4,168,624
Impact of foreign exchange on cash and cash equivalents	(3,223)	-
Cash and cash equivalents, beginning of the period	3,200,951	2,168,047
Cash and cash equivalents, end of the period	77,809,801	6,336,671

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 September 30, 2021 and for the three and nine months ended September 30, 2021 and 2020

1. General information:

Loop Energy Inc. (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 September 30, 2021 \$4,293,407 of the Company's non-current assets are located in Canada and \$1,415,438 are located 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.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of the Company on November 10, 2021.

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.

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2. Basis of presentation (continued):

Foreign Operations

The assets and liabilities of foreign operations are translated to the presentation currency using exchange rate at the reporting date. The income and expenses of foreign operations are translated to the presentation currency using exchange rates at the dates of the transactions. Foreign currency gains or losses arising from the translation of foreign operations are recognized in other comprehensive income and a separate component of shareholders' equity.

(b) Subsidiaries:

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

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. ⁽¹⁾	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.

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2. Basis of presentation (continued):

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 nine months ended September 30, 2021. The Company will continue to monitor the COVID-19 situation and review its critical estimates and judgements as circumstances evolve.

3. Accounts receivable:

	September 30, 2021 \$	December 31, 2020 \$
GST receivable	215,796	88,804
Receivables from joint venture	493,438	347,316
Customer receivables	784,881	106,822
Government grant receivable (note 10)	706,467	-
Accounts receivable	2,200,582	542,942
Current portion	1,670,733	542,942
Non-current portion	529,849	-
	2,200,582	542,942

4. Inventory:

	September 30, 2021 \$	December 31, 2020 \$
Raw materials	581,880	450,391
Work in progress	25,952	127,479
Finished goods	586,887	563,868
Inventory	1,194,719	1,141,738

During the three and nine months ended September 30, 2021, the Company recorded a write down of its inventory to its net realizable value of \$1,207,845 and \$2,677,290, respectively, (three and nine months ended September 30, 2020- \$nil). Write-downs of \$540,055 and \$853,522, respectively, during the three and nine months ended September 30, 2021 are included in cost of sales, and \$667,790 and \$1,823,768, respectively, are included in product development expense. The classification of write downs is dependent upon the nature of inventory.

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Notes to Unaudited Interim Condensed Consolidated Financial Statements

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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 nine months ended September 30, 2021 and the year ended December 31, 2020:

	September 30, 2021 \$	December 31, 2020 \$
Balance, beginning of the period	230,686	455,644
Intercompany elimination	-	(44,520)
Foreign exchange	(194)	19,887
Equity-accounted loss	(230,492)	(200,325)
Balance, end of period	-	230,686

6. Property, plant and equipment:

	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	1,201,271	140,525	131,647	39,787	1,513,230
Balance, September 30, 2021	3,267,281	1,451,530	271,093	176,200	5,166,104
Accumulated depreciation					
Balance, December 31, 2020	672,919	543,387	44,509	80,959	1,341,774
Depreciation	247,258	246,802	50,146	25,460	569,666
Balance, September 30, 2021	920,177	790,189	94,655	106,419	1,911,440
Carrying amounts					
December 31, 2020	1,393,091	767,618	94,937	55,454	2,311,100
September 30, 2021	2,347,104	661,341	176,438	69,781	3,254,664

Capital expenditures contracted for as at September 30, 2021, but not yet incurred is \$7.7 million.

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

	Three months ended September 30,		Nine months ended September 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
Product development	178,718	133,376	463,907	380,623
General and administrative	10,868	8,373	25,270	18,503
Business development	1,008	-	1,008	-
Technology development	10,401	-	10,401	-
	200,995	141,749	500,586	399,126

LOOP ENERGY INC.

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7. Accounts payable and accrued liabilities:

	September 30, 2021	December 31, 2020
	\$	\$
Trade payables and accrued expenses (note 14(a))	2,084,476	2,164,682
Trade and other payables due to related parties (note 18(b) and (c))	16,113	263,839
Payroll accruals	785,165	92,860
Accounts payable and accrued liabilities	2,885,754	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 nine months ended September 30, 2021 and the year ended December 31, 2020:

	September 30, 2021	December 31, 2020
	\$	\$
Balance, beginning of the period	285,953	400,334
Additions ⁽¹⁾⁽²⁾	1,894,411	-
Effect of movements in foreign exchange rates	28,787	-
Depreciation	(284,819)	(114,381)
Balance, end of period	1,924,332	285,953

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

(2) During the third quarter of 2021, the Company entered into a lease for an additional premise through December 31, 2027 (which includes the expected exercise of a three-year extension option by the Company) (note 10).

The Company recognized depreciation expense for the right-of-use assets with allocations to the functional expense as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Product development	(7,969)	25,021	122,470	75,063
General and administrative	118,375	3,574	132,851	10,723
Business development	23,018	-	23,018	-
Technology development	6,480	-	6,480	-
	139,904	28,595	284,819	85,786

LOOP ENERGY INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

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

(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 nine months ended September 30, 2021 and the year ended December 31, 2020:

	September 30, 2021	December 31, 2020
	\$	\$
Balance, beginning of the period	449,834	588,842
Additions	1,894,411	-
Effect of movements in foreign exchange rates	29,070	-
Finance expense	101,413	61,179
Lease payments	(339,640)	(200,187)
Balance, end of the period	2,135,088	449,834
Current portion	659,047	160,213
Non-current portion	1,476,041	289,621
Balance, end of period	2,135,088	449,834

The Company's lease liabilities are calculated using discount rates ranging from 8.0%-12.0%.

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

	Total \$
Maturity analysis – contractual undiscounted cash flows:	
2021	132,247
2022	745,033
2023	641,488
2024	457,468
2025	216,045
2026	216,045
2027	216,045
Total undiscounted lease liabilities as at September 30, 2021	2,624,371

9. Long-term debt:

	September 30, 2021	December 31, 2020
	\$	\$
Unsecured loan, maturing March 1, 2024, bearing no interest (a)	394,305	458,743
Unsecured promissory notes, with no maturity date, bearing no interest (b)	22,912	372,912
Total long-term debt	417,217	831,655
Less current portion of long-term debt	174,906	514,992
Long-term portion	242,311	316,663

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9. Long-term debt (continued):

- a) During the three and nine months ended September 30, 2021, the Company recorded non-cash finance expenses of \$15,696 and \$49,565, respectively (three and nine months ended September 30, 2020 - \$17,221 and \$51,372, respectively) related to 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 September 30, 2021 the contractual maturities of the Company's long-term debt were as follows:

	Total \$
2021	60,908
2022	151,992
2023	151,992
2024	151,992
Total	516,884

10. Deferred revenue and recoveries:

	September 30, 2021 \$	December 31, 2020 \$
Sustainable Development Technology Canada ("SDTC")	2,399,742	2,081,483
Contracts with customers	125,349	132,091
Shanghai Industrial Zone Economic Development	706,467	-
Balance, end of the period	3,231,558	2,213,574
Current portion	2,358,354	2,213,574
Non-current portion	873,204	-
Balance, end of period	3,231,558	2,213,574

During the first quarter of 2021, the Company received a prepayment of \$1,620,684, relating to the commencement of the third milestone under the 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 nine months ended September 30, 2021, \$33,347 and \$100,042 respectively (three and nine months ended September 30, 2020 - \$33,347 and \$100,042 respectively) was recognized as part of the SDTC cost recovery related to this equipment.

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 (nine months ended September 30, 2020 - \$66,058 recognized associated with the completion of milestones).

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

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10. Deferred revenue and recoveries (continued):

SDTC	September 30, 2021	December 31, 2020
	\$	\$
Balance, beginning of the period	2,081,483	1,905,930
Receipt of prepayment for third milestone	1,620,684	-
Receipt of additional funding payment	393,750	375,000
Completion of second milestone	(1,372,373)	-
Amortization of equipment cost recovery	(100,042)	(133,389)
Recognition of additional funding for first and second milestone	(223,760)	(66,058)
Balance, end of period	2,399,742	2,081,483

During the third quarter of 2021, the Company, through its subsidiary Loop Energy Technologies (Shanghai) Co. Ltd, entered into a lease agreement for an additional premise through December 31, 2027 (which includes the expected exercise of a three-year extension option by the Company). As part of the agreement, Shanghai Jiading Industrial Zone Economic Development Co., Ltd., a government entity, will reimburse the Company for the lease cost through December 31, 2024. At the inception of the lease, the total value of the government grant was \$684,233, 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 December 31, 2024. If the Company is unable to meet this threshold, the Company is required to proportionately repay the government grant relative to the shortfall of the tax payments.

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).

Convertible debentures	September 30, 2021	December 31, 2020
	\$	\$
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

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12. Finance expense:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Interest and accretion of convertible debt (note 11)	-	132,452	101,737	386,488
Accretion of long-term debt (note 9)	15,696	17,221	49,565	51,372
Gain on debt modification	-	(4,802)	-	(70,702)
Finance expense – lease liabilities (note 8(b))	41,717	14,792	101,413	47,455
Total	57,413	159,663	252,715	414,613

13. Warranty provision:

	September 30, 2021	December 31, 2020
	\$	\$
Warranty provision		
Balance, beginning of the period	-	-
Provisions made during the period	283,250	-
Balance, end of period	283,250	-
Current portion	103,000	-
Non-current portion	180,250	-
Long-term portion	283,250	-

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 \$35,479 and \$283,250 for the three and nine months ended September 30, 2021, respectively, (three and nine months ended September 30, 2020 - \$nil) related entirely to 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 \$2,177,906 of which \$500,000 were included in accounts payable and accrued liabilities as at September 30, 2021 (December 31, 2020 - \$500,000 included in deferred financing costs).

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;

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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:

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

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

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

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.

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15. Share-based payments (continued):

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	(66,666)	1.18
Granted	303,965	15.27
Balance, September 30, 2021	2,836,881	2.56
Exercisable, September 30, 2021	2,385,947	1.21

The weighted average share price on the date of exercise for options exercised during the nine months ended September 30, 2021 was \$6.66.

During the nine months ended September 30, 2021, the Company granted a total of 303,965 stock options (nine months ended September 30, 2020 – 320,000) with a weighted average fair value of \$11.08 per option (nine months ended September 2020 - \$1.60). The share-based compensation expense for the Company's stock options was calculated using the Black-Scholes method of valuation using the following assumptions:

	2021
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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Product development	156,522	23,528	507,299	74,672
General and administrative	212,216	116,867	949,810	321,481
Business development	104,467	-	348,020	-
Technology development	31,451	-	31,451	-
	504,656	140,395	1,836,580	396,153

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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 nine months ended September 30, 2021 and 2020 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		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
China	57,515	217,438	1,052,772	217,438
Europe	148,811	-	243,105	-
United States	-	135,650	-	135,650
	206,326	353,088	1,295,877	353,088

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 nine months ended September 30, 2021, to be a recovery of \$nil and \$209,383, respectively (three and nine months ended September 30, 2020 – recovery of \$510,565 and \$1,109,792, respectively) relating to tax credits during the period prior to the Company becoming a public company. As at September 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		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries and benefits	541,725	242,917	1,269,955	642,083
Share-based payments	300,825	78,449	1,265,337	223,932
Director fees	31,250	-	93,750	-
	873,800	321,366	2,629,042	866,015

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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 nine months ended September 30, 2021, the Company recorded interest expense of \$nil and \$11,671, respectively, (three and nine months ended September 30, 2020 - \$15,082 and \$44,918, 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 nine months ended September 30, 2021, the Company recorded interest expense of \$nil and \$8,170, respectively, (three and nine months ended September 30, 2020 - \$9,049 and \$29,934, 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 nine months ended September 30, 2021, the Company recorded interest expense of \$nil and \$1,167, respectively, (three and nine months ended September 30, 2020 - \$1,508 and \$4,492, 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 September 30, 2021, various members of key management are owed \$6,250 (December 31, 2020 - \$4,200) for services rendered which is included in accounts payable and accrued liabilities.
- (c) As at September 30, 2021, the Company had \$493,438 (December 31, 2020 - \$347,316) in accounts receivable and \$9,863 (December 31, 2020 - \$259,639) in accounts payable and accrued liabilities, and for the three and nine months ended September 30, 2021, the Company recorded \$319,924 (three and nine months ended September 30, 2020 - \$297,453 prior to intercompany eliminations) 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.

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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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Product development	1,436,073	605,973	3,830,935	2,030,372
General and administrative	824,853	378,817	2,301,717	1,276,657
Business development	461,668	-	880,340	-
Technology development	209,589	-	429,281	-
Total	2,932,183	984,790	7,442,273	3,307,029

20. Financial Instruments:

Fair value

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities as at September 30, 2021 approximates their fair value given their short-term nature or the discount rates used in assessing the fair value. The carrying value of the long-term debt as at September 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 nine-months ended September 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 nine-months ended September 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.

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22. Subsequent Events:

In October 2021, the Company granted restricted share unit compensation awards to certain officers, directors and employees, with respect to 58,944 units, with an aggregate grant date fair value of \$300,614 based on the Company's volume weighted average closing price of the Company's common shares for the five trading days immediately preceding the date of the grant. Each restricted share unit is equal in value to one of the Company's common shares. Each award represents the specified number of the Company's common shares plus reinvested distributions from the grant date to the vesting date. The awards vest annually in equal amounts over three years from the grant date. Upon vesting, the awards are paid to each grantee in the form of common shares or cash.

In October 2021, the Company granted 17,500 stock options to certain employees with a fair value price of \$3.04 per option. The options vest annually in equal amounts over three years from the grant date and expire in five years from the grant date.