

Consolidated Financial Statements of

LOOP ENERGY INC.

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

Years ended December 31, 2020 and 2019



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Loop Energy Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of loss and comprehensive loss for the years ended December 31, 2020 and December 31, 2019
- the consolidated statements of changes in shareholders' equity (deficiency) for the years ended December 31, 2020 and December 31, 2019
- the consolidated statements of changes in cash flows for the years ended December 31, 2020 and December 31, 2019
- and notes, comprising of significant accounting policies and other explanatory information

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2020 and December 31, 2019 in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Evaluation of the Scientific Research and Experimental Development tax credit receivable**Description of the matter**

We draw your attention to Notes 2(f) and 16 to the financial statements. The Entity has recorded a tax credit receivable of \$1,206,784 and a related cost recovery in the statement of loss and comprehensive loss for refundable Scientific Research and Experimental Development ("SR&ED") tax credits.

As a Canadian controlled private corporation at December 31, 2020, the Entity is eligible to claim refundable SR&ED tax credits. The Entity has recorded a SR&ED tax credit receivable and related cost recovery based on its determination of the research and development expenditures that qualify for the refundable credit program. Judgment is required in assessing the qualification of research and development expenditures for SR&ED refundable credits.

Why the matter is a key audit matter

We identified the evaluation of the SR&ED tax credit receivable and related cost recovery as a key audit matter as the amount is material and significant auditor judgment is required to evaluate the Entity's judgments. As a result, specialized skills and knowledge were required in evaluating the Entity's judgements.

How the matter was addressed in the audit

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

We tested the existence and accuracy of a sample of SR&ED expenditures.

We involved a SR&ED tax professional with specialized skills and knowledge who assisted in:

- evaluating the activities carried out by the Entity in relation to the criteria of eligible scientific research and experimental development activities
- evaluating the Entity's judgments as to which research and development expenditures qualify for the refundable credit program.

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants

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

Vancouver, Canada
March 30, 2021

LOOP ENERGY INC.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at December 31, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,200,951	\$ 2,168,047
Accounts receivable (note 4)	542,942	125,159
Tax credit receivable (note 16)	1,206,784	1,224,015
Inventory (note 5)	1,141,738	-
Prepaid expenses and advances	831,630	228,945
	6,924,045	3,746,166
Investment in joint venture (note 6)	230,686	455,644
Right-of-use asset (note 9(a))	285,953	400,334
Equipment and leasehold improvements (note 7)	2,311,100	2,216,042
Deferred financing costs (note 22)	500,000	-
	\$ 10,251,784	\$ 6,818,186
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 2,521,381	\$ 716,618
Current portion of lease liability (note 9(b))	160,213	189,638
Current portion of long-term debt (note 10)	514,992	514,992
Convertible debentures (note 12)	3,577,023	2,849,573
Deferred revenue and recoveries (note 11)	2,213,574	2,000,471
	8,987,183	6,271,292
Long-term debt (note 10)	316,663	327,432
Lease liability (note 9(b))	289,621	399,204
Convertible debentures (note 12)	-	700,274
	9,593,467	7,698,202
Shareholders' equity (deficiency):		
Common shares (note 14)	15,675,495	15,672,209
Preferred shares (note 14)	14,989,712	4,999,982
Reserves	2,770,294	2,303,540
Deficit	(32,777,184)	(23,855,747)
	658,317	(880,016)
	\$ 10,251,784	\$ 6,818,186

Going concern (note 2(b))

Subsequent events (notes 2(b), 12, 15 and 22)

The notes are an integral part of these consolidated financial statements.

LOOP ENERGY INC.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

For the years ended December 31, 2020 and 2019

	2020	2019
Revenue	\$ 546,139	\$ 467,790
Expenses:		
Product development	6,057,306	4,749,509
General and administrative	3,668,370	2,101,922
Business development	362,168	12,055
Technology development	127,727	-
	10,215,571	6,863,486
Less cost recovery:		
Research and development tax credits (note 16)	(1,206,784)	(1,227,992)
Sustainable Development Technology Canada (note 11)	(199,447)	(1,337,069)
Automotive Supplier Innovation Program	(54,083)	-
Other grants	(913)	(2,700)
Net expenses	8,754,344	4,295,725
Loss before the undernoted	(8,208,205)	(3,827,935)
Other income (expenses):		
Loss from investment in joint venture (note 6)	(200,325)	(68,630)
Foreign exchange income (loss)	5,090	(9,673)
Interest income	30,083	9,284
Finance expense (note 13)	(548,080)	(872,221)
Technology license fee (note 6)	-	548,250
Foreign withholding tax paid (note 6)	-	(75,000)
	(713,232)	(467,990)
Loss before income taxes	(8,921,437)	(4,295,925)
Deferred income tax recovery (note 16)	-	6,458
Loss and comprehensive loss	\$ (8,921,437)	\$ (4,289,467)
Loss per common share – basic and diluted	\$ (0.50)	\$ (0.25)
Weighted average number of common shares outstanding	17,982,780	17,498,769

The notes are an integral part of these consolidated financial statements.

LOOP ENERGY INC.

Consolidated Statement of Changes in Shareholders' Equity (Deficiency) (Expressed in Canadian dollars)

	Common shares	Preferred shares	Reserves	Deficit	Total shareholders' equity (deficiency)
Balance December 31, 2018	\$13,290,298	\$ -	\$ 2,014,879	\$ (19,566,280)	\$ (4,261,103)
Issuance of common shares, net of costs	2,262,961	-	-	-	2,262,961
Issuance of preferred shares, net of costs	-	4,999,982	-	-	4,999,982
Exercise of stock options	56,350	-	-	-	56,350
Settlement of long-term debt	62,600	-	-	-	62,600
Issuance of convertible debentures, net of deferred tax of \$6,458	-	-	17,461	-	17,461
Issuance of warrants	-	-	56,114	-	56,114
Share-based payments	-	-	215,086	-	215,086
Loss for the year	-	-	-	(4,289,467)	(4,289,467)
Balance, December 31, 2019	15,672,209	4,999,982	2,303,540	(23,855,747)	(880,016)
Issuance of preferred shares, net of costs	-	9,989,730	-	-	9,989,730
Exercise of stock options	3,286	-	(1,411)	-	1,875
Share-based payments	-	-	468,165	-	468,165
Loss for the year	-	-	-	(8,921,437)	(8,921,437)
Balance, December 31, 2020	\$15,675,495	\$ 14,989,712	\$ 2,770,294	\$ (32,777,184)	\$ 658,317

The notes are an integral part of these consolidated financial statements.

LOOP ENERGY INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Loss for the year	\$ (8,921,437)	\$ (4,289,467)
Items not affecting cash:		
Depreciation	735,241	431,763
Finance expense	548,080	872,221
Loss from investment in joint venture	200,325	68,630
Inventory write-down (note 5)	751,420	-
Share-based payments	468,165	215,086
Unrealized foreign exchange	(19,886)	23,976
Joint venture eliminations (note 6)	44,520	201,750
Deferred income tax recovery	-	(6,458)
	(6,193,572)	(2,482,499)
Changes in non-cash working capital items:		
Accounts receivable	(417,783)	(77,491)
Tax credit receivable	17,231	125,985
Prepaid expenses and advances	(602,685)	(76,983)
Inventory	(1,893,158)	-
Deferred financing fees	(500,000)	-
Accounts payable and accrued liabilities	1,701,063	(190,146)
Deferred revenue and recoveries	213,103	129,845
Cash used in operating activities	(7,675,801)	(2,571,289)
Cash flows from investing activities		
Purchase of equipment and leasehold improvements	(715,918)	(941,989)
Investment in joint venture	-	(750,000)
Cash used in investing activities	(715,918)	(1,691,989)
Cash flows from financing activities		
Proceeds from convertible debentures, net of issuance costs	-	689,061
Issuance of common shares, net of share issuance costs	-	2,319,311
Issuance of preferred shares, net of share issuance costs	9,989,730	4,999,982
Exercise of stock options	1,875	-
Proceeds from long-term debt	-	750,000
Repayment of long-term debt	(37,999)	(1,624,000)
Interest paid	(328,796)	(519,716)
Lease payments	(200,187)	(193,284)
Cash provided by financing activities	9,424,623	6,421,354
Change in cash and cash equivalents	1,032,904	2,158,076
Cash and cash equivalents, beginning of the year	2,168,047	9,971
Cash and cash equivalents, end of the year	\$ 3,200,951	\$ 2,168,047
Supplemental schedule of non-cash activities		
Issuance of common shares for debt	\$ -	\$ 62,600

The notes are an integral part of these consolidated financial statements.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

1. General information:

Loop Energy Inc. (the "Company") was incorporated under the laws of British Columbia on August 9, 2012. The address of the Company's registered office is 2900 - 550 Burrard Street, Vancouver, BC, V6C 0A3. The address of the Company's head office is 2880 Production Way, Burnaby, BC, V5A 4T6. The Company primarily is involved in the development of fuel cell technology.

On February 25, 2021, the Company completed a share consolidation on the basis of 1 new common share for every 3 pre-consolidation common shares. All share and per share information have been amended retrospectively to reflect the share consolidation. Concurrently, the Company began trading on the Toronto Stock Exchange under the symbol "LPEN" (note 22).

2. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were authorized for issue by the Board of Directors on March 30, 2021.

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

(b) 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 has been focused on product development with minimal commercial sales activity to date. As a result, the Company has experienced significant losses in past years resulting in a working capital deficiency of \$2,063,138 and an accumulated deficit of \$32,777,184 at December 31, 2020 and has experienced significant negative cash flow from operations. The Company has been reliant on support from shareholders and investors, Scientific Research and Experimental Development ("SR&ED") tax credit refunds and other government funding. Subsequent to December 31, 2020, the Company completed a \$100 million financing and had all of its convertible debt converted to common shares which has eliminated the working capital deficiency and will provide sufficient funds to execute an operating plan beyond the end of the next year (note 22).

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

2. Basis of presentation (continued):

(b) Going concern (continued):

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy, capital markets and our business are not known at this time. These impacts could include the ability of the Company to raise capital, the impairment in the value of our long-lived assets, or potential future decreases in revenue or the profitability of our ongoing and future operations.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values and classification of assets and liabilities.

(c) Basis of measurement and presentation:

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

(d) Functional and presentation currency:

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

(e) Basis of consolidation:

The consolidated financial statements comprise the accounts of Loop Energy Inc., the parent company, and its wholly-owned subsidiary, 1123640 B.C. Ltd., after the elimination of all material intercompany balances and transactions. Subsidiaries are all entities over which the Company has exposure to variable returns from its involvement and has the ability to use power over the investee to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases.

The accounts of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Inter-company transactions, balances and unrealized gains or losses on transactions are eliminated upon consolidation.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

2. Basis of presentation (continued):

(f) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

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 and in any future periods affected.

Information on significant areas of uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements relate to the determination of share-based payments (note 15), the valuation of convertible debentures (note 12), and carrying value of inventory (note 5).

The key areas of judgment applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying value of assets and liabilities are as follows:

Recoverability of the carrying value of the Company's joint venture investment

The fair value of the Company's joint venture investment (note 6) requires management to determine whether there are any indications of impairment. Management evaluates the legal standing of the underlying assets of the investment and reviews the progress and development of the underlying assets in the period when making the assessment of whether there are indications of impairment for the investment.

Research and development

The Company must assess on an ongoing basis whether expenditures qualify as intangible assets under IAS 38 *Intangible Assets*. No such costs have been capitalized as at December 31, 2020. Further judgment is required in assessing the qualification of research and development expenditures for determining SR&ED tax credits receivable (note 16).

Performance obligations in revenue contracts

The recognition of revenues upon completion of performance obligations requires the Company to make an assessment of criteria under its revenue recognition policy.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

2. Basis of presentation (continued):

- (f) Use of estimates and judgments (continued):

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operational expenditures and to meet its liabilities for the ensuing year, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances (see note 2(b)).

3. Significant accounting policies:

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

- (a) Cash equivalents

Cash equivalents consist of a cashable guaranteed investment certificate that is readily convertible into a known amount of cash within 90 days or less.

- (b) Investment in joint venture:

The Company accounts for its investment in associate enterprises and joint ventures using the equity method. The investment is initially recognized at cost and subsequently adjusted to account for the Company's share of net income (loss) reported by the joint venture entity. Dividends declared by the joint venture is recognized as a reduction of the investment. At the end of each annual reporting period, the Company determines whether there are indications that an investment may be impaired. When there is an indication of impairment, and the Company determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows, a write-down is recognized in income. If the indicators of impairment have decreased or no longer exist, the previously recognized impairment loss may be reversed to the extent of the improvement. The adjusted carrying amount of the investment may not be greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in income.

- (c) Inventory

Inventory consists of raw materials, work in process and finished goods and is stated at the lower of cost or net realizable value. The Company evaluates the valuation of inventory by evaluating estimated demand, inventory on hand, anticipated sales and other information and reduces inventory to its 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.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

3. Significant accounting policies (continued):

(d) Equipment and leasehold improvements:

(i) Recognition and measurement:

Items of equipment and leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset, including the costs of dismantling and removing the items and restoring the site on which they are located at the end of the life of the equipment and leasehold improvements, and borrowing costs on qualifying assets.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

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

(ii) Subsequent costs:

The cost of replacing a part of an item of equipment and leasehold improvements is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are expensed as incurred.

(iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of equipment and leasehold improvements, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

3. Significant accounting policies (continued):

(d) Equipment and leasehold improvements (continued):

(i) Depreciation (continued):

The estimated useful lives 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, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

(e) Intangible assets:

Research and development:

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are expensed as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. None of the Company's development expenditures to date have met these criteria.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

3. Significant accounting policies (continued):

(f) Leases:

At inception of a contract, the Company assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has the right to control an identified asset if it obtains substantially all of its economic benefits and either pre-determines or directs how and for what purpose the asset is used.

The Company recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use assets are initially measured at the 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.

The right-of-use assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is 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. Lease payments included in the measurement of the lease obligation, 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.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

3. Significant accounting policies (continued):

(h) Revenue recognition:

Revenue is recognized in profit or loss in accordance with the pattern of the Company satisfying its performance obligations under a contract. This occurs when control of a good is transferred, or service provided, to the customer as follows:

- (i) Sale of goods is included in income when the product transfers to the customer, the customer has obtained the significant risks and rewards of ownership and the customer has accepted the good. Provisions for future services including warranty are deferred and amortized to income over the warranty period.
- (ii) Technology license fees that are distinct from other performance obligations are included in income when the license and related rights are transferred to the customer, if the customer can direct the use of, and obtain substantially all of the remaining benefits from, the license as it exists at the time of transfer. If it is determined that the license is not distinct from other performance obligations, revenue is recognized over time as the customer simultaneously receives and consumes the benefit over the licensing period.
- (iii) Other revenue including provision of ancillary services are recognized when a sale is made or a service has been provided.

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

(i) Government grants:

Government grants are recognized initially as deferred recoveries at fair value when there is reasonable assurance that they will be received, and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognized in profit or loss as a cost recovery on a systematic basis in the periods in which the expenses are recognized and/or when the related project is agreed to be complete. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

3. Significant accounting policies (continued):

(j) Foreign currency translation:

Transactions in foreign currencies are comprised of purchases from foreign suppliers. These transactions are translated using the functional currency of the Company at exchange rate at the dates of the transactions. The related payables denominated in a foreign currency at the reporting date are translated into the functional currency at the exchange rate at that date. The resulting foreign currency gains or losses are recognized on a net basis in profit or loss.

(k) Preferred shares:

Preferred shares of the Company automatically convert to an equivalent number of common shares immediately prior to the listing of the common shares on an approved exchange. The preferred shares are a residual interest in the assets of the entity and are therefore classified within shareholders' equity.

(l) Share-based payment transactions:

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. 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, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. 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 and there is no true-up for differences between expected and actual outcomes.

(m) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

3. Significant accounting policies (continued):

(m) Income taxes (continued):

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. 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.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Financial instruments:

(i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: amortized costs, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities are recognized initially on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

3. Significant accounting policies (continued):

(n) Financial instruments (continued):

(i) Recognition and measurement (continued):

A financial asset is measured at amortized cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument financial asset is measured at FVOCI if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably elect to measure financial assets that otherwise meets the requirements to be measured at amortized cost or at FVOCI or FVTPL when doing so results in more relevant information.

Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. The Company has not classified any of its financial assets as FVOCI.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivative liabilities. The Company may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

(ii) Amortized cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Company classifies cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, long-term debt, lease liabilities and convertible debentures at amortized cost.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

3. Significant accounting policies (continued):

(n) Financial instruments (continued):

(ii) Amortized cost (continued):

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iii) Derecognition of financial instruments:

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred.

If the Company has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. If control has been retained, the Company recognizes the transferred asset to the extent of its continuing involvement. If control has not been retained, the Company derecognizes the transferred asset. Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

(o) Loss per share:

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings 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 convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding preferred shares, convertible debentures, options and warrants and their equivalents is reflected in diluted earnings per share by application of the weighted-average method. Since the Company has a loss in all periods presented, the conversion of outstanding convertible securities has not been included in this calculation as they would be anti-dilutive.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

4. Accounts receivable:

	2020	2019
GST receivable	\$ 88,804	\$ 84,789
Receivable from joint venture partner (Note 6)	347,316	-
Customer receivables	106,822	40,370
	<u>\$ 542,942</u>	<u>\$ 125,159</u>

5. Inventory:

	2020	2019
Raw materials	\$ 450,391	\$ -
Work in progress	127,479	-
Finished goods	563,868	-
	<u>\$ 1,141,738</u>	<u>\$ -</u>

The Company records valuation adjustments for inventory by comparing the inventory cost to its net realizable value. The process requires the use of estimates and assumptions related to future market demand, costs and prices. Such assumptions are reviewed and may have a significant impact on the valuation adjustments for inventory. Net realizable value is assessed on an item by item basis except when they cannot be practically evaluated separately from other items.

During the year ended December 31, 2020, the write down of inventory to net realizable value amounted to \$751,420 (2019 - \$nil) and is included in product development expense.

6. Investment in joint venture:

On January 22, 2019, the Company executed a non-exclusive joint venture with Beijing In-Power Renewable Energy Co., Ltd. to create Inpower Loop Energy Technology (Beijing) Co., Ltd. (the "InPower-Loop JV"), a limited liability company in China. The InPower-Loop JV will manufacture and sell Fuel Cell ("FC") range extenders in the Chinese market and will purchase FC stacks from the Company.

As part of the joint venture transaction, the Company closed a common share equity investment in InPower-Loop JV of \$750,000 at a share price of \$0.50 per share resulting in ownership of 26.9% of InPower-Loop JV. The Company has the right to appoint one director to the three-person board of InPower-Loop JV. Operational decisions are made by majority vote, subject to approval by the Company's nominee for all major matters affecting the InPower-Loop JV. The Company accounts for the investment in InPower-Loop JV using the equity method in accordance with IFRS 11, "Joint Arrangements".

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

6. Investment in joint venture (continued):

Investment in joint venture - InPower-Loop JV	2020	2019
Balance, beginning of year	\$ 455,644	\$ -
Purchase of 26.9% of common voting shares of InPower-Loop JV	-	750,000
Intercompany elimination	(44,520)	(201,750)
Foreign exchange	19,887	(23,976)
Company's share of loss	(200,325)	(68,630)
	\$ 230,686	\$ 455,644

Inpower Loop Energy Technology (Beijing) Co., Ltd.	2020	2019
Cash	\$ 481,947	\$ 110,795
Other current assets	746,255	1,615,840
Non-current assets	1,293,635	837,990
Current liabilities	(791,590)	(191,221)
Non-current liabilities	(389,800)	-
Net assets (100%)	1,340,447	2,373,404
Company's share of net assets (26.9%)	360,580	638,446
Eliminations related to intercompany transactions and foreign exchange	(129,894)	(182,802)
Carry amount of interest in joint venture	\$ 230,686	\$ 455,644

Inpower Loop Energy Technology (Beijing) Co., Ltd.	2020	2019
Revenue	\$ 248,589	\$ 45,897
Loss and comprehensive loss (100%)	(1,136,253)	(298,466)
Company's share of loss and comprehensive loss (26.9%)	(238,782)	(80,287)
Eliminations related to inter-company transactions	38,457	11,657
Company's share of loss	\$ (200,325)	\$ (68,630)

Concurrently with the establishment of the joint venture in 2019, InPower-Loop JV paid the Company a one-time technology license fee of \$750,000, against which a withholding tax of \$75,000 was applied, for the use of the Company's intellectual property in China. The technology license fee income has been reduced by \$201,750 to recognize income only to the extent it has been paid to the Company by unrelated investors in the InPower-Loop JV.

In the year ended December 31, 2020, the Company recognized sales of \$165,502 to the InPower-Loop JV which was reduced by a net of \$44,520 to recognize the intercompany impact for sold product that is in InPower-Loop JV's inventory.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

7. Equipment and leasehold improvements:

	Equipment	Leasehold improvements	Computer hardware	Computer software	Total
Cost					
Balance, December 31, 2018	\$ 1,366,219	\$ 540,908	\$ 31,785	\$ 56,055	\$ 1,994,967
Additions	204,906	705,736	24,929	6,418	941,989
Balance, December 31, 2019	1,571,125	1,246,644	56,714	62,473	2,936,956
Additions	494,885	64,361	82,732	73,940	715,918
Balance, December 31, 2020	\$ 2,066,010	\$ 1,311,005	\$ 139,446	\$ 136,413	\$ 3,652,874
Accumulated depreciation					
Balance, December 31, 2018	\$ 260,536	\$ 65,108	\$ 21,834	\$ 56,055	\$ 403,533
Depreciation	191,665	123,504	2,212	-	317,381
Balance, December 31, 2019	452,201	188,612	24,046	56,055	720,914
Depreciation	220,718	354,775	20,463	24,904	620,860
Balance, December 31, 2020	\$ 672,919	\$ 543,387	\$ 44,509	\$ 80,959	\$ 1,341,774
Carrying amounts					
December 31, 2019	\$ 1,118,924	\$ 1,058,032	\$ 32,668	\$ 6,418	\$ 2,216,042
December 31, 2020	\$ 1,393,091	\$ 767,618	\$ 94,937	\$ 55,454	\$ 2,311,100

Depreciation expense during the year was \$620,860 (2019 - \$317,381) and consists of \$593,656 (2019 - \$317,381) in product development expenses and \$27,204 (2019 - \$nil) in general and administrative expense.

8. Accounts payable and accrued liabilities:

	2020	2019
Trade payables and accrued expenses	\$ 2,164,682	\$ 594,958
Trade and other payables due to related parties (note 17(b) and (c))	263,839	59,760
Payroll accruals	92,860	61,900
	\$ 2,521,381	\$ 716,618

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

9. Right-of-use asset and lease liability:

The Company leases one premise consisting of a building for the Company's office and manufacturing space. This lease runs for a period of six years through June 30, 2023, with an option to renew the lease after that date. In measuring the right-of-use asset and lease liability the Company has not included any renewal periods as it is not reasonably certain to renew, and any renewal decision will be based on the circumstances at such time.

(a) Right-of-use asset:

The movement of right-of-use asset during the years ended December 31 is as follows:

		Total
Balance at January 1, 2019	\$	514,716
Depreciation		(114,382)
Balance at December 31, 2019		400,334
Depreciation		(114,381)
Balance at December 31, 2020	\$	285,953

Depreciation expense for the right-of-use asset of \$14,298 (2019 - \$22,877) is included in general and administrative expense and \$100,083 (2019 - \$91,505) is included in product development expense in the statement of loss and comprehensive loss.

(b) Lease liability:

The Company's lease liability represents the present value of the remaining minimum lease payments associated with its office and manufacturing space lease. When measuring the lease liability, the Company discounted lease payments using an incremental borrowing rate at January 1, 2019 of 12%.

		Total
Lease liability at January 1, 2019	\$	705,471
Finance expense		76,655
Lease payments		(193,284)
Lease liability at December 31, 2019	\$	588,842
Finance expense		61,179
Lease payments		(200,187)
Lease liability at December 31, 2020	\$	449,834
Current portion	\$	160,213
Non-current portion		289,621

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

9. Right-of-use asset and lease liability (continued):

		Total
Maturity analysis – contractual undiscounted cash flows:		
2021	\$	203,639
2022		207,090
2023		103,544
Total undiscounted lease liability at December 31, 2020	\$	514,273

10. Long-term debt:

	2020	2019
Balance, beginning of the year	\$ 842,424	\$ 1,697,209
Repayment of long-term debt	(37,999)	(1,624,000)
Finance expense	68,528	170,389
Gain on debt modification	(41,298)	-
Proceeds from long-term debt	-	750,000
Interest paid	-	(88,574)
Converted to shares	-	(62,600)
Balance, end of year	\$ 831,655	\$ 842,424

Long-term debt consists of the following:

	2020	2019
Unsecured loan payable, maturing March 1, 2024, bearing no interest, and repayable in monthly principal payments of \$12,666 (a)	\$ 458,743	\$ 469,512
Unsecured promissory notes, with no maturity date and without interest (b)	372,912	372,912
	831,655	842,424
Less current portion of long-term debt	514,992	514,992
	\$ 316,663	\$ 327,432

- a) The Company signed a Western Innovation Initiative ("WINN") loan funding agreement on September 15, 2017 which provided loans to the Company up to \$760,000 based on matching investments for certain projects. The Company applied an effective interest rate of 15% to discount the cash flows of the non-interest bearing loan. During the year ended December 31, 2020, the Company recorded an associated non-cash finance expense of \$68,528 (2019 - \$81,815) related to the accretion of the loan discount.

In the year ended December 31, 2020, the Company was granted an extension on the loan as a relief measure with monthly payments suspended from April 1, 2020 and deferred to January 1, 2021. The Company recognized a gain on modification in the amount of \$41,298 in the year ended December 31, 2020.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

10. Long-term debt (continued):

- b) During the year ended December 31, 2019, \$12,600 of the loan was converted into 7,000 common shares of the Company. This loan has no term or payment due date and as such is recorded as a current liability.
- c) During the year ended December 31, 2019, the Company fully repaid loans of \$760,000. The loans were secured by a first charge on all the Company's future Government of Canada receivables in the form of the 2018 SR&ED refunds. The loans were payable to an entity in which a director of the Company was the principal (note 17(b)(i)) and to a member of key management of the Company. During the year ended December 31, 2019, the Company issued 66,667 common share purchase warrants to a lender as a financing fee and the associated fair value of \$56,114 was expensed as part of finance expense. The warrants were valued based on the following assumptions in a Black-Scholes valuation: annualized volatility of 75.00%, risk-free interest rate of 1.60%, expected life of 4 years and a dividend rate of nil%.
- d) During the year ended December 31, 2019, a loan of \$50,000 was converted into 27,778 common shares of the Company. The amount was due to a member of key management of the Company.
- e) During the year ended December 31, 2019 the Company received, and repaid in full, loans from related parties in the amount of \$750,000.

Principal repayments until maturity are as follows:

2021	\$	524,908
2022		151,996
2023		151,996
2024		151,994
	\$	980,894

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

11. Deferred revenue and recoveries:

	2020	2019
Sustainable Development Technology Canada ("SDTC")	\$ 2,081,483	\$ 1,905,930
Contracts with customers	132,091	94,541
	\$ 2,213,574	\$ 2,000,471

On March 23, 2017, the Company signed an agreement with SDTC for funding related to the development of the Company's technology. The funding is for a total of \$7,500,000 of which the Company received the first milestone payment of \$1,203,680 in 2017 to initiate the project, a follow-on payment of \$666,946 related to purchases of equipment for the project was advanced in 2018 and the second milestone payment of \$1,372,373 was received in 2019.

During the fourth quarter of 2019, the first milestone under the agreement was achieved and \$1,203,680, representing the amounts advanced in relation to the first milestone, has been recorded as a cost recovery on the statement of loss and comprehensive loss. The cost associated with the \$666,946 for equipment costs is being amortized over a five-year period commensurate with the average depreciable life of the equipment being used in the project, with \$133,389 (2019 - \$133,389) being recognized as part of the SDTC cost recovery during the year ended December 31, 2020.

In March 2020, SDTC increased the total funding commitment to \$7,875,000 and provided an additional payment of \$375,000, with \$66,058 being recognized as part of the SDTC cost recovery in relation to the first milestone.

12. Convertible debentures:

The convertible debentures ("debentures") are secured by an interest in the Company's assets and liabilities except the Company's future Government of Canada receivables in the form of SR&ED tax credit refunds. The debentures are convertible at the option of the debenture holder at any time during the term of the note into common shares of the Company, at a conversion price of \$1.50 per share. The debentures also carry an annual interest rate of 12% which is payable on a monthly basis. The Company had the right to offer a buy-back of the debentures after a one-year period from the date of issuance, which was not exercised. The following schedule sets out the debentures outstanding at December 31, 2020:

Date of closing	Date of eligible buy-back	Maturity date	Principal amount
March 15, 2018	March 15, 2019	March 15, 2021	\$ 2,050,000
May 31, 2018	May 31, 2019	March 15, 2021	100,000
August 15, 2018	August 15, 2019	March 15, 2021	100,000
September 27, 2018	September 27, 2019	March 15, 2021	500,000
October 18, 2018	October 18, 2019	March 15, 2021	100,000
January 31, 2019	January 31, 2020	March 15, 2021	750,000
			\$ 3,600,000

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

12. Convertible debentures (continued):

During the year ended December 31, 2020, the Company extended the maturity of the convertible debentures to March 15, 2021 and recognized a gain on debt modification of \$58,511 in finance expense related to the maturity date extensions.

At December 31, 2020, debentures with a principal amount of \$850,000 were held by related parties (2019 - \$850,000) (note 17).

At the time of issuance, the Company estimated that a similar borrowing without a conversion feature would be available to the Company at an interest rate of 14% per annum. The Company has discounted the convertible debenture cash flows and recognized the discount as the value associated with the conversion feature upon issuance of the associated instrument, with such amounts recorded as a credit to equity reserves. The carrying value of the convertible debentures, being net of the conversion feature and transaction costs, are accreted over the term of the debentures to their repayment amount.

Convertible debentures	2020	2019
Balance, beginning of the year	\$ 3,549,847	\$ 2,746,784
Finance expense, net of modification gain	459,669	569,063
Cash interest paid	(328,796)	(431,142)
Cash interest accrued in accounts payable and accrued liabilities	(103,697)	-
Issuance of convertible debentures	-	750,000
Conversion feature recorded in equity reserves	-	(23,919)
Issuance costs	-	(60,939)
Balance, end of year	\$ 3,577,023	\$ 3,549,847
Current	\$ 3,577,023	\$ 2,849,573
Long-term	\$ -	\$ 700,274

Subsequent to December 31, 2020, the total balance of the outstanding convertible debentures were converted to common shares of the Company (note 22).

13. Finance expense:

	2020	2019
Accretion of convertible debt (note 12)	\$ 85,687	\$ 137,921
Interest paid and accrued – convertible debt (note 12)	432,493	431,142
Accretion of WINN loans (note 10(a))	68,530	81,815
Gain on debt modification – WINN loans (note 10(a))	(41,298)	-
Gain on debt modification – convertible debentures (note 12)	(58,511)	-
Finance expense – lease liabilities (note 9)	61,179	76,655
Interest– long-term debt (note 10)	-	88,574
Warrants granted as finance costs (note 10(c))	-	56,114
	\$ 548,080	\$ 872,221

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

14. Share capital:

(a) Authorized share capital at December 31, 2020:

Authorized:

Unlimited common shares without par value

Unlimited Class A preferred shares without par value, issuable in Series

Drag-along rights: The articles of the Company include drag-along rights which enables a majority shareholder to force a minority shareholder to join in the sale of the Company and which enable minority shareholders to join in the sale of a majority shareholder stake at the same price, terms and conditions.

Preferred share rights: Preferred shares have voting rights on a one-for-one basis with common shareholders. Preferred shareholders are entitled to dividends along with, or in priority to, common shareholders. In the event of liquidation, preferred shares are entitled to priority settlement. Preferred shareholders may convert to common shares at their option.

(b) Issuance of shares:

	Number of common shares	Common shares	Number of preferred shares	Preferred shares
Balance December 31, 2018	16,484,832	\$ 13,290,298	-	\$ -
Issuance of common shares	1,387,721	2,324,054	-	-
Shares issuance costs	-	(61,093)	-	-
Issuance of preferred shares	-	-	2,777,778	5,000,000
Preferred share issuance costs	-	-	-	(18)
Exercise of stock options	75,133	56,350	-	-
Settlement of long-term debt	34,778	62,600	-	-
Balance, December 31, 2019	17,982,464	\$ 15,672,209	2,777,778	\$ 4,999,982
Issuance of preferred shares	-	-	4,166,667	10,000,000
Preferred share issuance costs	-	-	-	(10,270)
Exercise of stock options	1,042	3,286	-	-
Balance, December 31, 2020	17,983,506	\$ 15,675,495	6,944,445	\$ 14,989,712

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

14. Share capital (continued):

(c) 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, 2018	-	\$ -
Granted (note 10(c))	66,667	1.50
Balance, December 31, 2019 and 2020	66,667	\$ 1.50

As at December 31, 2020, 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

15. Share-based payments:

At December 31, 2020, the Company had a stock option plan to provide incentives to its officers, directors, employees and certain non-employees. The Company reserved up to 20% of the issued and outstanding common shares of the Company to be issued under the plan. The exercise price of each option is set by the plan administrator and may not be less than 85% of the fair value of the common shares on the option grant date. The stock options have a maximum term of ten years. Most stock options issued by the Company vest over the first two to three years of the option period.

Subsequent to December 31, 2020, the Company adopted a new long-term incentive plan (the "Plan") to provide incentives to its officers, directors, employees and certain non-employees. The Company has reserved up to 10% of the issued and outstanding common shares of the Company to be issued under the Plan. The Plan allows for the grant of stock options, preferred share units, restricted share units, deferred share units and other share-based awards. The exercise price of each option is set by the Board of Directors and may not be less than 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. The stock options have a maximum term of ten years and vesting periods as determined by the Board of Directors.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

15. Share-based payments (continued):

Stock option transactions are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance, December 31, 2018	2,840,000	\$ 0.87
Cancelled	(33,333)	0.99
Exercised	(75,133)	0.74
Expired	(156,534)	0.74
Balance, December 31, 2019	2,575,000	\$ 0.87
Cancelled	(8,960)	1.74
Granted	320,000	2.11
Exercised	(1,042)	1.80
Expired	(283,333)	0.74
Balance, December 31, 2020	2,601,665	\$ 1.03
Exercisable, December 31, 2020	1,976,008	\$ 0.90

At December 31, 2020, stock options were outstanding enabling holders to acquire common shares as follows:

Number of Stock Options Outstanding	Number of Stock Options Vested	Exercise Price	Expiry Date
16,667	16,667	\$ 0.73854	July 25, 2021
50,000	50,000	0.73854	December 1, 2021
91,666	91,666	0.73854	June 15, 2022
550,000	550,000	0.73854	September 23, 2023
133,333	133,333	0.73854	November 1, 2023
75,000	75,000	0.73854	April 15, 2024
33,333	33,333	0.73854	April 15, 2024
100,000	100,000	0.73854	May 15, 2024
1,086,667	744,967	0.99000	December 31, 2026
48,333	30,207	1.50000	June 30, 2027
105,000	78,752	0.99000	December 31, 2027
33,333	25,000	1.50000	February 28, 2029
98,333	24,583	1.80000	February 28, 2029
180,000	22,500	2.40000	August 30, 2030
2,601,665	1,976,008	\$ 1.03269	

During the year ended December 31, 2020, the Company granted a total of 320,000 (2019 – nil) stock options with a weighted average fair value of \$1.60 per option (2019 - \$nil). The options vest quarterly in equal amounts over a four-year period.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

15. Share-based payments (continued):

During the year ended December 31, 2017, 510,000 stock options were granted which vest upon reaching the following performance conditions: 168,300 stock options vesting upon achieving a company valuation of \$50 million (vested in the year ended December 31, 2020); 168,300 stock options vesting upon achieving a company valuation of \$100 million and 173,400 stock options vesting upon a liquidity event such as a listing on a recognized public stock exchange or a purchase acquisition. In the year ended December 31, 2020, the Company recognized share-based compensation expense of \$126,713 with respect to the vesting of 168,300 performance options. No share-based compensation expense has been recognized with respect to the remaining 341,700 stock options granted during the year ended December 31, 2017 with performance conditions as the performance requirements were not met at year end. The remaining 341,700 options vested subsequent to December 31, 2020 upon completion of an initial public offering (note 22).

The Company recognized share-based payments expense for options granted and vesting, net of recoveries on cancellations of unvested options, during the years ended December 31, 2020 and 2019 with allocations to functional expense as follows:

	2020	2019
Product development	\$ 96,780	\$ 94,201
General and administrative	371,385	120,885
	<u>\$ 468,165</u>	<u>\$ 215,086</u>

In order to compute this fair value of stock options, the Company uses the Black-Scholes option pricing model; this inherently requires management to make various estimates and assumptions in relation to the expected life of the award, expected volatility, risk-free rate and forfeiture rates. Changes in any of these inputs could cause a significant change in the share-based compensation expense charged in the statement of loss and to equity reserves in a given period. The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of stock options granted:

	2020	2019
Risk-free interest rate	0.81%	-
Expected life of options	10 years	-
Expected annualized volatility	71%	-
Dividend	0%	-
Forfeiture rate	0%	-

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

During the year ended December 31, 2020, the Company amended the expiry dates of 641,667 outstanding stock options. This resulted in additional share-based payments expense of \$85,769 for the year ended December 31, 2020. The weighted average assumptions used for the Black-Scholes valuation of the modified options were annualized volatility of 78%, risk-free interest rate of 0.27%, expected life of 2.9 years and a dividend rate of 0%.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

15. Share-based payments (continued):

During the year ended December 31, 2019, the Company amended the expiry dates of 408,333 outstanding stock options. This resulted in additional share-based payments expense of \$130,846 for the year ended December 31, 2019. The weighted average assumptions used for the Black-Scholes valuation of the modified options were annualized volatility of 75%, risk-free interest rate of 1.56%, expected life of 4.5 years and a dividend rate of 0%.

16. Income taxes and scientific research and experimental development tax credits:

Income taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2020	2019
Net loss for the year, before tax	\$ (8,921,437)	\$ (4,295,925)
Statutory rate	27%	27%
Recovery of income taxes based on statutory tax rates	(2,408,788)	(1,159,900)
Differences in tax rates and change in tax rates	30,371	39,738
Permanent differences	192,925	81,750
Changes in unrecognized deductible temporary differences	2,185,492	1,031,954
Total income tax (recovery) expense	\$ -	\$ (6,458)

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

	2020	2019
Equipment and leaseholds	\$ 435,569	\$ 237,054
Long-term debt	123,862	126,769
SR&ED pools and credits	1,648,636	1,373,180
Financing fees	14,428	51,250
Lease liabilities	121,455	158,987
Non-capital losses	5,506,438	3,751,523
Investment in joint venture	70,107	39,740
Deferred tax assets	7,920,495	5,738,503
SR&ED credits	(263,737)	(259,899)
Convertible debenture	(6,228)	(13,566)
	(269,965)	(273,465)
Unrecognized net deferred tax asset	\$ 7,650,530	\$ 5,465,038

At December 31, 2020, the Company has Canadian non-capital losses of \$20,394,000 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 2028 and 2040. Additionally, as at December 31, 2020, the Company had SR&ED expenditure pools of approximately \$5,967,000 which do not expire.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

16. Income taxes and scientific research and experimental development tax credits (continued):

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

The Company estimated its SR&ED investment tax credit claim for the year ended December 31, 2020 to be \$1,206,784 (2019 - \$1,224,015) which has been recorded as taxes receivable and a cost recovery in the statement of loss and comprehensive loss. To the extent the SR&ED claim is adjusted and accepted, it would impact the amount of the tax losses and undeducted SR&ED costs carried forward as noted above.

	2020	2019
SR&ED claim for the year	\$ 1,206,784	\$ 1,224,015
Adjustment to prior year SR&ED claim	-	3,977
	\$ 1,206,784	\$ 1,227,992

17. Related party transactions:

(a) Key management personnel compensation:

Key management includes the members of the Board of Directors, the President and Chief Executive Officer and Chief Financial Officer. Key management personnel compensation comprises:

	2020	2019
Salaries and benefits	\$ 1,016,917	\$ 655,000
Share-based payments	223,921	156,765
	\$ 1,240,838	\$ 811,765

(b) Key management personnel and director transactions:

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. A number of these entities transacted with the Company in the reporting period.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence (in addition to the transactions disclosed in notes 10 and 12) were as follows:

- (i) A principal of Collings Family Investments Ltd. and The Collings Stevens Family Foundation is a director of the Company. As at December 31, 2020, the Collings Family Investments Ltd. and The Collings Stevens Family Foundation hold \$500,000 (2019 - \$500,000) of convertible debentures. Included in finance expense for the year ended December 31, 2020 is \$60,000 (2019 - \$148,845), respectively, in interest paid or accrued to Collings Family Investments Ltd. and The Collings Stevens Family Foundation. In 2019, Collings Family Investments Ltd. was issued warrants as a financing fee in connection with certain debt financing. Included in finance expense for the year ended December 31, 2019 is \$56,114 related to the fair value of the warrants issued.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

17. Related party transactions (continued):

(b) Key management personnel and director transactions (continued):

- (ii) A principal of Murdoch Family Trust is a director of the Company. As at December 31, 2020 the Murdoch Family Trust holds convertible debentures of \$300,000 (2019 - \$300,000). Included in interest within finance expense for the year ended December 31, 2020 is \$36,000 (2019 - \$47,178) in interest paid to Murdoch Family Trust for a loan.
 - (iii) A principal of Truckenbrodt Clean Energy Consulting is a director of the Company. As at December 31, 2020, the Truckenbrodt Clean Energy Consulting holds convertible debentures of \$50,000 (2019 - \$50,000). Included in interest within finance expense for the year ended December 31, 2020 is \$6,000 (2019 - \$6,000) in interest paid to Truckenbrodt Clean Energy Consulting for a loan.
 - (iv) During the year ended December 31, 2018 a member of key management loaned the Company \$60,000 as part of the SR&ED loan payable (note 10(c)) with an additional \$100,000 loaned in the year ended December 31, 2019. The loans were repaid in full during the year ended December 31, 2019. Additionally, \$50,000 was loaned to the Company which was converted into common shares during the year ended December 31, 2019 (note 10(d)). Included in interest within finance expense for the year ended December 31, 2019 is \$13,579 in interest paid to the member of key management.
 - (v) Various members of management are owed \$4,200 (2019 - \$4,919) for services rendered which is included in accounts payable.
- (c) During the year ended December 31, 2020, the Company accrued \$nil (2019 – \$58,251) in expenses, was paid \$nil (2019 - \$750,000) in technical license fees, recorded \$120,982 (2019 - \$nil) in revenue; recorded \$347,316 (2019 - \$nil) in accounts receivable, recorded \$259,639 (2019 - \$54,841) in accounts payable and \$nil (2019 - \$32,410) in deferred revenue from a joint venture (see note 6). The transactions were carried out in the normal course of operations and are measured at the exchange amount, being the amount agreed between the parties.
- (d) During the year ended December 31, 2020, the Company sold a fuel cell to a company controlled by a significant shareholder. The transaction was carried out in the normal course of operations and was measured at the exchange amount, being the amount agreed between the parties.

18. Segmented information and major customers:

The Company operates in one segment being the development of fuel cell technology. All of the Company's non-current assets are located in Canada with the exception of its investment in joint venture, which investment is in a company domiciled in China (note 6).

In the year ended December 31, 2020, four (2019 – two) customers, two of which were located in the United States, providing 61% (2019 – 100%), one of which was located in Canada, providing 17% (2019 – nil) and one of which was located in China, providing 22% (2019 – nil) respectively, of the Company's revenues from contracts with customers.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

19. Financial Instruments and Risk:

Fair value

The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities, approximates their fair value given their short-term nature. The carrying value of the long-term debt approximates fair value given the discount rates used to recognize the liabilities in the consolidated statement of financial position and market rates of interest. The fair value of convertible debentures and accrued interest as at December 31, 2020 was \$3,600,000 which represents the value to settle the convertible debentures in cash or equity.

Fair value measurements recognized in the consolidated statement of financial position must be categorized in accordance with the following levels:

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) 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); and
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company does not have any financial instruments measured at fair value in the consolidated statement of financial position and has therefore not transferred any financial instruments between the levels of the fair value hierarchy during the year ended December 31, 2020.

Financial risk factors

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. Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and customer receivables. The Company limits its exposure to credit loss by placing its cash with major financial institutions. As at December 31, 2020, cash consisted of cash held with financial institutions in Canada. Balances exceed amounts insured by the Canada Deposit Insurance Corporation for up to \$100,000.

The Company's exposure to credit risk on customer accounts receivable is influenced mainly by the individual characteristics of each debtor. The Company currently works with a small number of customers and is therefore able to monitor credit risk on an individual account basis and apply lifetime expected loss provisions where any uncertainty on collectability is identified. No such provision is required as at December 31, 2020.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

19. Financial Instruments and Risk (continued):

Financial risk factors (continued)

Credit risk (continued):

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2020	2019
Accounts receivable	\$ 542,942	\$ 125,159
Cash and cash equivalents	3,200,951	2,168,047
	\$ 3,743,893	\$ 2,293,206

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 approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation (see note 2(b)). As at December 31, 2020, the Company had working capital deficiency of \$2,063,138. Subsequent to December 31, 2020, the Company completed a financing (note 22) which has substantially reduced liquidity risk to the Company.

The following contractual maturities of financial obligations (including interest) exist as at December 31, 2020:

	Carrying amount	Contractual cash flows	Within 1 year	2 to 3 years	4 to 5 years
Accounts payable and accrued liabilities	\$ 2,521,381	\$ 2,521,381	\$ 2,521,381	\$ -	\$ -
Long-term debt	831,655	980,896	524,910	303,992	151,994
Convertible debentures	3,577,023	3,685,152	3,685,152	-	-
	\$ 6,930,059	\$ 7,187,429	\$ 6,731,443	\$ 303,992	\$ 151,994

Foreign exchange risk

The Company is exposed to foreign currency risk on fluctuations related to working capital balances are denominated in United States dollars, Euros and Chinese Yuan. As at December 31, 2020, the Company did not have significant net working capital balances in foreign balances. The Company anticipates that, as its operations and sales expand, the Company will be increasingly subject to fluctuations in the US dollar.

Interest rate risk

The Company's debt instruments have fixed interest rates and therefore do not fluctuate with market conditions. Interest income on cash and cash equivalents is considered incidental and not significant to operating results.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

20. Capital management:

The Company considers its capital to be the components of shareholders' equity and debt, less cash on hand. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through debt and equity financing and is supplemented by applying for government grant programs where available. Future financings are dependent on market conditions and the ability to identify sources of investment. There can be no assurance the Company will be able to raise funds in the future.

There were no changes to the Company's approach to capital management during the year ended December 31, 2020. The Company is not subject to externally imposed capital requirements.

21. Employee remuneration:

Employee salaries and benefits are classified in the statement of loss and comprehensive loss as follows:

	2020	2019
Product development	\$ 2,788,527	\$ 1,882,578
General and administrative	1,823,795	725,720
	<u>\$ 4,612,322</u>	<u>\$ 2,608,298</u>

22. Subsequent events:

New Lease

The Company entered into an additional premises lease on January 4, 2021. The term covers period from March 1, 2021 to September 29, 2024 with an annual basic rent payment of \$321,898.

Initial Public Offering

On February 25, 2021, the Company closed its Initial Public Offering (the "Offering") of 6,250,000 common shares at a price of \$16.00 per share for aggregate gross proceeds of \$100,000,000. The Company has started trading on the Toronto Stock Exchange under the symbol "LPEN". In connection with the Offering, the Company paid a cash commission of \$6,000,000 plus an estimated \$1,800,000 of professional fees, including \$500,000 accrued deferred financing fees as at December 31, 2020.

LOOP ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)
Years ended December 31, 2020 and 2019

22. Subsequent events (continued):

Initial Public Offering (continued)

Immediately prior to the closing of the Offering, the Company implemented a reorganization which:

- a) amalgamated the Company with two Venture Capital Corporations, each of which had no business operations or liabilities and whose sole assets were common shares of the Company;
- b) converted all of the Company's issued and outstanding preferred shares into common shares and amended the Company's authorized capital such that all of the existing classes of preferred shares are deleted and the Company's authorized capital will be comprised of an unlimited number of common shares;
- c) consolidated all of the Company's outstanding common shares on the basis of one new common share for every three pre-consolidation common shares (note1); and
- d) converted all of the issued and outstanding convertible debentures into 2,399,999 common shares.

Stock Options and Warrants

The Company issued an aggregate of 230,632 stock options at an exercise price of \$16.00 per share with a grant date as at February 25, 2021 and a 10 year term to executives, board of directors and employees.

The Company also issued warrants to purchase of an aggregate of 314,500 common shares at an exercise price of \$16.00 per share with a grant date as at February 25, 2021 and a 1 year term to two special advisors.