Unaudited Interim Condensed Consolidated Financial Statements of

LOOP ENERGY INC.

(Expressed in thousands of Canadian dollars)

As at June 30, 2023 and for the three and six months ended June 30, 2023 and 2022

LOOP ENERGY INC.

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

	As at June 30, 2023 $	As at December 31, 2022 $
ASSETS		
Current assets:		
Cash and cash equivalents	9,927	24,524
Accounts receivable (note 3)	1,661	3,842
Inventory (note 4)	5,255	4,288
Prepaid expenses and advances	2,555	2,001
Total current assets	19,398	34,655
Non-current assets		
Accounts receivable (note 3)	122	239
Property, plant and equipment (note 5)	23,054	20,344
Total non-current assets	23,176	20,583
Total assets	42,574	55,238
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	4,641	3,939
Current portion of lease liabilities (note 7)	1,214	972
Current portion of long-term debt (note 8)	175	175
Deferred revenue and recoveries (note 9)	447	1,656
Warranty provision (note 11)	281	184
Total current liabilities	6,758	6,926
Non-current liabilities		
Lease liabilities (note 7)	3,092	2,764
Long-term debt (note 8)	5,347	3,928
Deferred revenue and recoveries (note 9)	2,324	1,737
Warranty provision (note 11)	410	373
Total non-current liabilities	11,173	8,802
Total liabilities	17,931	15,728
Shareholders' equity:		
Common shares (note 12)	127,591	126,828
Share-based payment reserve	7,954	7,966
Deficit	(110,784)	(95,284)
Foreign currency reserve	(118)	-
Total shareholders' equity	24,643	39,510
Total liabilities and equity	42,574	55,238

Commitments (note 18)

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

LOOP ENERGY INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2023 $	2022 $	2023 $	2022 $
Revenues (note 14)	334	1,065	1,237	1,243
Cost of sales (note 4)				
Cost of goods sold	1,335	3,685	3,786	4,478
Change in allowance for inventory write-down	1,662	(159)	3,061	1,047
Gross margin	(2,663)	(2,461)	(5,610)	(4,282)
Expenses:				
General and administrative	1,971	2,633	4,327	5,031
Engineering	2,381	3,168	5,870	5,761
Business development	998	1,643	2,324	2,395
Technology development	254	215	513	642
	5,604	7,659	13,034	13,829
Cost recoveries:				
Research and development tax credits	-	87	-	87
SDTC and JGF Program (note 9)	(112)	(34)	(3,197)	(66)
Other grants	(76)	-	(113)	(11)
	(188)	53	(3,310)	10
Operating expenses	5,416	7,712	9,724	13,839
Loss before the undernoted	(8,079)	(10,173)	(15,334)	(18,121)
Other income (expenses):				
Foreign currency exchange income	(75)	159	(94)	36
Interest income	130	154	302	240
Finance expense (note 10)	(193)	(63)	(374)	(125)
Net loss	(8,217)	(9,923)	(15,500)	(17,970)
Other comprehensive loss:				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences	(178)	(141)	(118)	(158)
Total comprehensive loss	(8,395)	(10,064)	(15,618)	(18,128)
Loss per common share – basic and diluted	(0.24)	(0.29)	(0.45)	(0.53)
Weighted average number of common shares outstanding	34,278,591	33,708,307	34,181,796	33,686,424

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

LOOP ENERGY INC.

Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
(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 13)	428,334	207	(81)	-		126
Share-based payments (note 13)	-	-	1,036	-	-	1,036
Net loss	-	-	-	(17,970)	-	(17,970)
Other comprehensive loss:						
Foreign currency translation	-	-	-	-	(158)	(158)
Balance, June 30, 2022	34,077,648	126,517	7,511	(75,767)	(72)	58,189
Balance December 31, 2022	34,005,791	126,828	7,966	(95,284)	-	39,510
Exercise of stock options (note 13)	183,333	217	(81)	-	-	136
Shares issued on RSU redemption	182,590	546	(582)	-	-	(36)
Share-based payments (note 13)	-	-	651	-	-	651
Net loss	-	-	-	(15,550)	-	(15,550)
Other comprehensive loss:						
Foreign currency translation	-	-	-	-	(118)	(118)
Balance, June 30, 2023	34,371,714	127,591	7,954	(110,784)	(118)	24,643

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

LOOP ENERGY INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
	$	$	$	$
Operating activities				
Net loss	(8,217)	(9,923)	(15,500)	(17,970)
Items not affecting cash:				
Depreciation (note 5)	767	372	1,420	703
Finance expense (note 10)	193	63	374	125
Inventory write-down (note 4)	1,696	1,509	4,004	2,885
Share-based payments (note 13)	407	581	682	1,036
Other	46	(2)	(42)	(21)
Changes in non-cash working capital and other items, net (note 17)	1,645	(3,254)	(3,412)	(5,251)
Net cash flows used in operating activities	(3,463)	(10,654)	(12,474)	(18,493)
Investing activities				
Purchase of property, plant and equipment (note 5)	(1,466)	(1,549)	(3,858)	(4,823)
Proceeds from disposition of assets	34	8	34	8
Net cash flows used in investing activities	(1,432)	(1,541)	(3,824)	(4,815)
Financing activities				
Net proceeds from exercise of stock options (note 13)	-	71	136	91
Proceeds from long-term debt (note 8)	2,075	-	2,075	-
Repayment of long-term debt (note 8)	(38)	(38)	(76)	(76)
Lease payments (note 7)	(192)	(132)	(381)	(301)
Net cash flows used in financing activities	1,845	(99)	1,754	(286)
Cash and cash equivalents				
Change during the period	(3,050)	(12,294)	(14,544)	(23,594)
Impact of foreign exchange on cash and cash	(186)	(111)	(53)	(111)
Cash and cash equivalents, beginning of the period	13,163	55,730	24,524	67,030
Cash and cash equivalents, end of period	9,927	43,325	9,927	43,325

Supplemental cash flow information (note 17)

The accompanying notes are an integral part of the unaudited interim condensed 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 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 660 - 2700 Production Way, Burnaby, BC, V5A 4V7.

2. Basis of presentation:

Statement of compliance:
These interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounts Standards ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Company's consolidated financial statements as at and for the year ended December 31, 2022.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company on August 1, 2023.

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

Going Concern:
These interim condensed 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 $15,500 for the six months ended June 30, 2023 (June 30, 2022 - $17,970) and had negative cash flows from operations of $12,474 (six months ended June 30, 2022 - $18,493). The Company expects to incur further losses in the development of its business and forecasts that it will need to seek additional financing within the next year 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 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. As at June 30, 2023, the Company has working capital, being current assets less current liabilities, of $12,640.

These unaudited interim condensed 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.

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

Functional and presentation currency:

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

Basis of consolidation:

The unaudited interim condensed 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 unaudited interim condensed consolidated financial statements and unrealized gains or losses on transactions are eliminated upon consolidation.

Subsidiaries:

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

Estimation uncertainty

The significant estimates and judgments used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the Company's annual consolidated financial statements as at and for the year ended December 31, 2022. Actual results may differ from these estimates.

Material accounting policies:

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

The Company operates in one segment and as at June 30, 2023 $18,692 of the Company's non-current assets are located in Canada and $4,484 are located in China.

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the Company's annual consolidated financial statements as at and for the year ended December 31, 2022.

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

3. Accounts receivable:

	June 30, 2023 $	December 31, 2022 $
Customer receivables	1,010	2,086
GST receivable and other	215	1,399
Government grant receivable (note 9)	558	596
Accounts receivable	**1,783**	**4,081**
Current portion	1,661	3,842
Non-current portion	122	239
	1,783	**4,081**

Customer receivables are recorded, net of an allowance for an expected credit loss of $1,270 (December 31, 2022 - $935), with credit losses recorded in general and administrative expenses.

4. Inventory:

	June 30, 2023 $	December 31, 2022 $
Raw materials	4,090	2,807
Work-in-progress	102	-
Finished goods	1,063	1,481
Inventory	**5,255**	**4,288**

As at June 30, 2023, inventory is presented net of an allowance for write-downs of $8,004 (December 31, 2022 - $4,943).

During the three and six months ended June 30, 2023, the Company recorded a total of $1,696 and $4,004 respectively, in write-downs of its inventory to its net realizable value (three and six months ended June 30, 2022 – $1,509 and $2,885, respectively).

Cost of sales for the three and six months ended June 30, 2023 (compared to three and six months ended June 30, 2022) comprised of the cost of inventories recognized as an expense of $860 and $2,701 (2022 - $3,127 and $3,454), overheads of $304 and $827 (2022 - $385 and $817), warranty costs of $171and $258 (2022 - $173 and $207), and the change in allowance for write-downs of inventory of $1,662 and $3,061 (2022 - ($159) and $1,047), respectively.

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

5. Property, plant and equipment:

	Equipment $	Leasehold improvements $	Computer hardware $	Computer software $	Right-of-use assets $	Total $
Cost						
Balance, December 31, 2022	**14,034**	**5,427**	**789**	**434**	**4,707**	**25,391**
Additions	2,819	1,136	2	-	955	4,912
Disposals	-	(36)	-	-	`	(36)
Effect of movements in foreign exchange rates	(144)	(132)	(18)	(2)	(64)	(360)
Balance, June 30, 2023	**16,709**	**6,395**	**773**	**432**	**5,598**	**29,907**
Accumulated depreciation						
Balance, December 31, 2022	**1,794**	**1,383**	**332**	**216**	**1,322**	**5,047**
Depreciation	618	588	146	49	407	1,808
Disposals	-	(2)	-	-	-	(2)
Balance, June 30, 2023	**2,412**	**1,969**	**478**	**265**	**1,729**	**6,853**
Carrying amounts						
December 31, 2022	**12,240**	**4,044**	**457**	**218**	**3,385**	**20,344**
June 30, 2023	**14,297**	**4,426**	**295**	**167**	**3,869**	**23,054**

Included in the cost of equipment is $3.3 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 2023.

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

	Three months ended June 30,		Six months ended June 30,	
	2023 $	2022 $	2023 $	2022 $
Cost of sales	116	127	262	294
Engineering	399	132	637	187
General and administrative	225	82	461	163
Business development	13	13	30	25
Technology development	14	18	30	34
	767	**372**	**1,420**	**703**

At June 30, 2023, $388 (June 30, 2022 - $202) of depreciation expense was recorded in inventory.

6. Accounts payable and accrued liabilities:

	June 30, 2023 $	December 31, 2022 $
Trade payables and accrued expenses	3,327	2,705
Trade and other payables due to related parties (note 15)	-	40
Payroll accruals	1,294	1,194
Others	20	-
Accounts payable and accrued liabilities	**4,641**	**3,939**

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

7. Lease liabilities:

As at June 30, 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% - 11.0% per annum and the leases expire between June 2023 and July 2028.

The following table presents the changes in the balance of the Company's lease related items for which the Company was a lessee for the six months ended June 30, 2023 and the year ended December 31, 2022:

	June 30, 2023 $	**December 31, 2022 $**
Balance, beginning of year	3,736	2,065
Additions	955	2,270
Effect of movements in foreign exchange rates	(64)	(32)
Finance expense (note 10)	160	255
Lease payments[1]	(481)	(822)
Balance, end of period	**4,306**	**3,736**
Current portion	1,214	972
Non-current portion	3,092	2,764
Balance, end of period	**4,306**	**3,736**

1) Includes $100 of payments recorded in accounts payable as at June 30, 2023.

As at June 30, 2023, the undiscounted contractual obligations of the Company's lease liabilities were as follows: 2023: $622; 2024: $1,214; 2025: $994; 2026: $1,015; 2027: $1,010 and $457 thereafter.

8. Long-term debt:

On March 31, 2022, the Company entered into an agreement with Pacific Economic Development Canada for funding, Jobs 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.

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

	June 30, 2023 $	**December 31, 2022 $**
Unsecured loan, maturing December 1, 2024, bearing no interest (a)	205	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)	5,294	3,811
Total long-term debt	5,522	4,103
Less current portion of long-term debt	175	175
Long-term portion	**5,347**	**3,928**

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

(a) During the six months ended June 30, 2023, the Company repaid $77 relating to this long-term debt facility and recorded non-cash finance expenses of $13 (six months ended June 30, 2022 - $26) (note 10) 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 six months ended June 30, 2023, the Company received a third tranche of $2,075. The Company applied an effective interest rate of 12.25% to discount the cash flows of the non-interest-bearing loan. The loan was valued at $1,282 on the payment receipt date. The remaining balance of the loan is classified as deferred revenue and recoveries (note 9). The Company recorded non-cash finance expenses of $108 and $201 during the three and six months ended June 30, 2023, respectively, related to accretion of the associated discount on the loan.

As at June 30, 2023 the contractual maturities of the Company's long-term debt were as follows: 2023: $99; 2024: $152; 2025: $1,207; 2026: $1,609; 2027: $1,609 and $3,620 thereafter.

9. Deferred revenue and recoveries:

	June 30, 2023 $	**December 31, 2022 $**
SDTC	68	1,213
JGF Program	2,212	1,617
Shanghai Industrial Zone Economic Development	491	563
Balance, end of period	**2,771**	**3,393**
Current portion	447	1,656
Non-current portion	2,324	1,737
Balance, end of period	**2,771**	**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 in the three months ended March 31, 2023 on completion of the fourth milestone.

During the three months ended March 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.

(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 SDTC deferred recoveries for the six months ended June 30, 2023 and the year ended December 31, 2022:

SDTC	June 30, 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	(66)	(132)
Recognition of additional funding received in relation to completed milestones	(297)	(182)
Balance, end of period	**68**	**1,213**

JGF Program

As disclosed in Note 8, 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 six months ended June 30, 2023, the Company received a third tranche of $2,075 and recorded a discount of $793 as deferred cost recovery. During the three and six months ended June 30, 2023, the Company recognized an aggregate of $79 and $198 (three and six months ended June 30, 2022 – nil) as cost recovery for operating expenses incurred and usage of the property, plant and equipment acquired, 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 six months ended June 30, 2023:

JGF Program	June 30, 2023 $
Balance, beginning of year	1,617
Deferred revenue for third tranche	793
Costs recovery	(198)
Balance, end of period	**2,212**

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 March 31, 2027 (which includes the expected exercise of a three-year extension option by the Company). As part of the agreement, Shanghai Jiading Industrial Zone Economic Development Co., Ltd., a government entity, will reimburse the Company for the lease cost through March 31, 2024. At the inception of the lease, the total value of the government grant was $684, which the Company has recognized as a deferred recovery, and the future amounts receivable under the lease agreement are recorded in accounts receivable (note 3). The Company has obligations associated with the government grant such that the Company must reach a certain threshold of tax payments by March 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.

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

10. Finance expense:

	Three months ended June 30,		Six months ended June 30	
	2023 $	2022 $	2023 $	2022 $
Accretion of long-term debt (note 8)	111	12	214	26
Finance expense – lease liabilities (note 7)	82	51	160	99
Total	**193**	**63**	**374**	**125**

11. Warranty provision:

	June 30, 2023 $	December 31, 2022 $
Balance, beginning of period	557	305
Provisions made during the period, net	134	252
Balance, end of period	**691**	**557**
Current portion	281	184
Non-current portion	410	373
Long-term portion	**691**	**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 six months ended June 30, 2023, the Company recorded warranty provisions of $258, and incurred $124 in related expenses (June 30, 2022 $190 and $17 respectively).

12. 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. During the six months ended June 30, 2023 there were no transactions with respect to outstanding warrants.

As at June 30, 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

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

13. 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 June 30, 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.

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, 2022	2,118,688	2.85
Forfeited	(32,122)	10.47
Exercised	(183,333)	0.74
Expired	(192,291)	0.75
Balance, June 30, 2023	**1,710,942**	**3.17**
Exercisable, June 30, 2023	**1,602,602**	**2.55**

The weighted average share price on the date of exercise for options exercised during the six months ended June 31, 2023 was $1.00 (December 31, 2022 - $2.33).

During the six months ended June 30, 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 at such time.

(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, 2022	675,353
Forfeited	(69,157)
Vested	(277,964)
Granted	883,245
Balance, June 30, 2023	**1,211,477**

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:

	Three months ended June 30,		**Six months ended June 30,**	
	2023 $	**2022 $**	**2023 $**	**2022 $**
Engineering	54	114	100	191
General and administrative	260	340	427	634
Business development	58	119	111	202
Technology development	4	8	13	9
	376	**581**	**651**	**1,036**

14. Revenues:

The Company's primary source of revenues is the sale of its fuel cells to its customers. The Company's revenues during the six months ended June 30, 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.

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

	Three months ended June 30,		**Six months ended June 30,**	
	2023 $	**2022 $**	**2023 $**	**2022 $**
Europe	104	800	767	877
Asia-Pacific (excluding China)	113	182	113	283
Australia	20	-	260	-
North America	97	83	97	83
	334	1,065	1,237	1,243

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

15. 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 June 30, 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 June 30, 2023, the Company owed to In-Power Loop Energy Technology (Beijing) Co, Ltd $nil in accounts payable and accrued liabilities (December 31, 2022 - $40).

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:

	Three months ended June 30,		Six months ended June 30,	
	2023 $	2022 $	2023 $	2022 $
Salaries and benefits[1]	416	400	948	931
Share-based payments	81	341	313	608
Director fees	99	38	126	76
	596	779	1,387	1,615

1) During the three months ended June 30, 2023, $31 of salaries and benefits were settled with RSUs.

16. Employee remuneration:

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

	Three months ended June 30,		Six months ended June 30,	
	2023 $	2022 $	2023 $	2022 $
Cost of Sales	142	225	496	474
Engineering	1,533	1,732	3,371	3,217
General and administrative	814	1,262	1,784	2,419
Business development	808	1,043	1,768	1,433
Technology development	107	20	243	206
Total	3,404	4,282	7,662	7,749

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

17. Supplemental cash flow information:

The changes in non-cash working capital and other items related to operating activities for the three and six months ended June 30, 2023 and 2022 are as follows:

	Three months ended June 30		Six months ended June 30	
	2023 **$**	**2022** **$**	**2023** **$**	**2022** **$**
Accounts receivable	2,349	(313)	2,233	(683)
Tax credit receivable	-	87	-	87
Inventory	(1,199)	(1,333)	(4,602)	(2,993)
Prepaid expenses and advances	501	(1,173)	(560)	(1,184)
Accounts payable and accrued liabilities	79	(204)	762	(479)
Deferred revenues and recoveries	(132)	(486)	(1,379)	(189)
Warranty provision, net	47	168	134	190
Total	**1,645**	**(3,254)**	**(3,412)**	**(5,251)**

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.

The following table presents the change in the balance of long-term debt arising from financing activities for the six months ended June 30, 2023 and 2022:

	June 30, 2023 **$**	**June 30, 2022** **$**
Balance, beginning of the period	4,103	394
Proceeds from long-term debt	2,075	-
Fair value discount on long-term debt	(793)	-
Repayment of long-term debt	(77)	(75)
Accretion of long-term debt (note 10)	214	26
Balance, end of the period	**5,522**	**345**

18. 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 June 30, 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 was less than its carrying value by $337 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 interim condensed consolidated statements of financial position and therefore there were no transfers between the levels of the fair value hierarchy during the three and six months ended June 30, 2023. Additionally, there were no changes in the Company's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the three and six months ended June 30, 2023.

Capital Management and Financial Risk Management

As at June 30, 2023, the capital structure of the Company consists of $30.2 million (December 31, 2022 - $43.6million) in shareholders' equity and debt. In accordance with the terms of the JGF Program (note 8), that the Company shall not pay any distribution of retained earnings to shareholders until the loan contribution has been repaid in full.

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. The Company considers shareholders' equity and debt as capital. The Company manages capital through its operating and financial budgeting and forecasting processes on a regular basis. The Company reviews its working capital and 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 six months ended June 30, 2023.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company maintains sufficient financial liquidity to be able to meet its current operating requirements. 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 June 30, 2023, the Company had working capital, being current assets less current liabilities, of $12,640.

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.

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

The following contractual maturities of financial obligations (including interest) exist as at June 30, 2023:

	Carrying amount $	Contractual cash flows $	Within 1 year $	1 to 3 years $	thereafter $
Accounts payable and accrued liabilities	4,641	4,641	4,641	-	-
Lease liabilities	4,306	5,312	1,265	2,068	1, 979
Long-term debt	5,522	8,296	175	2,087	6,034
	14,469	**18,249**	**6,081**	**4,155**	**8,013**

In addition, as at June 30, 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	416	416	-	-
	416	**416**	**-**	**-**

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 $11.6 million, represents the Company's maximum exposure to credit risk.

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.

For the six months ended June 30, 2023, the Company's largest customer accounted for approximately 61% of sales and the second largest accounted for 31% (six months ended June 2022 – 66% and 0%, respectively).

At June 30, 2023, excluding a $935 historic aged receivable fully provided for in the preceding year, two customers accounted for 93% of the remaining customer receivable (December 31, 2022 – one customer accounted for 87%). At June 30, 2023, the Company has $84 in receivables 30-120 days past due and $1,261 of outstanding customer receivables more than 120 days past due for which an allowance for credit loss of $335 has been recorded.

There have been no significant developments in the Company's financial risk factors as included in the Company's consolidated financial statements as at end for the year ended December 31, 2022.