Consolidated Financial Statements of

LOOP ENERGY INC.

And Independent Auditors' Report thereon
(Expressed in Canadian dollars)

As at December 31, 2021 and for the years ended December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Loop Energy Inc.

Opinion

We have audited the consolidated financial statements of Loop Energy Inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of loss and comprehensive loss for the years ended December 31, 2021 and December 31, 2020
- the consolidated statements of changes in shareholders' equity (deficiency) for the years ended December 31, 2021 and December 31, 2020
- the consolidated statements of changes in cash flows for the years ended December 31, 2021 and December 31, 2020
- and notes, comprising of significant accounting policies and other explanatory information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2021 and December 31, 2020 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of lower of cost and net realizable of inventory

Description of the matter

We draw attention to Notes 3, 4 and 6 to the financial statements. The Entity records inventory at the lower of cost and net realizable value. In determining the lower of cost and net realizable value of inventory, the Company estimates the likelihood that inventory carrying values will be affected by changes in market pricing or demand for the products and by changes in technology or design which could make inventory on hand recoverable at less than the recorded cost. The Entity had an inventory balance of $1,280 thousand as at December 31, 2021 and during the year ended December 31, 2021 recorded write-downs of $3,972 thousand in cost of sales.

Why the matter is a Key Audit Matter

We identified the assessment of impairment of inventory as a key audit matter. There is significant judgment required in evaluating the results of our audit procedures regarding the estimation of net realizable value used in the lower of cost and net realizable value determination.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following

— For a selection of inventory, we compared the estimated net realizable value used by management in its assessment of the lower of cost, including cost to complete, and net realizable value to either:

  - The sale price of the selected inventory realized subsequent to year-end, or
  - The realized sale price of the last sales invoice of the selected inventory sold in 2021.

— Obtained and inspected the inventory subledger and compared a selection of inventory costs at December 31, 2021 to the Entity's estimate of the net realizable value and recalculated any applicable inventory write-down.

Other Information

Management is responsible for the other information. Other information comprises the information in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

— Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

— Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

— Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Robert Ryan Owsnett.

Vancouver, Canada
March 22, 2022

LOOP ENERGY INC.

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

	As at December 31, 2021 $	As at December 31, 2020 $
ASSETS		
Current assets:		
Cash and cash equivalents	67,030	3,201
Accounts receivable (note 5)	2,066	543
Tax credit receivable (note 20)	1,416	1,207
Inventory (note 6)	1,280	1,142
Prepaid expenses and advances	6,564	831
Total current assets	78,356	6,924
Non-current assets		
Accounts receivable (note 5)	477	-
Equity-accounted investment (note 7)	-	231
Property, plant and equipment (note 8)	5,260	2,597
Deferred financing costs (note 16)	-	500
Total non-current assets	5,737	3,328
Total assets	84,093	10,252
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	2,846	2,521
Current portion of lease liabilities (note 10)	715	160
Current portion of long-term debt (note 11)	175	515
Deferred revenue and recoveries (note 12)	2,479	2,214
Convertible debentures (note 13)	-	3,577
Warranty provision (note 15)	112	-
Total current liabilities	6,327	8,987
Non-current liabilities		
Lease liabilities (note 10)	1,350	290
Long-term debt (note 11)	219	317
Deferred revenue and recoveries (note 12)	849	-
Warranty provision (note 15)	193	-
Total non-current liabilities	2,611	607
Total liabilities	8,938	9,594
Shareholders' equity:		
Common shares (note 16)	126,310	15,675
Preferred shares (note 16)	-	14,990
Share-based payment reserve	6,556	2,770
Deficit	(57,797)	(32,777)
Foreign currency reserve	86	-
Total shareholders' equity	75,155	658
Total liabilities and equity	84,093	10,252

Commitments (notes 8 and 24)

Subsequent events (notes 16)

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

LOOP ENERGY INC.

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

	Year ended December 31, 2021 $	2020 $
Revenues (note 18)	1,424	546
Cost of sales (note 6)		
Cost of goods sold	4,450	-
Allowance for inventory write-down at year end	1,800	-
Gross margin	(4,826)	546
Expenses:		
General and administrative	10,077	3,668
Engineering	8,085	6,057
Business development	2,601	362
Technology development	1,056	128
	21,819	10,215
Less cost recoveries:		
Research and development tax credits (note 20)	(209)	(1,207)
Sustainable Development Technology Canada (note 12)	(1,730)	(199)
Other grants	(5)	(55)
	(1,944)	(1,461)
Operating expenses	19,875	8,754
Loss before the undernoted	(24,701)	(8,208)
Other income (expenses):		
Foreign currency exchange income	47	5
Interest income	227	30
Equity-accounted loss (note 7)	(275)	(200)
Finance expense (note 14)	(318)	(548)
	(319)	(713)
Net loss	(25,020)	(8,921)
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences	86	-
Total comprehensive loss	(24,934)	(8,921)
Loss per common share – basic and diluted	(0.80)	(0.50)
Weighted average number of common shares outstanding	31,216,445	17,982,780

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

LOOP ENERGY INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in thousands of 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, 2019	17,982,464	15,672	2,777,778	5,000	2,304	(23,856)	-	(880)
Issuance of preferred shares, net of costs	-	-	4,166,667	9,990	-	-	-	9,990
Exercise of stock options (note 17)	1,042	3	-	-	(1)	-	-	2
Share-based payments (note 17)	-	-	-	-	467	-	-	467
Net loss	-	-	-	-	-	(8,921)	-	(8,921)
Balance, December 31, 2020	17,983,506	15,675	6,944,445	14,990	2,770	(32,777)	-	658
Conversion of preferred share to common shares (note 16)	6,944,445	14,990	(6,944,445)	(14,990)	-	-	-	-
Conversion of convertible debentures (note 13)	2,399,999	3,685	-	-	(88)	-	-	3,597
Issuance of common shares, net of costs (note16)	6,250,000	91,801	-	-	-	-		91,801
Warrants (note 16)	-	-	-	-	1,662	-	-	1,662
Exercise of stock options (note 17)	71,353	159	-	-	(72)	-	-	87
Share-based payments (note 17)	-	-	-	-	2,284	-	-	2,284
Net loss	-	-	-	-	-	(25,020)	-	(25,020)
Other comprehensive income (loss):								
Foreign currency translation	-	-	-	-	-	-	86	86
Other	11	-	-	-	-	-	-	-
Balance, December 31, 2021	33,649,314	126,310	-	-	6,556	(57,797)	86	75,155

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

LOOP ENERGY INC.

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

	Year ended December 31, 2021 $	2020 $
Operating activities		
Net loss	(25,020)	(8,921)
Items not affecting cash:		
Depreciation (note 8)	1,157	735
Finance expense (note 14)	318	548
Equity-accounted loss (note 7)	275	200
Equity-accounted investment elimination (note 7)	(45)	45
Inventory write-down (note 5)	3,972	751
Share-based payments (notes 16 and 17)	3,946	468
Other	90	(20)
Changes in non-cash working capital and other items, net (note 23)	(5,034)	(1,482)
Net operating cash flow	(20,341)	(7,676)
Investing activities		
Purchase of property, plant and equipment (note 8)	(6,662)	(716)
Net investing cash flow	(6,662)	(716)
Financing activities		
Net proceeds from share issuance (note 16)	91,801	9,990
Net proceeds from exercise of stock options (note 17)	87	2
Repayment of long-term debt (note 11)	(502)	(38)
Interest paid	(82)	(329)
Lease payments (note 10)	(472)	(200)
Net financing cash flow	90,832	9,425
Cash and cash equivalents		
Change during the year	63,829	1,033
Cash and cash equivalents, beginning of the year	3,201	2,168
Cash and cash equivalents, end of the year	67,030	3,201

Supplemental cash flow information (note 23)

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

1. Nature of Business:

Loop Energy Inc. (the "Company") and its wholly-owned subsidiaries are primarily involved in the development of fuel cell technology. The Company was incorporated under the laws of British Columbia, Canada on August 9, 2012 and trades on the Toronto Stock Exchange under the symbol "LPEN".

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

2. Basis of presentation:

Statement of compliance:
These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

The accounting policies set out in note 3 have been applied consistently to all years presented in these consolidated financial statements.

These consolidated financial statements were authorized for issue by the Board of Directors of the Company on March 22, 2022.

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

These consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2021, the Company has working capital, defined as current assets less current liabilities, of $72,029, which the Company expects will provide sufficient liquidity to execute its operating plans for at least the next twelve months.

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

Basis of consolidation:
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Subsidiaries are entities which the Company has exposure to, or has rights to, variable returns from its involvement with the entity and has the ability to use power over the investee to affect its returns. The accounts of the Company's subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances, transactions, revenues and expenses are eliminated in full in these consolidated financial statements and unrealized gains or losses on transactions are eliminated upon consolidation.

Subsidiaries:
Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtained control, and continue to be consolidated until the date when control is lost. The following provides information about the Company's wholly owned consolidated subsidiaries as at December 31, 2021:

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

Name of Subsidiary	State or Jurisdiction of Incorporation	Proportion of Ownership Interest
1123640 B.C. Ltd	Canada	100%
1299502 B.C. Ltd	Canada	100%
Loop Energy Technologies (Shanghai) Co. Ltd.	China	100%

Joint Ventures:
The Company accounts for its interests in jointly controlled entities using the equity method (note 7). The investment is initially recognized at cost and subsequent to initial recognition, the carrying value of the Company's interest in a joint venture is adjusted for the Company's share of comprehensive income (loss) and equity transactions of the investee. Profit and losses resulting from transactions with a joint venture are recognized in the consolidated financial statements based on the interests of unrelated investors in the investee. The carrying value of joint ventures is assessed for impairment at each reporting date. Impairment losses on equity-accounted investments may be subsequently reversed in net income.

Segment information:
The Company operates in one segment and as at December 31, 2021 $4,396 of the Company's non-current assets are located in Canada (December 31, 2020 – $3,097) and $1,341 are located in China (December 31, 2020 - $231).

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

In February 2021, the International Accounting Standards Board issued Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements by requiring entities to disclose their material accounting policy information instead of their significant accounting policies. The Company adopted this standard, which was effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted, effective January 1, 2021, and this adoption did not have a material impact on the Company's financial statements.

3. Material accounting policies:
The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise indicated.

Inventory:
Inventory includes raw materials, work in progress and finished goods and is recorded at the lower of cost or net realizable value. The cost of inventory is based on the weighted average principle and includes expenditures incurred in acquiring the inventory and other costs in bringing them to their existing location. In the case of work in progress and finished goods, cost includes materials, labor and an appropriate share of production overhead. Costs of materials are determined on an average per unit basis.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated selling costs. The Company estimates the valuation of inventory by determining the estimated demand, anticipated sales and any other relevant information. Net realizable value is assessed on an item-by-item basis except when they cannot be practically evaluated separately from other items.

Property, plant and equipment:

Recognition and measurement:
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset, including the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized net within other income in profit or loss.

Subsequent costs:
Subsequent expenditures are only capitalized if it is probable that the future economic benefits associated with the expenditure will flow to the Company, and their cost can be measured reliably. The carrying amount of any replaced part is derecognized.

Depreciation:
Depreciation on property, plant and equipment is calculated to write-off the net cost of each asset on a straight-line basis over its expected useful life to its estimated residual value. The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

Equipment	3-10 years
Leasehold improvements	4-6 years, and no longer than the lease term
Computer hardware	2 years
Computer software	1-3 years

Depreciation methods, expected useful lives and estimated residual values are reviewed at each financial year end, with the effect of any changes recognized on a prospective basis.

Leases:
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. The Company recognizes a right-of-use asset and corresponding lease liability at the lease commencement date for contracts that are, or contain, a lease component, except for short-term leases and leases of low value.

The right-of-use assets are initially measured at cost, which includes the initial amount of the lease liability plus initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations. Subsequently, the right-of-use assets are measured at cost less accumulated depreciation and impairment losses, if any. The right-of-use assets are depreciated on a straight-line basis over the lesser of the lease term or remaining life of the underlying asset, depending on the lease terms.

The lease liabilities are initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Company is reasonably certain to exercise. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there are changes in the following: i) the lease term; ii) the Company's assessment of whether it will exercise a purchase option; iii) a change in an index or a change in the rate used to determine the payments; and iv) amounts expected to be payable under residual value guarantees.

The Company has elected to recognize lease payments of short-term leases in profit or loss on a straight-line basis over the lease term and variable payments not dependent on a rate or index in the period which the obligation for those payments is incurred. Short-term leases are leases with a term of one year or less, excluding leases with an option to extend the lease for greater than one year or an option to purchase the underlying asset, that the lessee is reasonably certain to exercise.

Government grants:
Government grants are recognized initially as deferred recoveries at fair value when there is reasonable assurance that they will be received, and that the Company will comply with the conditions associated with the grant. Government grants are recorded as either a reduction of the cost of the applicable assets, or as a cost recovery in profit or loss on a systematic basis in the periods in which the expenses are recognized and/or the related project is agreed to be complete, as determined by the terms and conditions of the government grants provided to the Company or the nature of the expenditures.

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.

Revenue recognition:
The Company generates revenues primarily from product sales, which are derived primarily from standard product sales contracts. Revenue is recognized in profit or loss in accordance with the pattern of the Company satisfying its performance obligations under a contract. This occurs when control of a good is transferred, or service provided, to the customer as follows:

(i) Revenue is recognized from the sale of goods when the product transfers to the customer, the customer has obtained the significant risks and rewards of ownership and the goods have been delivered to the customer’s premise.

(ii) Other revenue including provision of ancillary services are recognized when a sale is made or a service has been provided.

The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer, which is generally the stand-alone selling price of the good.

Deferred revenue from customers represents cash received from customers in excess of revenue recognized on uncompleted contracts.

Cost of sales
Cost of sales includes: the cost of purchased materials, which includes acquisition costs including raw material and labour, as applicable; the cost incurred to deliver inventory to the Company's premises including freight, non-refundable taxes, duty, and other landing costs; the cost of the Company's manufacturing facilities, such as labour, rent, utilities, and depreciation; warranty provision expense for products sold; and the write-down of inventory to its net realizable value.

During the year ended December 31, 2020, revenues related to sales associated with pilot projects arising from engineering and product development activities and, as such, no separate cost of sales was presented.

Foreign currency:

Foreign currency transactions:
Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiaries at the exchange rate at the dates of the transactions. Foreign currency denominated monetary assets and liabilities are translated using the rate of exchange prevailing at the reporting date and non-monetary assets and liabilities are measured at historic cost and are translated at the rate of exchange at the transaction date. The resulting foreign currency gains or losses are recognized in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated to the presentation currency using the 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. The functional currency of Loop Energy Technologies (Shanghai) Co. Ltd. is Renminbi (RMB).

Share-based payment transactions:
The Company uses the fair-value based method of accounting for share-based payment transactions for all awards of stock options, restricted share units ("RSUs"), and warrants granted. The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the service period of the award. Fair values of stock options and warrants are calculated using the Black-Scholes valuation method as of the grant date. RSUs are valued at the fair-value price at grant date. Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest and the amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions.

The Company has issued stock options, RSUs, and warrants under its long-term incentive plan as described in notes 16 and 17. Consideration paid by employees on exercise of stock options or warrants, together with the associated amount recorded in share-based payment reserve, is credited to common shares. The redemption of RSUs are non-cash transactions that are recorded in share-based payment reserve and common shares.

Income taxes:
Income tax expense comprises current and deferred tax.

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the reporting date.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized and are measured using enacted, or substantively enacted, tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities, of a change in tax rates, is included in profit or loss in the period that includes the substantive enactment date. The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be realized.

Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases used in the computation of taxable income and carrying amounts of assets and liabilities in the consolidated financial statements.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Financial instruments:

Recognition and measurement:
All of the Company's financial assets, consisting of cash and cash equivalents and accounts receivable, and financial liabilities, consisting of accounts payable, lease liabilities, long-term debt and debentures are measured at amortized cost.

The classification of financial assets depends on the specific business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

At initial recognition, the Company measures a financial asset or liability at its fair value plus, in the case of a financial asset not at fair value through profit or loss (or "FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets are measured at amortized cost dependent on their contractual cash flow characteristics and the business model for which they are held. Financial assets classified as amortized cost are recorded initially at fair value, then subsequently measured at amortized cost using the effective interest rate method, less any impairment.

Financial liabilities measured at amortized cost are initially recorded at fair value, net of directly attributable transaction costs. Financial liabilities are then subsequently measured at amortized cost using the effective interest rate method with gains or losses recognized in profit or loss

Impairment:

An 'expected credit loss' ("ECL") model applies to the Company's financial assets measured at amortized cost. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of trade receivables. In applying the ECL model, loss allowances on trade receivables are measured based on lifetime ECLs, which are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company has elected to measure loss allowances for trade receivables using a provision matrix which specifies fixed provision rates depending on the number of days that a trade receivable is past due, using reference to the past default experience of the debtor and an analysis of the debtors current financial position, which also forms a basis for the Company's future expectations for potential defaults of the debtor. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Fair value measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value measurement is disaggregated into three hierarchical levels: Level 1, 2 or 3. Fair value hierarchical levels are based on the degree to which the inputs to the fair value measurement are observable. The levels are as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date;

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), through correlation with market data at the measurement date and for the duration of the asset's or liability's anticipated life; and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs) and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs in determining the estimate.

Loss per share:
Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of the Company's outstanding preferred shares, convertible debentures, stock options, RSUs and warrants, and their equivalents, is reflected in diluted loss per share by the application of the "if converted" method. As the Company has recorded a loss in all periods presented in these consolidated financial statements, the conversion of outstanding convertible securities has not been included in the diluted loss per share calculation, as their effect would be anti-dilutive.

4. Critical judgments in applying accounting policies and key sources of estimation uncertainty:

The preparation of financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses that are not readily apparent from other sources, during the reporting period. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments and estimates made by management and utilized in the normal course of preparing the Company's consolidated financial statements are outlined below.

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. As at December 31, 2021, the Company had recorded warranty provisions of $305 (December 31, 2020 - $nil)

Inventory:
In determining the lower of cost and net realizable value of inventory, the Company estimates the likelihood that inventory carrying values will be affected by changes in market pricing or demand for the products and by changes in technology or design which could make inventory on hand recoverable at less than the recorded value. The Company performs regular reviews to assess the impact of changes in technology and design, sales pricing and other changes on the carrying value of inventory. Where it is determined that such changes have occurred and will have a negative impact on the value of inventory on hand, an appropriate write-down is made.

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

If there is a subsequent increase in the value of inventory on hand, reversals of previous write-downs to net realizable value are made. Unforeseen changes in these factors could result in additional inventory write-downs, or reversals of previous write-downs being required. During the year ended December 31, 2021, the Company recorded a $3,972 write down of its inventory to its net realizable value (December 31, 2020 - $751).

Financial assets including impairment of trade receivables:
In determining the ECL on the Company's trade receivables, the Company has elected to measure loss allowances for trade receivables using a provision matrix which specifies fixed provision rates depending on the number of days that a trade receivable is past due, using reference to past default experience of the debtor and an analysis of the debtor's current financial position, which also forms a basis for the Company's future expectations for potential defaults of the debtor. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. Receivables from equity-accounted investment and customer receivables are recorded net of an allowance for an expected credit loss of $114 (December 31, 2020 - $nil).

Share-based payments:
To calculate the fair value of stock options and warrants, the Company uses the Black-Scholes option pricing model. This inherently requires management to make various estimates and assumptions, primarily in relation to the expected volatility, stock option life and forfeiture rates. Changes in these estimates could cause a significant change in the share-based compensation expense charged in profit or loss and to share-based payment reserve, as a component of shareholders equity, in a given period.

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 amount of assets, liabilities, revenues and expenses, including whether any additional indicators of impairment were present for the year ended December 31, 2021. The Company will continue to monitor the COVID-19 situation and review its critical estimates and judgements as circumstances evolve.

5. Accounts receivable:

	December 31, 2021 $	December 31, 2020 $
Customer receivables	779	107
GST receivable	565	89
Receivables from equity-accounted investment	484	347
Government grant receivable (note 12)	715	-
Accounts receivable	**2,543**	**543**
Current portion	2,066	543
Non-current portion	477	-
	2,543	**543**

Receivables from equity-accounted investment and customer receivables are recorded net of an allowance for an expected credit loss of $114 (December 31, 2020 - $nil), which entirely relates to the Company's receivables from customers and from the equity-accounted investment.

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

6. Inventory:

	December 31, 2021 $	December 31, 2020 $
Raw materials	578	450
Work in progress	-	127
Finished goods	702	565
Inventory	**1,280**	**1,142**

As at December 31, 2021, inventory is presented net of an allowance for write-downs of $1,800 (December 31, 2020 - $736)

During the year ended December 31, 2021, the Company recorded a total of $3,972 in write-downs of its inventory to its net realizable value (year ended December 31, 2020 - $751). Write-downs are included in cost of sales for the year ended December 31, 2021, and were included in engineering expense for the year ended December 31, 2020.

Cost of sales for the year ended December 31, 2021 is comprised of the cost of inventories recognized as an expense of $4,145, warranty provisions of $305 and the allowance for write-downs of inventory as at December 31, 2021 of $1,800.

7. Equity-accounted investment:

During 2019, the Company executed a non-exclusive joint venture agreement 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. As part of the joint venture agreement, the Company purchased common shares equity of InPower-Loop JV of $750, resulting in ownership of 26.9% of InPower-Loop JV.

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

	December 31, 2021 $	December 31, 2020 $
Balance, beginning of year	231	456
Intercompany elimination	45	(45)
Foreign exchange	(1)	20
Equity-accounted loss	(275)	(200)
Balance, end of year	**-**	**231**

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

The following tables presents summarized unaudited financial information assuming a 100% ownership interest in the InPower-Loop JV, adjusted for foreign exchange differences and the application of the Company's accounting policies.

	December 31, 2021 $	December 31, 2020 $
Cash and cash equivalents	197	482
Other current assets	642	746
Non-current assets	564	1,294
Current liabilities	(1,118)	(792)
Non-current liabilities	(392)	(390)
Net (liabilities) assets (100%)	(107)	1,340
Company's share of net assets (26.9%)	(29)	361
Eliminations related to intercompany transactions, deficit and foreign exchange	29	(130)
Carrying amount of equity-accounted investment	**-**	**231**

	Year ended December 31, 2021	2020
Revenues	604	249
Loss and comprehensive loss (100%)	(1,127)	(888)
Company's share of loss and comprehensive loss (26.9%)	(303)	(239)
Eliminations related to inter-company transactions and deficit	29	39
Company's share of loss	**(275)**	**(200)**

8. Property, plant and equipment:

	Equipment $	Leasehold improvements $	Computer hardware $	Computer software $	Right-of-use assets $	Total $
Cost						
Balance, December 31, 2019	1,571	1,247	57	62	515	3,452
Additions	495	64	83	74	-	716
Balance, December 31, 2020	2,066	1,311	140	136	515	4,168
Additions	1,514	181	158	157	1,894	3,874
Effect of movements in foreign exchange rates	-	-	-	-	40	40
Balance, December 31, 2021	**3,580**	**1,492**	**298**	**293**	**2,449**	**8,112**
Accumulated depreciation						
Balance, December 31, 2019	452	189	24	56	115	836
Depreciation	221	355	20	25	114	735
Balance, December 31, 2020	673	544	44	81	229	1,571
Depreciation	382	347	93	40	419	1,281
Balance, December 31, 2021	**1,055**	**891**	**137**	**121**	**648**	**2,852**
Carrying amounts						
December 31, 2020	**1,393**	**767**	**96**	**55**	**286**	**2,597**
December 31, 2021	**2,525**	**601**	**161**	**172**	**1,801**	**5,260**

Capital expenditures contracted for as at December 31, 2021, but not yet incurred is $7.8 million.

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

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

	Year ended December 31, 2021 $	2020 $
Cost of sales	134	-
Engineering	718	694
General and administrative	235	41
Business development	33	-
Technology development	37	-
	1,157	**735**

During the year ended December 31, 2021, $124 of depreciation expense was recorded in inventory.

9. Accounts payable and accrued liabilities:

	December 31, 2021 $	December 31, 2020 $
Trade payables and accrued expenses	1,933	2,164
Trade and other payables due to related parties (note 21)	21	264
Payroll accruals	892	93
Accounts payable and accrued liabilities	**2,846**	**2,521**

10. Lease liabilities:

As at December 31, 2021, the Company leases three premises for the Company's office and manufacturing space. The lease liabilities have been calculated using discount rates ranging from 8.0% - 12.0% per annum and the leases expire between June 2023 and December 2027.

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 years ended December 31, 2021 and 2020:

	December 31, 2021 $	December 31, 2020 $
Balance, beginning of year	450	589
Additions	1,894	-
Effect of movements in foreign exchange rates	41	-
Finance expense (note 14)	152	61
Lease payments	(472)	(200)
Balance, end of year	**2,065**	**450**
Current portion	715	160
Non-current portion	1,350	290
Balance, end of year	**2,065**	**450**

As at December 31, 2021, the undiscounted contractual obligations of the Company's lease liabilities were as follows 2022: $748; 2023: $644; 2024: $460; 2025: $219; 2026: $219; and 2027: $219.

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

11. Long-term debt:

	December 31, 2021 $	December 31, 2020 $
Unsecured loan, maturing March 1, 2024, bearing no interest (a)	371	459
Unsecured promissory notes, with no maturity date, bearing no interest (b)	23	373
Total long-term debt	394	832
Less current portion of long-term debt	175	515
Long-term portion	**219**	**317**

(a) During 2017, the Company signed a Western Innovation Initiative ("WINN") loan funding agreement which provided for loans to the Company of up to $760 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 year ended December 31, 2021, the Company recorded non-cash finance expenses of $64 (2020 - $69) (note 14) related to accretion of an associated discount on the loan.

During 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 and the Company recognized a gain on modification of $41 (note 14) during the year ended December 31, 2020.

(b) During the year ended December 31, 2021, the Company repaid $350 relating to this long-term debt facility.

As at December 31, 2021 the contractual maturities of the Company's long-term debt were as follows: 2022: $175, 2023: $152; and 2024: $152.

12. Deferred revenue and recoveries:

	December 31, 2021 $	December 31, 2020 $
SDTC	2,366	2,081
Contracts with customers	247	133
Shanghai Industrial Zone Economic Development	715	-
Balance, end of year	**3,328**	**2,214**
Current portion	2,479	2,214
Non-current portion	849	-
Balance, end of year	**3,328**	**2,214**

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

During 2017, the Company signed an agreement with SDTC to receive funding of $7,500 related to the development of the Company's technology and the Company received a first milestone payment of $1,204 in 2017. A follow-on payment of $667 related to purchases of equipment, which is amortized over a five-year period commensurate with the average depreciable life of the equipment, was received in 2018 and a second milestone payment of $1,372 was received in 2019. During 2020, SDTC increased the funding commitment to $7,875 and provided an additional payment of $375 with $66 recognized in relation to the first milestone. During 2021, SDTC increased the total funding commitment to $8,269 and provided an additional $394, with $224 being recognized as a cost recovery during 2021, relating to the completed first and second milestones., and the Company received a third milestone prepayment of $1,621, which was recorded as a deferred cost recovery.

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

SDTC	**December 31, 2021 $**	**December 31, 2020 $**
Balance, beginning of year	2,081	1,906
Receipt of prepayment for third milestone	1,621	-
Receipt of additional funding payment	394	375
Completion of second milestone	(1,372)	-
Amortization of equipment cost recovery	(134)	(134)
Recognition of additional funding for first and second milestone	(224)	(66)
Balance, end of year	**2,366**	**2,081**

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, which the Company has recognized as a deferred recovery, and the future amounts receivable under the lease agreement are recorded in accounts receivable (note 5). 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.

13. Convertible debentures:

During the first quarter of 2021, the balance of the outstanding convertible debentures ("debentures") of $3,600 was converted to 2,399,999 common shares of the Company in accordance with the terms of the debenture agreements.

The convertible debentures were secured by an interest in the Company's assets and liabilities, except the Company's future Government of Canada receivables in the form of SR&ED tax credit refunds (note 20). The debentures were convertible at the option of the debenture holder at any time during the term of the debenture into common shares of the Company, at a conversion price of $1.50 per share and interest payments on the debentures were at an annual interest rate of 12%. The Company had the right to offer a buy-back of the debentures after a one-year period from the date of issuance, which was not exercised.

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

During the year ended December 31, 2020, the Company extended the maturity of the convertible debentures to March 15, 2021 and recognized a gain on modification of $59 in finance expense (note 14).

Prior to the settlement, debentures with a principal amount of $850 were held by related parties (December 31, 2020 - $850) (note 21).

Convertible debentures	**December 31, 2021 $**	**December 31, 2020 $**
Balance, beginning of the year	3,577	3,550
Finance expense, net of modification gain (note 14)	102	460
Cash interest paid	(82)	(329)
Cash interest accrued in accounts payable and accrued liabilities	-	(104)
Conversion into common shares	(3,597)	-
Balance, end of year	**-**	**3,577**

14. Finance expense:

	Year ended December 31, 2021 $	**2020 $**
Interest and accretion of convertible debt (note 13)	102	518
Accretion of long-term debt (note 11)	64	69
Gain on debt modification (notes 11 and 13)	-	(100)
Finance expense – lease liabilities (note 10)	152	61
Total	**318**	**548**

15. Warranty provision:

	December 31, 2021 $	**December 31, 2020 $**
Balance, beginning of year	-	-
Provisions made during the year	305	-
Balance, end of year	**305**	**-**
Current portion	112	-
Non-current portion	193	-
Long-term portion	**305**	**-**

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 $305 for the year ended December 31, 2021 (December 31, 2020 - $nil).

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

16. Share capital:

The Company has unlimited authorized common shares without par value.

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. In connection with the Offering, the Company paid a cash commission of $6,000 and incurred additional share issuance costs of $2,199 of which $500 was 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 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. All share and per share information have been amended retrospectively to reflect the share consolidation; and

d) converted all of the issued and outstanding convertible debentures into 2,399,999 common shares (note 13).

Warrants:

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, December 31, 2021	**381,167**	**13.46**

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 $1,662 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%

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

As at December 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[1]

(1) These warrants expired unexercised on February 25, 2022.

Preferred shares:

During 2020, the Company issued 4,166,667 preferred shares for gross proceeds of $10,000 and incurred offering costs related to the issuance of $10. As part of the Offering, the Company converted all of its issued and outstanding preferred shares into common shares and the authorized capital of the Company was amended to delete all classes of Preferred Shares.

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 year ended December 31, 2021. The Company is not subject to externally imposed capital requirements.

17. Share-based payments:

As at December 31, 2021, the Company had 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, RSUs, performance share units and other share-based awards. As at December 31, 2021, the Company had only granted stock options and RSUs under the Plan.

The exercise price of each option is measured as the volume weighted average trading closing price of the Company's common shares on the TSX for the five trading days immediately preceding the date of grant and is set by the Board of Directors of the Company. The stock options have a maximum term of ten years and vesting periods as determined by the Board of Directors.

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

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

Stock options:

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, 2019	2,575,000	0.87
Forfeited	(8,960)	1.74
Exercised	(1,042)	1.80
Granted	320,000	2.11
Expired	(283,333)	0.74
Balance, December 31, 2020	2,601,665	1.03
Forfeited	(28,856)	14.91
Exercised	(71,353)	1.25
Granted	371,465	13.46
Expired	(50,000)	0.74
Balance, December 31, 2021	**2,822,921**	**2.53**
Exercisable, December 31, 2021	**2,367,127**	**1.31**

The weighted average share price on the date of exercise for options exercised during the year ended December 31, 2021 was $6.50 (year ended December 31, 2020 – the Company was not a public company).

As at December 31, 2021, stock options were outstanding enabling holders to acquire common shares as follows:

	Options outstanding			Options exercisable	
Range of exercise price $	Number outstanding #	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable #	Weighted average exercise price $
0.73 – 1.00	2,153,224	3.56	0.88	2,153,224	0.88
1.50 – 2.40	325,000	7.73	2.07	157,288	1.95
5.10 – 5.34	67,500	4.85	5.28	-	-
12.99 – 16.00	277,197	7.65	15.20	56,615	16.00
	2,822,921	**4.47**	**2.53**	**2,367,127**	**1.31**

During the year ended December 31, 2017, 510,000 stock options were granted which vest upon reaching certain performance conditions. During the year ended December 31, 2021, the Company recognized share-based compensation expense of $258 with respect to the vesting of 341,700 performance options (December 31, 2020 – $127 with respect to the vesting of 168,300 performance options). As at December 31, 2021, no performance-based stock options existed.

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

During the year ended December 31, 2021, the Company granted a total of 371,465 stock options (year ended December 31, 2020 – 320,000) with a weighted average fair value of $9.70 per option (year ended December 31, 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	**2020**
Risk-free interest rate	1.25%	0.81%
Expected life of options	7.9 years	10 years
Expected annualized volatility	74%	71%
Dividend	0%	0%
Forfeiture rate	0%	0%

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

During the year ended December 31, 2020, the Company amended the expiry dates of 641,667 outstanding stock options. This resulted in an additional share-based payments expense of $86 for the year ended December 31, 2020. The weighted average assumptions used for the Black-Scholes valuation of the modified options were annualized volatility of 78%, risk-free interest rate of 0.27%, expected life of 2.9 years and a dividend rate of 0%.

RSUs:

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

	Number of RSUs #
Balance, December 31, 2020 and 2019	-
Granted	198,443
Forfeited	(1,195)
Balance, December 31, 2021	**197,238**

During the year ended December 31, 2021, the Company granted 198,443 RSU awards (year ended December 31, 2020 – nil) to certain officers, directors and employees which vest over a weight average period of 1.22 years, with a weighted average grant date fair value of $5.13 per RSU (year ended December 31, 2020 - $nil).

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

	Year ended December 31,	
	2021	**2020**
	$	**$**
Engineering	596	97
General and administrative	1,228	371
Business development	427	-
Technology development	33	-
	2,284	**468**

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

18. Revenues:

The Company's primary source of revenues is the sale of its fuel cells to its customers. The Company's revenues during the years ended December 31, 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:

	Year ended December 31, 2021 $	2020 $
China	1,098	121
United States	-	333
Other	326	92
	1,424	**546**

During the year ended December 31, 2021, the Company had six customers who provided for revenues of 51%, 26%, 7%, 6%, 6% and 4% respectively, of the Company's consolidated revenues from contracts with customers (year ended December 31, 2020 – four customers providing for revenues of 36%, 25%, 22% and 17%, respectively of the Company's consolidated revenues from contracts with customers).

19. Income taxes:

The Company operates in countries that have differing tax laws and rates. Consequently, a consolidated weighted average tax rate will vary from year to year according to the source of earnings or losses by country and the change in applicable tax rates. A reconciliation of income taxes at statutory rates for jurisdictions where the Company's subsidiaries operate is as follows:

	Year ended December 31, 2021 $	2020 $
Net loss for the year, before tax	(25,020)	(8,921)
Statutory rate	27%	27%
Recovery of income taxes based on statutory tax rates	(6,755)	(2,409)
Differences in tax rates and change in tax rates	30	30
Permanent differences	(1,076)	193
Changes in unrecognized deductible temporary differences	7,801	2,186
Total income tax (recovery) expense	-	-

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

The significant components of the Company's unrecognized tax effected temporary tax differences are as follows:

	December 31, 2021 $	December 31, 2020 $
Equipment and leaseholds	270	436
Long-term debt	100	124
SR&ED pools and credits	1,319	1,385
Financing fees	1,772	14
Lease liabilities	558	121
Non-capital losses	11,332	5,506
Investment in joint venture	100	70
Deferred tax assets	15,451	7,656
Convertible debenture	-	(6)
Deferred tax liabilities	-	(6)
Unrecognized net deferred tax asset	**15,451**	**7,650**

At December 31, 2021, the Company has Canadian non-capital losses of $41,970 (December 31, 2020 - $20,394) that may be applied to reduce future taxable income. If these losses are not used to offset future income, they will expire in various years between 2027 and 2041. Additionally, as at December 31, 2021, the Company had SR&ED expenditure pools of approximately $4,948 (December 31, 2020 - $5,967) which do not expire (note 20) and other temporary tax differences of $10,583 (December 31, 2020 – 2,132).

20. Scientific research and experimental development ("SR&ED") tax credits:

The Company has estimated its SR&ED tax credits claim for the year ended December 31, 2021, to be a recovery of $209 (year ended December 31, 2020 – recovery of $1,207) relating to tax credits prior to the Company becoming a public company. As at December 31, 2021 the Company has a SR&ED tax credit receivable of $1,416 (December 31, 2020 - $1,207). To the extent the SR&ED claim is adjusted and accepted, it would impact the amount of the tax losses and undeducted SR&ED costs carried forward (note 19).

21. Related party transactions:

Key management personnel compensation:

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

	Year ended December 31, 2021 $	2020 $
Salaries and benefits	2,007	1,017
Share-based payments	1,543	224
Director fees	132	-
	3,682	**1,241**

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

Other related party transactions

During the first quarter of 2021, $850 of convertible debentures, held by entities for which the principals were directors of the Company, were converted to 566,334 common shares of the Company. During the year ended December 31, 2021, the Company recorded interest expense of $21 (year ended December 31, 2020 - $102), in finance expense in the Company's consolidated statements of loss and comprehensive loss related to the convertible debentures held by these entities.

As at December 31, 2021, the Company had $484 in accounts receivable (December 31, 2020 - $347) and $21 in accounts payable and accrued liabilities (December 31, 2020 - $264), and for the year ended December 31, 2021, the Company recorded $364 in revenues (year ended December 31, 2020 - $121), from transactions with a joint venture (note 7). The transactions were carried out in the normal course of operations and have been measured at their exchange value, being the amount agreed between the parties.

During the year ended December 31, 2020, the Company sold a fuel cell to a company controlled by a significant shareholder. The transaction was carried out in the normal course of operations and was measured at the exchange amount, being the amount agreed between the parties.

22. Employee remuneration:

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

	Year ended December 31,	
	2021	**2020**
	$	**$**
Cost of sales	235	-
Engineering	4,958	2,789
General and administrative	3,605	1,824
Business development	1,054	-
Technology development	588	-
Total	**10,441**	**4,613**

23. Supplemental cash flow information:

The changes in non-cash working capital and other items related to operating activities for the years ended December 31, 2021 and 2020 are as follows:

	Year ended December 31,	
	2021	**2020**
	$	**$**
Accounts receivable	(2,000)	(418)
Tax credit receivable	(209)	17
Inventory	(3,987)	(1,892)
Prepaid expenses and advances	(991)	(603)
Deferred financing fees	500	(500)
Accounts payable and accrued liabilities	234	1,701
Deferred revenues and recoveries	1,114	213
Warranty provision	305	-
Total	**(5,034)**	**(1,482)**

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

The following table presents the change in the balance of borrowings arising from financing activities for the years ended December 31, 2021 and 2020:

	December 31, 2021 $	December 31, 2020 $
Balance, beginning of year	832	842
Repayment of long-term debt	(502)	(38)
Accretion of long-term debt (note 11)	64	69
Gain on debt modification	-	(41)
Balance, end of year	**394**	**832**

The purchase of property, plant and equipment included in the Company's statement of cash flows includes deposits and advances for property, plant and equipment and is adjusted for property, plant and equipment included in accounts payable and accrued liabilities.

24. Financial instruments and risk:

Fair value

For all periods presented in these consolidated financial statements. the Company's financial instruments consists of cash and cash equivalents, accounts receivable, accounts payable, lease liabilities, long-term debt and debentures.

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximates their carrying values because of the short-term nature or the discount rates used in assessing the fair value of the instrument. The fair value of lease liabilities and long-term debt approximates their carrying value given the discount rates used to recognize the liabilities and the market rates of interest. The fair value of convertible debentures and accrued interest as at December 31, 2020 was $3,600 which represents the value to settle the convertible debentures in cash or equity.

The Company does not have any financial instruments measured at fair value in the consolidated statements of financial position and therefore there were no transfers between the levels of the fair value hierarchy during the years ended December 31, 2021 and 2020.

Financial risk management

The Company is exposed to the following risks: credit risk, liquidity risk, and market risk (i.e. interest rate risk, foreign currency risk and commodity risk). The following is a description of these risks and how they are managed:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying value of the Company's cash and cash equivalents and accounts receivable, totaling $69.6 million, represents the Company's maximum exposure to credit risk. The Company does not believe it has a significant credit risk associated with its cash and cash equivalents as such funds are on deposit with major credit worth financial institutions and thus credit risk and arises principally from the Company's receivables from customers. The Company's exposure to credit risk on customer accounts receivable is influenced mainly by the individual characteristics of each debtor. The Company currently only has a small number of customers and is therefore able to monitor credit risk on an individual account basis and apply lifetime expected loss provisions where any uncertainty on collectability is identified

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

As at December 31, 2021, the Company had $1.3 million contractual payments, included in accounts receivable in the Company's consolidated statement of financial position, which are more than 30 days past due. This amount mainly relates to an outstanding balance from two counterparties. The Company is currently in the process of settling all balances with these counterparties and expects to collect such amounts in full.

Based on no experience of past default of the Company's debtors and minimal expectation of future losses as a result of default, the Company has determined its credit risk to be low. As at December 31, 2021, the Company recorded an expected credit loss provision of $114 (December 31, 2020 - $nil).

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company maintains sufficient financial liquidity to be able to meet its ongoing operating requirements. The Company's approach to managing liquidity is to ensure 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. As at December 31, 2021, the Company had working capital, being current assets less current liabilities, of $72,029.

The Company's primary liquidity needs for the next twelve months are to pay existing committed capital expenditures, to make scheduled repayments of debt, to pay operating expenses and to manage its working capital.

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

	Carrying amount $	Contractual cash flows $	Within 1 year $	1 to 3 years $	4 to 6 years $
Accounts payable and accrued liabilities	2,846	2,846	2,846	-	-
Lease liabilities	2,065	2,509	748	1,105	656
Long-term debt	394	479	175	304	-
	5,305	**5,834**	**3,769**	**1,409**	**656**

In addition, as at December 31, 2021, the Company had committed to the following obligations that were not recognized as liabilities:

	Contractual cash flows $	Within 1 year $	1 to 3 years $	4 to 5 years $
Property, plant and equipment	7,768	7,768	-	-
Inventory	7,654	7,654	-	-
Other	1,578	1,578	-	-
	17,000	**17,000**	**-**	**-**

Market risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, foreign currency exchange rates and changes in market prices due to factors other than interest rates or foreign currency exchange rates, such as changes in commodity prices or credit spreads.

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

Interest rate risk

Interest rate risk is the risk that the fair value of deferred cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's long-term debt is non-interest bearing and therefore does not fluctuate. Interest income on cash and cash equivalents is considered incidental and not significant to operating results.

Foreign currency exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign currency risk related to working capital balances denominated in foreign currencies, primarily the United States dollar, Euro and Renminbi. The following tables sets out the Company's currency exposure of financial instruments as at December 31, 2021:

	December 31, 2021				
	USD $	**EUR $**	**RMB $**	**Other $**	**Total $**
Financial assets					
Current assets	2,515	1,547	464	9	4,535
Non-current assets	-	-	477	-	477
Total	**2,515**	**1,547**	**941**	**9**	**5,012**
Financial liabilities					
Current liabilities	649	194	289	8	1,140
Non-current liabilities	-	-	769	-	769
Total	**649**	**194**	**1,058**	**8**	**1,909**

As at December 31, 2020, the Company did not have significant net working capital balances in foreign balances.

Based on financial assets and liabilities held at December 31, 2021, a 10% increase in the United States dollar or the Euro relative to the Canadian dollar, with all other variables held constant, would result in an increase in foreign exchange gains of approximately $187 or $135, respectively, recorded against net loss. If the United States dollar or Euro weakened 10% against the Canadian dollar, there would be an equal, and opposite impact, on net income. This sensitivity analysis includes foreign currency denominated monetary items, and adjusts their translation at year-end, for a 10% change in foreign currency rates. A 10% increase or decrease in the Renminbi would not significantly impact net loss.

Commodity risk

Commodity risk is the risk of financial loss due to fluctuations in commodity prices, in particular, for the price of platinum and iridium, which are key components of the Company's fuel cell products. Platinum and iridium are scarce natural resources and therefore the Company is dependent upon a sufficient supply of these commodities. To manage its exposure to commodity price fluctuations, the Company may include platinum and or iridium pricing adjustments directly into certain significant customer contracts.