Consolidated Financial Statements of

LOOP ENERGY INC.

(Expressed in thousands of Canadian dollars)

As at December 31, 2023 and for the years ended December 31, 2023 and 2022

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITOR'S 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, 2023 and December 31, 2022
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy 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, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Entity has incurred recurring losses and negative cash flows from operations, and will be required to obtain additional financing to maintain its level of operations.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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, 2023. 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.

In addition to the matter described in the ***"Material Uncertainty Related to Going Concern"*** section of the auditor's report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the recoverable amounts of property, plant and equipment

Description of the matter

We draw attention to Notes 3, 4 and 7 to the financial statements. At December 31, 2023 the carrying value of Entity's property, plant and equipment is $16,868 thousand. The Entity assesses at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, the Entity estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or cash generating unit's ("CGU") fair value less costs to sell and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

During the year ended December 31, 2023, the Entity identified indicators of impairment and recorded an impairment loss of $4,810 thousand for specific items of property, plant and equipment. The Entity assessed whether the recoverable amount exceeded the carrying value of the remaining property, plant and equipment balance based on the value in use of the Entity's CGU and determined the value in use exceeded the remaining carrying value. Significant assumptions used in determining value in use included forecasted future sales and costs and the discount rate.

Why the matter is a Key Audit Matter

We identified the assessment of the recoverable amount of the Entity's property, plant and equipment as a key audit matter. The value in use of the CGU related to the property, plant and equipment was sensitive to changes in certain significant assumptions. Significant auditor judgment was required to evaluate the results of our audit procedures. Further, specialized skills and knowledge were needed to evaluate the methodology used to determine the value in use and assess the discount rate assumption.

How the matter was addressed in the audit

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

- We evaluated the forecasted sales and costs of the Entity by considering historic sales prices and costs and the shift in focus to only sell fuel cell stacks. We evaluated management's assessment of the impact of changes in conditions and events affecting the forecasted revenues and costs.
- We performed sensitivity analyses over the Entity's forecasted revenues, costs and discount rate.
- We involved a valuation professional with specialized skills and knowledge, who assisted in evaluating the methodology used to determine the value in use of the CGU and assessing the discount rate assumption. The valuation professional evaluated the Entity's discount rate assumption by comparing it to a discount rate range that was independently developed using publicly available market data and considering the risk profile of the CGU.

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 Entity 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 $1,356 thousand as at December 31, 2023 and during the year ended December 31, 2023 recorded write-downs of $7,732 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:

- We compared the estimated net realizable value used by management in its assessment of the lower of cost and net realizable value to:
  - The realized sale price of sales invoices of certain inventory sold in 2023; and
  - The forecasted sales price used by the Entity, which we evaluated by considering historic sales prices and the shift in focus to only sell fuel cell stacks.
- We performed sensitivity analyses over the Entity's forecasted net realizable value.
- We obtained and inspected the inventory subledger and compared inventory costs at December 31, 2023 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 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 auditor's 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 auditor's 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 IFRS Accounting Standards as issued by the International Accounting Standards Board, 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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 represent 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 auditor's 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 auditor's 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 auditor's report is Robert Ryan Owsnett.

Vancouver, Canada
March 21, 2024

LOOP ENERGY INC.

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

	As at December 31, 2023 $	As at December 31, 2022 $
ASSETS		
Current assets:		
Cash and cash equivalents	2,935	24,524
Accounts receivable (note 5)	136	3,842
Inventory (note 6)	1,356	4,288
Prepaid expenses and advances	647	2,001
Total current assets	5,074	34,655
Non-current assets		
Accounts receivable (note 5)	36	239
Property, plant and equipment (note 7)	16,868	20,344
Total non-current assets	16,904	20,583
Total assets	21,978	55,238
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	2,615	3,939
Current portion of lease liabilities (note 9)	1,169	972
Current portion of long-term debt (note 10)	166	175
Deferred revenue and recoveries (note 11)	417	1,656
Warranty provision (note 13)	322	184
Total current liabilities	4,689	6,926
Non-current liabilities		
Lease liabilities (note 9)	2,236	2,764
Long-term debt (note 10)	6,085	3,928
Deferred revenue and recoveries (note 11)	2,154	1,737
Warranty provision (note 13)	449	373
Total non-current liabilities	10,924	8,802
Total liabilities	15,613	15,728
Shareholders' equity:		
Common shares (note 14)	127,672	126,828
Share-based payment reserve	8,311	7,966
Deficit	(129,439)	(95,284)
Foreign currency reserve	(179)	-
Total shareholders' equity	6,365	39,510
Total liabilities and equity	21,978	55,238

Commitments (note 21)
Contingencies (note 22)
Subsequent events (notes 10, 11, 14, 15 and 23)

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, 2023 $	2022 $
Revenues (note 16)	2,104	3,328
Cost of sales (note 6)		
Cost of goods sold	6,536	10,182
Change in allowance for inventory write-down	5,701	3,143
Gross margin	(10,133)	(9,997)
Expenses:		
General and administrative	8,368	10,732
Engineering	9,561	12,976
Business development	3,656	5,426
Technology development	763	1,371
Impairment loss (note 7)	4,810	-
	27,158	30,505
Cost recoveries:		
Research and development tax credits	-	113
SDTC and JGF Program (note 11)	(3,536)	(2,566)
Other grants	(22)	(182)
	(3,558)	(2,635)
Operating expenses	23,600	27,870
Loss before the undernoted	(33,733)	(37,867)
Other income (expenses):		
Foreign currency exchange	(194)	39
Interest and other income	627	735
Finance expense (note 12)	(855)	(394)
Net loss	(34,155)	(37,487)
Other comprehensive loss:		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences	(179)	(86)
Total comprehensive loss	(34,334)	(37,573)
Loss per common share – basic and diluted	(1.00)	(1.11)
Weighted average number of common shares outstanding	34,283,731	33,782,374

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

LOOP ENERGY INC.

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

	Common shares #	Common shares $	Share-based payment reserve $	Deficit $	Foreign currency reserve $	Total shareholders' equity $
Balance, December 31, 2021	33,649,314	126,310	6,556	(57,797)	86	75,155
Exercise of stock options (note 15)	611,667	464	(265)	-	-	199
Cancellation of common shares held in treasury (note 15)	(266,857)	-	-	-	-	-
Shares issued on RSU redemption	11,667	54	(54)	-	-	-
Share-based payments (note 15)	-	-	1,729	-	-	1,729
Net loss	-	-	-	(37,487)	-	(37,487)
Other comprehensive loss:						
Foreign currency translation	-	-	-	-	(86)	(86)
Balance, December 31, 2022	34,005,791	126,828	7,966	(95,284)	-	39,510
Exercise of stock options (note 15)	183,333	217	(81)	-	-	136
Shares issued on RSU redemption	206,371	627	(665)	-	-	(38)
Share-based payments (note 15)	-	-	1,091	-	-	1,091
Net loss	-	-	-	(34,155)	-	(34,155)
Other comprehensive loss:						
Foreign currency translation	-	-	-	-	(179)	(179)
Balance, December 31, 2023	34,395,495	127,672	8,311	(129,439)	(179)	6,365

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, 2023 $	2022 $
Operating activities		
Net loss	(34,155)	(37,487)
Items not affecting cash:		
Depreciation (note 7)	2,976	1,710
Impairment loss (note 7)	4,810	-
Finance expense (note 12)	855	394
Inventory write-down (note 6)	7,732	6,785
Share-based payments (note 15 and 18)	1,122	1,729
Other	(10)	69
Changes in non-cash working capital and other items, net (note 20)	(2,206)	(6,377)
Net cash flows used in operating activities	(18,876)	(33,177)
Investing activities		
Purchase of property, plant and equipment (note 7)	(4,557)	(14,970)
Proceeds from disposition of assets	42	8
Net cash flows used in investing activities	(4,515)	(14,962)
Financing activities		
Net proceeds from exercise of stock options (note 14)	136	226
Proceeds from long-term debt (note 10)	2,885	5,970
Repayment of long-term debt (note 10)	(152)	(152)
Lease payments (note 9)	(876)	(822)
Net cash flows provided by financing activities	1,993	5,222
Cash and cash equivalents		
Change during the period	(21,398)	(42,917)
Impact of foreign exchange on cash and cash	(191)	411
Cash and cash equivalents, beginning of the period	24,524	67,030
Cash and cash equivalents, end of period	2,935	24,524

Supplemental cash flow information (note 20)

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 June 21, 2000 and trades on the Toronto Stock Exchange ("TSX") under the symbol "LPEN".

The registered office of the Company is 2900 - 550 Burrard Street, Vancouver, BC, V6C 0A3. The Company's head office is located at 2880 Production Way, Burnaby, BC, V5A 4T6.

2. Basis of presentation:

Statement of compliance:
These consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting 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 approved by the Board of Directors of the Company on March 21, 2024.

Basis of measurement and presentation currency:
The consolidated financial statements have been prepared on the historical cost basis using the accrual basis of accounting, except for cash flow information. The functional and presentation currency of the Company is the Canadian dollar.

Going Concern:
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.

The Company realized a net loss of $34,155 for the year-ended December 31, 2023 (December 31, 2022 - $37,487) and had negative cash flows from operations of $18,876 (year ended December 31, 2022 - $33,177). As at December 31, 2023, the Company has working capital, being current assets less current liabilities, of $385. Subsequent to December 31, 2023, the Company announced a proposed merger transaction and secured an associated purchase order prepayment of $500 and a related bridge financing loan of $1,500 to support the operations through the close of the proposed merger transaction (see note 23).

The Company believes it will have sufficient funding, with the bridge financing provided, to fund operations up to the successful close of the proposed merger transaction. However, the Company expects to incur further losses in the development of its business and forecasts that it will need to seek additional financing following the merger and within the next five months to continue as a going concern and meet its ongoing expenditures and obligations. While the Company has been successful in securing financing in the past, there can be no assurances that it will be able to do so in the future. These conditions indicate a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern.

While the Company has incurred losses to date, its strategy to mitigate this uncertainty is to continue its drive to attain profitable operations that are sustainable by executing a business plan that continues to focus on revenue growth, improving gross margins, maintaining discipline over, and reducing, operating expenses, managing working capital requirements, and securing additional financing to fund operations as needed until the Company does achieve profitable operations that are sustainable.

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

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

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, 2023:

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

Joint Ventures:
The Company accounts for its interests in jointly controlled entities using the equity method. 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.

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, with the Company having a 26.9% ownership interest. During the year ended December 31, 2021 the Company wrote-off the remaining value of the investment and as of December 31, 2023 and December 31, 2022 the joint venture is dormant.

Segment information:

The Company operates in one segment and as at December 31, 2023 $15,606 of the Company's non-current assets are located in Canada (December 31, 2022 – $15,591) and $1,298 are located in China (December 31, 2022 - $4,992).

New standards, interpretations, amendments and policies adopted by the Company:
There are no new standards or interpretations adopted by the Company during the year ended December 31, 2023 that had a material impact on the Company, and there are no standards or interpretations not yet adopted, that are expected to 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.

Impairment of assets

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

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

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

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

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

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

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, 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 generally 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 as per the terms of the agreement.

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

(iii) 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 labor, 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 labor, rent, utilities, and depreciation; warranty provision expense for products sold; and the write-down of inventory to its net realizable value.

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 14 and 15. 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, and long-term debt 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 debtor's current financial position, which also forms a basis for the Company's future expectations for potential defaults of the debtor. As the Company only has a small number of customers, the Company also considers ECL based on an analysis of individual account level basis in assessing its ECL provision. 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 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.

Going concern:
The Company's assessment of its ability to continue as a going concern requires judgments about whether there are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Management has determined that the use of the going concern basis of accounting is appropriate and has disclosed material uncertainties in note 2 to the financial statements.

Impairment and determination of value-in-use:
The determination of the recoverable amount of assets and it's CGU when conducting impairment testing requires significant estimation. The Company has determined the fair value less cost to sell of certain identified assets based on the best information available, including a non-binding letter of intent to purchase certain equipment received from a potential buyer. The Company determined the recoverable amount of its CGU based on a value-in-use model that requires management to apply judgement and estimation, including forecast future sales and costs, the terminal value and the discount rate used. During the year ended December 31, 2023 the Company recorded an impairment loss of $4,810.

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.

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, 2023, the Company recorded a $7,732 write down of its inventory to its net realizable value (December 31, 2022 - $6,785).

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. At December 31, 2023, receivables are recorded net of an allowance for an expected credit loss of $1,801 (December 31, 2022 - $935).

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, 2023, the Company had recorded warranty provisions of $771 (December 31, 2022 - $557).

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

5. Accounts receivable:

	December 31, 2023 $	December 31, 2022 $
Customer receivables	95	2,086
GST receivable and other	77	1,399
Government grant receivable (note 11)	-	596
Accounts receivable	**172**	**4,081**
Current portion	136	3,842
Non-current portion	36	239
	172	**4,081**

At December 31, 2023, receivables are recorded, net of an allowance for an expected credit loss of $1,801 (December 31, 2022 - $935), with credit losses recorded in general and administrative expenses.

6. Inventory:

	December 31, 2023 $	December 31, 2022 $
Raw materials	971	2,807
Finished goods	385	1,481
Inventory	**1,356**	**4,288**

As at December 31, 2023, inventory is presented net of an allowance for write-downs of $6,816 (December 31, 2022 - $4,943).

During the year ended December 31, 2023, the Company recorded a total of $7,732 in write-downs of its inventory to its net realizable value (year ended December 31, 2022 – $6,785). A continuity of the Company's allowance for inventory write-downs as follows:

	Year ended December 31, 2023 $	2022 $
Balance, beginning of the year	4,943	1,800
Write-downs added to the allowance	7,732	6,785
Transferred to cost of goods sold on sale of units	(2,031)	(3,642)
Change in allowance for inventory write-down	5,701	3,143
Allowance applied to inventory written-off	(3,828)	-
Balance, end of year	**6,816**	**4,943**

Cost of sales for the year ended December 31, 2023 comprised of the cost of inventories recognized as an expense of $4,876 (December 31, 2022-$7,339), overheads of $1,322 (December 31, 2022-$2,424), warranty costs of $338 (December 31, 2022- $419), and the change in allowance for write-downs of inventory of $5,701 (December 31, 2022- $3,143).

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

7. Property, plant and equipment:

	Equipment $	Leasehold improvements $	Computer hardware $	Computer software $	Right-of-use assets $	Total $
Cost						
Balance, December 31, 2021	3,580	1,492	298	293	2,449	8,112
Additions	10,450	3,935	486	141	2,273	17,285
Disposal	(11)	-	-	-	-	(11)
Effect of movements in foreign exchange rates	15	-	5	-	(15)	5
Balance, December 31, 2022	14,034	5,427	789	434	4,707	25,391
Additions	3,293	1,202	2	-	955	5,452
Disposals	-	(36)	(30)	-	-	(66)
Remeasurement	-	-	-	-	(464)	(464)
Effect of movements in foreign exchange rates	(96)	(96)	(6)	(8)	(111)	(317)
Balance, December 31, 2023	**17,231**	**6,497**	**755**	**426**	**5,087**	**29,996**
Accumulated depreciation						
Balance, December 31, 2021	1,055	891	137	121	648	2,852
Depreciation	743	492	195	95	674	2,199
Disposal	(4)	-	-	-	-	(4)
Balance, December 31, 2022	1,794	1,383	332	216	1,322	5,047
Depreciation	1,330	973	234	80	696	3,313
Impairment loss	1,567	1,514	178	82	1,469	4,810
Disposals	-	(3)	(30)	-	-	(33)
Effect of movements in foreign exchange rates	2	2	(2)	2	(13)	(9)
Balance, December 31, 2023	**4,693**	**3,869**	**712**	**380**	**3,474**	**13,128**
Carrying amounts						
December 31, 2022	**12,240**	**4,044**	**457**	**218**	**3,385**	**20,344**
December 31, 2023	**12,538**	**2,628**	**43**	**46**	**1,613**	**16,868**

Included in the cost of equipment is $2.0 million of assets under construction that are not being depreciated as they are not yet available for use and $1.6 million of deposits paid for equipment to be delivered in 2024 (December 31, 2022 - $1.6 million and $3.9 million respectively).

During the year ended December 31, 2023, the Company assessed that indicators of impairment existed due to the Company's decision to execute operating cost reductions including closure of production in China and shift the Company's focus to the sale of fuel cell stacks.

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

In determining the impairment loss, the Company has assessed its right-of-use assets and associated leasehold improvements assets and has fully impaired the carrying value of such assets to the extent that the corresponding leased space is no longer expected to be used to generate cash flows. With respect to determining the impairment amounts of specifically identified equipment, computer hardware and computer software, the Company considered the FVLCD of such assets. In China FVLCD for equipment was based on indicative values resulting from a non-binding letter of intent received from a potential buyer of specific assets. In Canada the Company has impaired any equipment specific to the manufacture of fuel cell modules. The Company then assessed if the recoverable amount of its CGU exceeds its remaining carrying value. Management prepared a value-in-use cash flow model to determine the recoverable amount of the CGU based on cash flows anticipated to be achieved in the continuing fuel cell stack business, discounted at a rate of 18%. Based on such model the recoverable amount of the CGU exceeded its carrying value, indicating no further impairment was required. Sensitivities performed indicated that no impairment was identified at a discount rate as high as 23%.

(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, 2023 $	**2022 $**
Cost of sales	687	624
Engineering	1,333	583
General and administrative	859	385
Business development	50	58
Technology development	47	60
	2,976	**1,710**

At December 31, 2023, $337 (December 31, 2022 - $489) of depreciation expense was recorded in inventory.

8. Accounts payable and accrued liabilities:

	December 31, 2023 $	**December 31, 2022 $**
Trade payables and accrued expenses	2,199	2,705
Trade and other payables due to related parties (note 18)	-	40
Payroll accruals	410	1,194
Others	6	-
Accounts payable and accrued liabilities	**2,615**	**3,939**

9. Lease liabilities:

As at December 31, 2023, the Company leases premises for the Company's office and manufacturing space. The lease liabilities have been calculated using discount rates ranging from 8.0% - 13.0% per annum and the leases expire between September 2024 and July 2028.

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

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, 2023 and 2022:

	December 31, 2023 $	**December 31, 2022 $**
Balance, beginning of year	3,736	2,065
Additions	955	2,270
Effect of movements in foreign exchange rates	(51)	(32)
Finance expense (note 12)	333	255
Lease payments[1]	(1,104)	(822)
Remeasurement	(464)	-
Balance, end of period	**3,405**	**3,736**
Current portion	1,169	972
Non-current portion	2,236	2,764
Balance, end of period	**3,405**	**3,736**

1) Includes $231 of payments recorded in accounts payable as at December 31, 2023.

As at December 31, 2023, the undiscounted contractual obligations of the Company's lease liabilities were as follows: 2024: $1,218; 2025: $794; 2026: $815; 2027: $810; 2028: $457 and Nil thereafter.

10. Long-term debt:

On March 31, 2022, the Company entered into an agreement with Pacific Economic Development Canada for funding, Job and Growth Fund-Innovation Program ("JGF Program"), of up to $9.75 million, to assist with project costs associated with increases in the Company's manufacturing capacity. Under the terms of the agreement the funding is repayable over 60 consecutive months commencing on April 1, 2025 and is non-interest bearing. The funds are to be received as certain milestones are accomplished over a period up to March 31, 2024. In accordance with the terms of the JGF Program agreement, the Company shall not dispose of any asset acquired or developed which is funded in whole or in part by the funding received without receipt of prior written consent and the Company shall not pay any distribution of retained earnings to shareholders until the loan contribution has been repaid in full. Subsequent to December 31, 2023, the maximum JGF Program funding was adjusted to $8,855 being the amount already received by the Company.

The Company's long-term debt obligation is comprised of:

	December 31, 2023 $	**December 31, 2022 $**
Unsecured loan, maturing December 1, 2024, bearing no interest (a)	143	269
Unsecured promissory notes, with no maturity date, bearing no interest	23	23
Unsecured JGF Program loan, maturing March 31, 2030, bearing no interest (b)	6,085	3,811
Total long-term debt	6,251	4,103
Less current portion of long-term debt	166	175
Long-term portion	**6,085**	**3,928**

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

(a) During year ended December 31, 2023, the Company repaid $152 relating to this long-term debt facility and recorded non-cash finance expenses of $26 (year ended December 31, 2022 - $50) (note 12) related to accretion of an associated discount on the loan.

(b) During the year ended December 31, 2022, the Company received a total of $5,970 relating to JGF Program funding in 2 different tranches. The Company applied an effective interest rate of 9.75% and 12.0% to discount the cash flows of the non-interest-bearing loan applicable to each tranche. The loan was valued at $3,070 and $652 for each tranche respectively on the payment receipt date. During the year ended December 31, 2023, the Company received a third and fourth tranche aggregating to $2,885. The Company applied an effective interest rate of 12.25% and 12.50% to discount the cash flows of the non-interest-bearing loan applicable to each tranche. The loan was valued at aggregate amount of $1,778 on the payment receipt date. The fair value discount of the loan is classified as deferred revenue and recoveries (note 11). The Company recorded non-cash finance expenses of $496 during the year ended December 31, 2023. related to accretion of the associated discount on the loan.

As at December 31, 2023 the contractual maturities of the Company's long-term debt were as follows: 2024: $175; 2025: $1,328; 2026: $1,771; 2027: $1,771; 2028: $1,771 and $2,215 thereafter.

11. Deferred revenue and recoveries:

	December 31, 2023 $	**December 31, 2022 $**
SDTC	-	1,213
Contracts with customers	142	-
JGF Program	2,254	1,617
Shanghai Industrial Zone Economic Development	175	563
Balance, end of period	2,571	3,393
Current portion	417	1,656
Non-current portion	2,154	1,737
Balance, end of period	2,571	3,393

Sustainable Development Technology Canada ("SDTC")

During 2017, the Company signed an agreement with SDTC to receive funding of $7,500 related to the development of the Company's technology and the Company received a first milestone payment of $1,204 in 2017. A follow-on payment of $667 related to purchases of equipment, which is amortized over a five-year period commensurate with the average depreciable life of the equipment, was received in 2018 and a second milestone payment of $1,372 was received in 2019. During 2020, SDTC increased the funding commitment to $7,875 and provided an additional payment of $375 with $66 recognized in relation to the first milestone. During 2021, SDTC increased the total funding commitment to $8,269 and provided an additional $394, with $224 being recognized as a cost recovery during 2021, relating to the completed first and second milestones, and the Company received a third milestone prepayment of $1,621 in 2021, which was recognized completely alongside additional funding of $182 in 2022 upon completion of the third milestone. During 2022, the Company received an advance payment of $782 related to fourth milestone project, which was recognized completely during 2023 on completion of the fourth milestone.

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

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

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

SDTC	**December 31, 2023 $**	**December 31, 2022 $**
Balance, beginning of year	1,213	2,366
Completion of third milestone	-	(1,621)
Receipt of prepayment for fourth milestone	-	782
Completion of fourth milestone	(782)	-
Receipt of payment for fifth milestone	1,854	-
Completion of fifth milestone	(1,854)	-
Amortization of equipment cost recovery	(134)	(132)
Recognition of additional funding received in relation to completed milestones	(297)	(182)
Balance, end of year	**-**	**1,213**

JGF Program

As disclosed in note 10, the Company entered into an agreement with Pacific Economic Development Canada and received its JGF Program funding in two tranches of $4,863 and $ 1,107 during the year ended December 31, 2022. The loan was valued at $3,070 and $ 652 respectively on the payment receipt date of each tranche with the discount of $1,793 and $ 455 respectively being recorded as deferred cost recovery. During the year ended December 31, 2023, the Company received an aggregate of $2,884 for the third and fourth tranche and recorded an aggregate discount of $1,106 as deferred cost recovery. During the year ended December 31, 2023, the Company recognized an aggregate of $469 as cost recovery for operating expenses incurred and usage of the property, plant and equipment acquired (year ended December 31, 2022 – $631), with the remaining recovery to be recognized over the life of the property, plant and equipment acquired with such funds.

The following table presents the changes in the balance of the Company's JGF Program deferred recoveries for the year ended December 31, 2023 and December 31, 2022:

JGF Program	**December 31, 2023 $**	**December 31, 2022 $**
Balance, beginning of year	1,617	-
Deferred recovery for third and fourth tranche	1,106	2,248
Costs recovery	(469)	(631)
Balance, end of year	**2,254**	**1,617**

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

Shanghai Jiading Industrial Zone

During 2021, the Company, through its subsidiary Loop Energy Technologies (Shanghai) Co. Ltd, entered into a lease agreement for an additional premise through December 31, 2027 (which included the expected exercise of a three-year extension option by the Company, that the Company no longer expects to exercise). As part of the agreement, Shanghai Jiading Industrial Zone Economic Development Co., Ltd., a government entity, will reimburse the Company for the lease cost through 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 were 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. As at September 30, 2023, the Company had decided to shut down production in China and does not expect to receive further subsidy under the program. Accordingly, the Company reduced the government subsidy receivable to nil (note 5) and adjusted deferred recovery to reflect amounts to be potentially repaid to the government. Subsequent to December 31, 2023, the Company executed a termination agreement with the landlord and government entity, relieving all parties from any obligations towards the other party with respect to unpaid rent, subsidy receivable and repayment of subsidy.

12. Finance expense:

	Year ended December 31	
	2023	**2022**
	$	**$**
Accretion of long-term debt (note 10)	522	139
Finance expense – lease liabilities (note 9)	333	255
Total	**855**	**394**

13. Warranty provision:

	December 31, 2023 $	December 31, 2022 $
Balance, beginning of period	557	305
Provisions made during the period, net	214	252
Balance, end of period	**771**	**557**
Current portion	322	184
Non-current portion	449	373
Long-term portion	**771**	**557**

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

For the year ended December 31, 2023, the Company recorded warranty provisions of $338, and incurred $124 in related expenses (December 31, 2022 $419 and $167 respectively) for a net increase to the provision of $214.

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

14. Share capital:

The Company has unlimited authorized common shares without par value.

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

	Number of Warrants #	Weighted Average Exercise Price $
Balance, December 31, 2021	381,167	13.46
Expired	314,500	16.00
Balance, December 31, 2022	66,667	1.50
Expired	-	-
Balance, December 31, 2023	**66,667**	**1.50**

As at December 31, 2023, warrants outstanding enabling holders to acquire common shares are as follows:

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

The outstanding warrants expired unexercised subsequent to December 31, 2023.

15. Share-based payments:

The Company has a long-term incentive plan (the "Plan") to provide incentives to its officers, directors, employees and certain non-employees. Under the Plan, the Company has reserved up to 10% of the issued and outstanding common shares of the Company to be issued. The Plan allows for the grant of stock options, deferred share units, restricted share units ("RSUs"), performance share units and other share-based awards. As at December 31, 2023, the Company had only granted stock options and RSUs under the Plan.

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

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

(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 under the Company's stock option plan:

	Number of Stock Options #	**Weighted Average Exercise Price $**
Balance, December 31, 2021	2,822,921	2.53
Forfeited	(79,167)	1.89
Exercised	(611,667)	0.89
Granted	-	-
Expired	(13,399)	16.00
Balance, December 31, 2022	2,118,688	2.85
Forfeited	(40,664)	10.27
Exercised	(183,333)	0.74
Granted	-	-
Expired	(387,881)	1.26
Balance, December 31, 2023	**1,506,810**	**3.32**
Exercisable, December 31, 2023	**1,443,115**	**2.81**

The weighted average share price on the date of exercise for options exercised during the year ended December 31, 2023 was $1.00 (2022 - $2.33). Subsequent to December 31, 2023, 809,165 stock options were forfeited.

As at December 31, 2023, 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	1,038,957	2.53	0.94	1,038,957	0.94
1.50 – 2.40	234,165	6.00	2.15	233,982	2.15
12.98 – 16.00	233,688	5.39	15.07	170,176	15.15
	1,506,810	**3.51**	**3.32**	**1,443,115**	**2.81**

During the year ended December 31, 2022, 323,334 stock options with an exercise price of $0.99 were exercised by a former employee and shareholder via a short-term loan payable by December 31, 2022 and secured by 290,000 common shares which were issued and held by the Company. For accounting purposes, the 290,000 common shares held by the Company were treated as treasury shares until the loan was settled in December 2022, which resulted in cancellation of 266,857 common shares and issuance of 23,143 common shares to the former employee.

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

RSUs:

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

	Number of RSUs #
Balance, December 31, 2021	197,238
Granted	823,637
Forfeited	(330,939)
Vested	(14,583)
Balance, December 31, 2022	675,353
Forfeited	(125,952)
Vested	(306,189)
Granted	883,245
Balance, December 31, 2023	**1,126,457**

During the year ended December 31, 2023, the Company granted restricted share unit compensation awards to certain officers, directors and employees, with respect to 883,245 RSUs (year ended December 31, 2022 – 823,637 RSUs), with an aggregate grant date fair value of $521 (year ended December 31, 2022 - $2,245). Each RSU 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 and the Company intends to settle the RSUs with common shares issued from treasury, net of applicable withholding tax. Subsequent to December 31, 2023, 446,843 RSUs were forfeited.

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

	Year ended December 31, 2023 $	**2022 $**
Engineering	149	417
General and administrative	763	874
Business development	158	411
Technology development	21	27
	1,091	**1,729**

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 year ended December 31, 2023 all relate to goods transferred at a point in time and all of the Company's revenues relate to revenue from contracts with customers.

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

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

	Year ended December 31, 2023 $	2022 $
Europe	992	2,620
Asia-Pacific (excluding China)	127	333
North America	399	316
Australia	560	-
China	26	59
	2,104	3,328

During the year ended December 31, 2023, the Company had fifteen customers contributing to consolidated revenues from contracts with customer, of which, the top three provided for revenues of 27%, 23% and 14%, respectively. The balance of 36% of revenue was provided by remaining customers individually contributing 6% or less. During the year ended December 31, 2022 the Company's three largest customers provided for revenues of 70%, 7% and 5% respectively.

17. 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 to the Company's statutory rates in Canada is as follows:

	Year ended December 31, 2023 $	2022 $
Net loss for the year, before tax	(34,155)	(37,487)
Statutory rate	27%	27%
Recovery of income taxes based on statutory tax rates	(9,222)	(10,121)
Differences in tax rates and change in tax rates	(113)	(64)
Permanent differences	499	603
Changes in unrecognized deductible temporary differences	8,836	9,582
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 deductible temporary tax differences are as follows:

	December 31, 2023 $	December 31, 2022 $
Equipment and leaseholds	4,569	859
Long-term debt	(378)	265
SR&ED pools and credits	14,880	4,378
Financing fees	3,196	4,905
Lease liabilities	3,405	3,736
Non-capital losses	91,712	78,357
Investment in joint venture	750	750
Accrued liabilities	-	-
Unrecognized deductible temporary tax differences	118,134	93,250

At December 31, 2023, the Company has Canadian non-capital losses of $84,472 (December 31, 2022 - $74,146) 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 2043. The Company has non-capital losses in China of $7,240 (December 31, 2022 - $4,211) that can be carried over a period of up to five years and expire between 2026 and 2028. Additionally, as at December 31, 2023, the Company had SR&ED expenditure pools of approximately $13,601 (December 31, 2022 - $4,378) which do not expire.

Prior to becoming a public company in February 2021, SR&ED tax credits were refundable to the Company and recorded as a tax credit receivable. During the year ended December 31, 2022, the Company received payment of $1,303 in relation to its SR&ED tax receivable and the Company recorded a reduction to its previously estimated tax credit receivables resulting in an expense for the period of $113.

18. Related party transactions:

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are under common control or controlled by related parties. Transactions were incurred in the normal course of business and are recorded at amounts agreed upon by the related parties.

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

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

Key management personnel compensation:

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

	Year ended December 31, 2023 $	2022 $
Salaries and benefits[1]	1,613	1,696
Share-based payments	837	1,208
Director fees	299	161
	2,749	3,065

[1] During the year ended December 31, 2023, $31 of salaries and benefits were settled with RSUs.

19. Employee remuneration:

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

	Year ended December 31, 2023 $	2022 $
Cost of Sales	419	1,284
Engineering	5,458	6,987
General and administrative	3,118	4,735
Business development	2,713	3,255
Technology development	378	432
Total	12,086	16,693

20. Supplemental cash flow information:

The changes in non-cash working capital and other items related to operating activities for the years ended December 31, 2023 and 2022 are as follows:

	Year ended December 31, 2023 $	2022 $
Accounts receivable	3,894	(1,277)
Tax credit receivable	-	1,303
Inventory	(4,291)	(9,337)
Prepaid expenses and advances	1,224	4,503
Accounts payable and accrued liabilities	(1,339)	587
Deferred revenues and recoveries	(1,907)	(2,408)
Warranty provision	214	252
Total	(2,205)	(6,377)

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

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

The following table presents the change in the balance of long-term debt arising from financing activities for the years ended December 31, 2023 and 2022:

	December 31, 2023 $	December 31, 2022 $
Balance, beginning of year	4,103	394
Proceeds from long-term debt	2,884	5,970
Fair value discount on long-term debt	(1,106)	(2,248)
Repayment of long-term debt	(152)	(152)
Accretion of long-term debt (note 12)	522	139
Balance, end of year	**6,251**	**4,103**

21. Financial instruments and risk:

Fair value

The carrying value of cash and cash equivalents, accounts receivable, advances and accounts payable and accrued liabilities as at December 31, 2023 approximates their fair value given their short-term nature or the discount rates used in assessing the fair value. The fair value of long-term debt at December 31, 2023 was less than its carrying value by $312 as a result of change in discount rate.

Fair value hierarchical levels

The Company does not have any financial instruments measured at fair value in the consolidated statements of financial position and therefore there were no transfers between the levels of the fair value hierarchy during the year ended December 31, 2023 and 2022. 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 year ended December 31, 2023 and 2022.

Financial Risk Management and Capital 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 $3.1 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 worthy financial institutions and thus credit risk 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 periodically 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)

For the year ended December 31, 2023, the Company's largest customer accounted for approximately 27% of sales and the second largest accounted for 23% of sales.

At December 31, 2023, excluding a $935 historic aged receivable fully provided for in the preceding year, two customers accounted for 98% of the remaining customer receivable (December 31, 2022 – one customer accounted for 87%). At December 31, 2023, the Company has $77 in receivables which are current, $18 in receivables 0-90 days past due and $866 of outstanding customer receivables more than 120 days past due for which an allowance for credit loss of $866 has been recorded.

The Company attempts to limit its exposure to credit risk from accounts receivables by contracting prepayments 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's intent is to maintain sufficient financial liquidity to be able to meet its current operating requirements (see note 2, Going Concern). The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. As at December 31, 2023, the Company had working capital, being current assets less current liabilities, of $385. This working capital and the subsequent funding of $2.0 million related to merger transaction as disclosed in note 23 are expected to be sufficient to fund operations (with the implementation of the operating cost reduction program) up to the close of merger transaction.

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, 2023:

	Carrying amount $	Contractual cash flows $	Within 1 year $	1 to 3 years $	thereafter $
Accounts payable and accrued liabilities	2,615	2,615	2,615	-	-
Lease liabilities	3,405	4,094	1,218	1,609	1,267
Long-term debt	6,251	9,029	175	3,099	5,755
	12,271	**15,738**	**4,008**	**4,708**	**7,022**

In addition, as at December 31, 2023, the Company had committed to the following obligations that were not recognized as liabilities:

	Contractual cash flows $	Within 1 year $	1 to 3 years $	thereafter $
Property, plant and equipment	46	46	-	-
	46	**46**	**-**	**-**

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

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.

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, 2023:

			31-Dec-23			
	USD	**EUR**	**RMB**	**GBP**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Financial assets						
Current assets	1,058	-	-	-	-	1,058
Non-current assets	-	-	-	-	-	-
Total	**1,058**	**-**	**-**	**-**	**-**	**1,058**
Financial liabilities						
Current liabilities	87	107	884	70	-	1,148
Non-current liabilities	-	-	-	120	-	120
Total	**87**	**107**	**884**	**190**	**-**	**1,268**

			31-Dec-22			
	USD	**EUR**	**RMB**	**GBP**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Financial assets						
Current assets	2,239	445	442	1	512	3,639
Non-current assets	-	-	239	-	-	239
Total	**2,239**	**445**	**681**	**1**	**512**	**3,878**
Financial liabilities						
Current liabilities	483	76	1,021	75	-	1,655
Non-current liabilities	-	-	636	184	-	820
Total	**483**	**76**	**1,657**	**259**	**-**	**2,475**

Based on financial assets and liabilities held on December 31, 2023, a 10% increase in the United States dollar relative to the Canadian dollar, with all other variables held constant, would result in an increase in foreign exchange gains(loss) of approximately $97 recorded against net loss (December 31, 2022 - $175). If the United States dollar weakened 10% against the Canadian dollar, there would be an equal, and opposite impact, on net income. A 10% increase or decrease in other currencies noted above would not significantly impact net loss. This sensitivity analysis includes foreign currency denominated monetary items, and adjusts their translation at year-end, for a 10% change in foreign currency rates.

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.

Capital management:
As at December 31, 2023, the capital structure of the Company consists of $12.6 million (December 31, 2022 - $43.6 million) in shareholders' equity and debt. In accordance with the terms of the JGF Program (note 10), the Company shall not pay any distribution of retained earnings to shareholders until the loan contribution has been repaid in full.

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. The Company manages its capital to ensure as far as possible that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity given the assumed risks of its operations. 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.

The Company manages capital through its operating and financial budgeting and forecasting processes on a regular basis. The Company reviews its working capital and prepares future cash flow forecasts which are reviewed and approved by the Board of Directors. The Company continually makes strategic and financial updates to both capital expenditure and operational budgets in order to adapt to changes in risk factors, proposed expenditure programs and market conditions.

There were no changes to the Company's approach to capital management during the year ended December 31, 2023.

22. Contingencies

A contractor has filed an arbitration case in Shanghai against Loop Energy Technologies (Shanghai) Co., Ltd. ("Loop Shanghai") for RMB 7.6 million ($1.4 million) claiming additional costs associated with leasehold improvements above the contracted price. Loop Shanghai has initiated a counter claim for RMB 4.1 million ($0.8 million) for work not completed, penalties for late delivery and quality issues. Management's assessment is that the basis for the claim has no merit and the Company intends to vigorously defend itself with respect to the claims made. No provision has been made in these financial statements with respect to the claims as Management does not consider that there is any probable loss. The results of the arbitration are not expected for another two to six months.

23. Subsequent Event

In addition to subsequent events mentioned in notes 10, 11, 14 and 15, the Company had following subsequent events after December 31, 2023:

Merger Transaction with H2 Portable Power Corp Inc.

On February 12, 2024 the Company announced that it has entered into an amalgamation agreement dated February 9, 2024 with H2 Portable Power Corp Inc. ("H2P"), pursuant to which H2P will amalgamate (the "Amalgamation") with a subsidiary of the Company, the Company will acquire all of the issued and outstanding common shares of H2P (the "H2P Shares"), and H2P shareholders will receive common shares of the Company (the "Transaction").

The Amalgamation will be carried out under the terms of the Business Corporations Act (British Columbia). The shareholders of H2P will control the Company upon completion of the Transaction, which will be accounted for as a reverse takeover.

Conditions to completion of the Transaction include: (a) approval of the Amalgamation by the shareholders of both the Company and H2P; (b) approval of the TSX; (c) approval of the Minister responsible for Pacific Economic Development Canada; (d) there being no material adverse changes in respect of either the Company or H2P; and, (e) other standard conditions of closing for a transaction of this nature. There can be no assurance that all of the necessary approvals will be obtained or that all conditions of closing will be satisfied in which event the Transaction may not proceed.

The Amalgamation agreement contains customary deal-protection provisions including non-solicitation covenants, a fiduciary out, a right to match, and a break fee payable to H2P under certain circumstances.

In addition, subsequent to above announcement, H2P has provided the Company with $2,000 in funding through a prepayment deposit associated with a purchase order of $500 for inventory of Loop and a further $1,500 in the form an unsecured bridge loan with interest charged at the Royal Bank of Canada prime lending rate. Should the merger transaction not be completed, the bridge loan becomes due and payable the fifth day following the termination of the Amalgamation agreement.

As part of the above merger transaction, the Company incorporated a wholly owned subsidiary 1465123 B.C. Ltd to affect the Amalgamation.