

**Zinc8 Energy Solutions Inc.** (Formerly, MGX Renewables Inc.)

**Consolidated Financial Statements**  
**For the Years Ended December 31, 2020 and 2019**

**(Expressed in Canadian Dollars)**

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**Adam Kim**

**ADAM SUNG KIM LTD.  
CHARTERED PROFESSIONAL ACCOUNTANT**

## **INDEPENDENT AUDITOR'S REPORT**

To: the Shareholders of  
Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)

### **Opinion**

I have audited the consolidated financial statements of Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its cash flow for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for Opinion**

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated financial statements section of my report. I am independent of the Company in accordance with the ethical requirements that are relevant to my audit of consolidated the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Material Uncertainty Related to Going Concern**

I draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$2,043,822 during the year ended December 31, 2020 and, as of that date, the Company had not yet achieved profitable operations, had accumulated losses of \$17,823,527 since its inception, and expects to incur further losses in the development of its business. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. My opinion is not modified in respect of this matter.

### **Other Information**

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated financial statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

### **Auditor's Responsibilities for the Audit of the Consolidated financial statements**

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my 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 these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated 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 my 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 Company'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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I 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 I identify during my audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Adam Kim, CPA, CA.

*"Adam Sung Kim Ltd."*  
Chartered Professional Accountant

UNIT# 168  
4300 NORTH FRASER WAY  
BURNABY, BC V5J 5J8  
April 29, 2021

**Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

## Consolidated Statements of Financial Position

As at

(Expressed in Canadian Dollars)

	Note	December 31, 2020	December 31, 2019
		\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash		1,576,581	86,499
Prepaid and deposits		97,824	319,447
Amounts receivable		46,485	66,596
		1,720,890	472,542
<b>Non-Current Assets</b>			
Equipment	5	510,589	171,676
Intangible assets	4	4,950,134	4,950,134
		5,460,723	5,121,810
<b>Total Assets</b>		<b>7,181,613</b>	<b>5,594,352</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		1,253,641	1,082,958
Loans payable	13	60,000	233,671
Promissory Note	7	-	5,174,688
Lease liability – short term	8	78,785	-
		1,392,426	6,491,317
Lease liability – long term	8	61,000	-
<b>Total Liabilities</b>		<b>1,453,426</b>	<b>6,491,317</b>
<b>Shareholders' Equity (deficiency)</b>			
Share capital	6	21,437,511	13,885,838
Subscriptions received		15,500	21,000
Contributed surplus	6	2,098,703	975,902
Deficit		(17,823,527)	(15,779,705)
		5,728,187	(896,965)
<b>Total Liabilities and Shareholders' Equity (deficiency)</b>		<b>7,181,613</b>	<b>5,594,352</b>

Nature of operations (Note 1)

Contingencies (Note 12)

Subsequent events (Note 15)

Approved and authorized by the Board on April 29, 2021

“Ron MacDonald” Director      “Charn Deol” Director  
Ron MacDonald                      Charn Deol

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

**Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

## Consolidated Statements of Loss and Comprehensive Loss

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Note	2020	2019
		\$	\$
<b>Expenses</b>			
Amortization	5	104,404	39,261
General and administrative		246,382	122,239
Interest		163,808	601,891
Filing and listing fees		136,671	167,421
Consulting		427,060	234,500
Marketing		944,005	1,121,020
Payroll	7	203,798	258,531
Professional fees		285,243	111,311
Research and development		2,717,795	1,857,466
Rent		141,957	192,973
Share-based compensation	6	978,356	944,107
Travel		36,123	21,782
		6,385,602	5,672,502
<b>Other Income (Expense):</b>			
Grant		-	525,632
Contributions	14	1,109,632	-
Gain on debt settlement	7	3,736,152	-
Severance	7	(504,004)	-
		4,341,780	525,632
<b>Net and Comprehensive loss for the year</b>		<b>(2,043,822)</b>	<b>(5,146,870)</b>
Basic and diluted loss per share		(0.03)	(0.14)
Weighted average shares outstanding		80,418,849	37,106,604

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**Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Consolidated Statements of changes in Equity

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Common shares	Share Capital	Contributed Surplus	Subscriptions received in advance	Deficit	Total
	#	\$	\$	\$	\$	\$
<b>Balance, December 31, 2018</b>	<b>30,000,000</b>	<b>11,500,001</b>	-	-	<b>(10,632,835)</b>	<b>867,166</b>
Shares issued pursuant to						
Private placement	16,353,329	2,505,000	-	-	-	2,505,000
Share issue costs	-	(87,368)	-	-	-	(87,368)
Finders shares	770,200	-	-	-	-	-
Broker warrants	-	(31,795)	31,795	-	-	-
Share-based compensation	-	-	944,107	-	-	944,107
Subscriptions received	-	-	-	21,000	-	21,000
Net loss for the year	-	-	-	-	(5,146,870)	(5,146,870)
<b>Balance, December 31, 2019</b>	<b>47,123,529</b>	<b>13,885,838</b>	<b>975,902</b>	<b>21,000</b>	<b>(15,779,705)</b>	<b>(896,965)</b>
Shares issued pursuant to:						
Private Placement	36,629,513	4,466,746	-	-	-	4,466,746
Subscriptions received in advance	-	-	-	(5,500)	-	(5,500)
Share Issue costs	-	(223,053)	-	-	-	(223,053)
Brokers warrants	-	(175,050)	175,050	-	-	-
Settlement	800,000	244,000	176,881	-	-	420,881
Options exercised	442,263	181,942	(89,066)	-	-	92,876
Warrants exercised	20,227,262	3,057,088	(118,420)	-	-	2,938,668
Share-based compensation	-	-	978,356	-	-	978,356
Net loss for the year	-	-	-	-	(2,043,822)	(2,043,822)
<b>Balance, December 31, 2020</b>	<b>105,222,567</b>	<b>21,437,511</b>	<b>2,098,703</b>	<b>15,500</b>	<b>(17,823,527)</b>	<b>5,728,187</b>

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

**Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

## Consolidated Statements of Cash flows

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	2020	2019
	\$	\$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss for the year	(2,043,822)	(5,146,870)
Items not affecting cash:		
Amortization	104,404	39,261
Accrued interest	131,045	582,591
Debt settlement	(3,736,152)	-
Share-based compensation	978,356	944,107
Severance	420,881	-
Changes in non-cash working capital items:		
Prepaid expense	221,623	(303,065)
Amounts receivable	20,111	(61,437)
Accounts payable and accrued liabilities	170,684	949,569
<b>Net cash used in operating activities</b>	<b>(3,732,870)</b>	<b>(2,995,844)</b>
<b>Investing activity</b>		
Purchase of equipment	(278,223)	-
<b>Net cash from investing activity</b>		-
<b>Financing activities</b>		
Proceeds from private placements	4,461,246	2,526,000
Share issue costs	(223,053)	(87,368)
Loans payable	(173,671)	118,671
Loan repayment	(1,500,000)	(251,499)
Loan received	-	739,038
Lease payments	(94,890)	-
Proceeds from options exercised	92,875	-
Proceeds from warrants exercised	2,938,668	-
<b>Net cash from financing activities</b>	<b>5,501,175</b>	<b>3,044,841</b>
<b>Change in cash for the year</b>	<b>1,490,082</b>	<b>48,997</b>
<b>Cash, beginning of year</b>	<b>86,499</b>	<b>37,502</b>
<b>Cash, end of year</b>	<b>1,576,581</b>	<b>86,499</b>
<b>Supplemental information</b>	<b>\$</b>	<b>\$</b>
Interest paid	-	-
Taxes paid	-	-

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

## **Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### **1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS**

Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.) (“Zinc8” or the “Company”) was incorporated on December 8, 2011 in Canada under the legislation of the Province of British Columbia. Zinc8’s head office is located at Unit 1 – 8765 Ash Street, Vancouver, BC, V6P 6T3, Canada. Zinc8 is a development-stage company and in the process of developing zinc-air batteries. The Company’s shares trade on the Canadian Stock Exchange (“CSE”).

Since March 2020, several measures have been implemented in Canada and the rest of the world in response to the increased impact from novel coronavirus (“COVID-19”). The Company continues to operate and move its business activity forward at this time. While the impact of Covid-19 is expected to be temporary, the current circumstances are dynamic and the impacts of Covid-19 on business operations cannot be reasonably estimated at this time. The Company anticipates this could have an adverse impact on its business, results of operations, financial position and cash flows in 2021.

At the date of the statements, the Company has not yet realized profitable operations and it has relied on non-operational sources of financing to fund operations. The ability of the Company to achieve its objectives, meet its ongoing obligations and recover its investment in its technology and assets will depend on management’s ability to successfully execute its business plan, achieve profitable operations and obtain additional financing, if or when required. There is no assurance that these initiatives will be successful.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. As at December 31, 2020, the Company had an accumulated deficit of \$17,823,527 (December 31, 2019 - \$15,779,705) and expects to incur further losses in the development of its business, all of which casts significant doubt about the Company’s ability to continue as a going concern. The continued operations of the Company are dependent on its ability to generate future cash flow or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing and loans from a shareholder of the Company to meet the Company’s liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These consolidated financial statements do not reflect any adjustments to the carrying values of assets and liabilities, the reported expenses, and the balance sheet classifications used that may be necessary if the Company is unable to continue as a going concern.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **Statement of Compliance**

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

#### **Basis of Measurement and Functional and Presentation Currency**

These consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies. The functional currency of a company is the currency of the primary economic environment in which the company operates. The presentation currency for a company is the currency in which the company chooses to present its consolidated financial statements. These consolidated financial statements are presented in Canadian dollars, which is the Company’s presentation and functional currency.

## Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)

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### Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Zinc8 Energy Solutions (USA) Inc.(Inactive) (2019 - %nil) All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation.

### Income taxes

Provision for income taxes consists of current and deferred tax expense. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or in equity, respectively. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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 temporary differences associated with the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss and temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. 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 at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference 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. 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.

### Financial Instruments

#### (i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

The following table shows the classifications under IFRS 9:

	<b>Classification under IFRS 9</b>
Cash	FVTPL
Amounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loans payable and lease liabilities	Amortized cost

## **Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### **(ii) Measurement**

#### Financial assets at FVTOCI

Elected investments in equity investments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

#### Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

#### Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transactions costs expensed in the statements of net (loss) income. Realized and unrealized gains or losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of net (loss) income in the period in which they arise.

### **(iii) Impairment of financial assets at amortized cost**

The Company recognized a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

### **(iv) Derecognition**

#### Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of net (loss) income. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

#### Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of net (loss) income.

### **Intangible assets**

Intangible assets with finite lives are measured at cost less accumulated amortization and impairment charges. These intangible assets are amortized on a straight-line basis over their estimated useful lives. Useful lives, residual values and amortization for intangible assets with finite useful lives are reviewed at least annually.

## Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

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Indefinite life intangible assets are measured at cost less any impairment charges. These intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that intangible assets may be impaired.

### Equipment

Equipment is stated at historical cost less accumulated amortization. Amortization is calculated using the following rate on a straight-line over its useful lives basis.

Lab	5	years
Computer hardware	3	years
Furniture and Equipment	5	years
Computer software	2	years
Leasehold improvement		lease terms
Right of use		lease terms

### Impairment

The Company assesses at the end of each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flow of the financial asset that can be reliably estimated.

An impairment loss in respect of a financial asset carried at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted using the instrument's original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset that was previously recognized in profit or loss, is removed from equity and recognized in the income statement.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. Impairment losses recognized for equity securities are not reversed.

### Loss per share

Basic earnings or loss per share is computed by dividing the earnings or loss for the period by the weighted average number of common shares outstanding during the relevant period. The treasury stock method is used for the calculation of diluted earnings or loss per share. Stock options, share purchase warrants, and other equity instruments are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options, warrants and other equity instruments. When a loss has been incurred, basic and diluted loss per share is the same because the exercise of options and warrants would be anti-dilutive.

### Research and Development

Research and development costs are expensed as incurred to the statement of comprehensive loss. Development costs are expensed as incurred unless capitalization criteria under IFRS are met for deferral and amortization. No development costs have been capitalized to date.

## **Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

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### **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### **Share based Compensation**

The Company operates an employee stock option plan. Share based payments to employees are measured at the fair value of the instruments issued and amortized over the relevant vesting periods. Share based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using a BlackScholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

### **Leases**

On January 1, 2019, the Company adopted IFRS 16 Leases. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. As the Company did not have any leases on January 1, 2019, the adoption of this standard did not have an impact on the Company's financial statements as at January 1, 2019.

## **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include valuation of share-based payments and recognition of deferred income tax amounts and provision for restoration, rehabilitation and environmental costs.

### **Income taxes**

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

## **Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### **Going concern**

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and 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

### **Contingencies and settlement provisions**

The estimate for contingencies and settlement provisions require management to make judgments as to the likelihood of outcomes and estimates of the timing and the possible outflow of economic benefits.

### **Impairment**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts and also at each reporting period. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's intangible asset. External sources of information considered are changes in the Company's economic, legal and regulatory environment which it does not control but affect the recoverability of its asset. Internal sources of information the Company considers include the manner in which intangible asset are being used or are expected to be used and indications of economic performance of the assets.

## **4. INTANGIBLE ASSETS**

Intangible assets consist of intellectual property comprising the zinc-air regenerative fuel cell systems and zinc fuel cells (the "Zinc Technology") purchased from a third party on January 1, 2016. The development of the Zinc Technology was in process and no amortization has been recorded as at December 31, 2020.

**Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

**5. EQUIPMENT**

	Lab Equipment \$	Equipment \$	Right of use asset \$	Leasehold improvements \$	Software \$	Total \$
<b>Cost:</b>						
<b>Balance, December 31, 2019</b>	<b>204,691</b>	<b>2,373</b>	-	-	<b>20,309</b>	<b>227,373</b>
Additions	187,749	32,670	165,093	31,878	25,926	443,316
<b>Balance, December 31, 2020</b>	<b>392,440</b>	<b>35,043</b>	<b>165,093</b>	<b>31,878</b>	<b>46,235</b>	<b>670,689</b>
<b>Accumulated Amortization:</b>						
<b>Balance, December 31, 2019</b>	<b>39,665</b>	<b>971</b>	-	-	<b>15,061</b>	<b>55,697</b>
Amortization	40,923	5,128	41,950	7,927	8,476	104,404
<b>Balance, December 31, 2020</b>	<b>80,587</b>	<b>6,099</b>	<b>41,950</b>	<b>7,927</b>	<b>23,537</b>	<b>160,100</b>
<b>Net Book Value:</b>						
<b>December 31, 2019</b>	<b>165,026</b>	<b>1,402</b>	-		<b>5,248</b>	<b>171,676</b>
<b>December 31, 2020</b>	<b>311,853</b>	<b>28,944</b>	<b>123,143</b>	<b>23,951</b>	<b>22,698</b>	<b>510,589</b>

**6. SHARE CAPITAL**

## a) Authorized

Unlimited number of common shares without par value.

Unlimited number of preferred shares without par value.

On September 4, 2020, the Company closed a non-brokered private placement issuing 8,750,000 units at \$0.16 per unit for gross proceeds of \$1,400,000. Each unit consist of one common share of the Company and one non-transferrable share purchase warrant. Each warrant has a two-year life and an exercise price of \$0.30. The Company paid cash finders fees of \$37,560 and issued 234,750 finders warrants. The Company fair valued the finders warrants at \$46,581 using the Black-Scholes option pricing model based on the following assumptions: risk free rate – 1.27%; expected dividend - nil; expected life – 2 years; expected volatility – 172%.

On May 5, 2020, the Company issued 800,000 units, each consisting of one common share and one non-transferrable share purchase warrant, to Jared Lazerson as severance. The shares were fair valued at \$244,000 and the warrants were fair valued at \$176,881 using the Black-Scholes option pricing model based on the following assumptions: risk free rate – 1.90%; expected dividend - nil; expected life – 2 years; expected volatility – 173%.

On February 11, 2020, the Company closed a non-brokered private placement issuing 27,879,513 units at \$0.11 per unit for gross proceeds of \$3,066,746. Each unit consists of one common share and one non-transferrable share purchase warrant. The warrants have a two-year life and an exercise price of \$0.155 during the year first year and \$0.40 for the balance of the term. The Company paid \$186,893 in finders fees

## **Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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and issued 632,887 finders warrants. The Company fair valued the finders warrants at \$128,469 using the Black-Scholes option pricing model based on the following assumptions: risk free rate – 1.90%; expected dividend - nil; expected life – 2 years; expected volatility – 145%.

During the year ended December 31, 2020, 20,227,262 warrants were exercised for gross proceeds of \$2,938,668. The Company transferred \$118,420 from contributed surplus to share capital related to the exercise of warrants.

During the year ended December 31, 2020, 442,263 options were exercised for gross proceeds of \$92,875. The Company transferred \$89,066 from contributed surplus to share capital related to the exercise of the options.

On June 11, 2019, the Company completed a private placement of 8,020,000 Units at a price of \$0.25 per Unit for gross proceeds of \$2,005,000. Each Unit was comprised of one common share of the Company and one-half share purchase warrant with each whole warrant exercisable at a price of \$0.35 until November 30, 2020.

In connection with the private placement the Company issued 770,200 finders shares and 347,500 broker warrants and incurred \$90,198 of cash issue costs. The Company fair valued the broker warrants at \$31,795 using the Black-Scholes option pricing model using the following assumption: Volatility 100%; risk-free rate – 1.9%, forfeiture – nil; dividend rate – nil.

On September 11, 2019, the Company completed a private placement of 8,333,329 Units at \$0.06 per Unit for gross proceeds of \$500,000. Each Unit was comprised of one common share of the Company and one share purchase warrant. The warrants expire on September 11, 2021 and are exercisable at \$0.08 per warrant for the first year and \$0.10 per warrant thereafter.

### **b) Options**

The Company has adopted a Stock Option Plan, which is a rolling stock option plan under which options may be granted equal in number to 10% of the issued and outstanding capital of the company at the time of grant of the stock option. No single participant may be granted options to purchase a number of Company shares equaling more than 5% of the issued shares of the Company in any 12-month period. The Board may determine the term of the options, but the term shall in no event be greater than five years from the date of issuance. Terms of vesting of the options, eligibility of directors, officers, employees, management company employees and consultants to receive options and the number of options issued to each participant shall be determined at the discretion of the Board of Directors.

**Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)

The balance of options outstanding as at December 31, 2020 and December 31, 2019 and the changes for the periods then ended is as follows:

	<b>Number of Options #</b>	<b>Weighted Average Exercise Price \$</b>	<b>Weighted Average Life Remaining (years)</b>
<b>Balance, December 31, 2019</b>	<b>4,688,000</b>	<b>0.21</b>	<b>4.45</b>
Granted	2,987,951	0.31	-
Forfeited	(612,365)	0.21	-
Exercised	(442,263)	0.21	-
<b>Balance, December 31, 2020</b>	<b>6,621,323</b>	<b>0.26</b>	<b>3.85</b>
<b>Unvested</b>	<b>(150,000)</b>	<b>0.20</b>	<b>2.57</b>
<b>Exercisable, December 31, 2020</b>	<b>6,471,323</b>	<b>0.26</b>	<b>3.88</b>

On February 18, 2020 the Company granted 2,787,951 stock options to directors, officers, employees and consultants of the Company. The options are exercisable for a 5-year period at \$0.32 per option. The Company fair valued the options at \$963,547 using the Black-Scholes option pricing model based on the following assumptions: risk free rate – 1.90%; expected dividend - nil; expected life – 5 years; expected volatility – 145%.

On July 28, 2020 the Company granted 200,000 options to a consultant of the Company. The options are exercisable for a 3-year period at \$0.20 per option vesting over 12 months. The Company fair valued the options at \$34,650 using the Black-Scholes option pricing model based on the following assumptions: risk free rate – 1.27%; expected dividend - nil; expected life – 3 years; expected volatility – 172%. The fair value of \$14,809 was recognized for vested options during the year ended December 31, 2020.

As at December 31, 2020 the following options were outstanding:

<b>Expiry Date</b>	<b>Exercise Price \$</b>	<b>Vested</b>	<b>Unvested</b>	<b>Total</b>
September 12, 2024	0.21	3,633,372	-	3,633,372
February 18, 2025	0.32	2,787,951	-	2,787,951
July 28, 2023	0.20	50,000	150,000	200,000
		6,471,323	150,000	6,621,323

**Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

**c) Warrants**

The balance of warrants outstanding as at December 31, 2020 and December 31, 2019 and the changes for the years then ended is as follows:

	<b>Number of Warrants #</b>	<b>Weighted Average Exercise Price \$</b>	<b>Weighted Average Life Remaining (years)</b>
<b>Balance, December 31, 2019</b>	<b>12,690,829</b>	<b>0.17</b>	<b>1.43</b>
Exercised	(20,227,262)	0.15	-
Expired	(3,856,300)	0.35	-
Issued	38,297,150	0.20	-
<b>Balance, December 31, 2020</b>	<b>26,904,417</b>	<b>0.21</b>	<b>1.27</b>

As at December 31, 2020 the following share purchase warrants were outstanding and exercisable:

<b>Expiry Date</b>	<b>Number Outstanding</b>	<b>Exercise Price \$</b>
September 11, 2021	2,391,665	0.12
February 10, 2022	14,728,002	0.155
May 5, 2022	800,000	0.50
September 4, 2022	8,984,750	0.30
	<b>26,904,417</b>	

**7. RELATED PARTY TRANSACTIONS**

Key management includes the CFO, CEO, VP of Engineering and the Board of Directors. Compensation paid to key management during the years ended December 31, 2020 and 2019 was as follows:

	<b>2020 \$</b>	<b>2019 \$</b>
Consulting	398,500	234,500
Payroll expense	139,500	132,000
Share-based compensation	491,031	520,697
	<b>1,029,031</b>	<b>887,197</b>

As at December 31, 2020, the Company had pre-payment of \$22,600 (2019 - \$nil) and owed \$100,000 included in accounts payable and accrued liabilities (2019 - \$nil) to a company controlled by a CEO of the Company.

A company related by common directors charged marketing fees of \$136,450 (2019 - \$nil) and rent of \$7,000 (2019 - \$nil) during the year ended December 31, 2020. The Company paid deposit of \$50,000 (2019 - \$nil) and owed \$52,500 included in accounts payable and accrued liabilities (2019 - \$nil) to the same company as at December 31, 2020.

The Company paid/accrued a total of \$504,004 of severance expense (2019 - \$nil) to former directors and officers during the year ended December 31, 2020.

**Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

## Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

As at December 31, 2020, the Company had \$nil (2019 - \$113,460) owing to other related parties included in accounts payable and accrued liabilities.

All related party transactions are in the normal course of operations and have been measured at the agreed to amounts, which is the amount of consideration established and agreed to by the related parties.

On June 30, 2018 the Company entered into a promissory note agreement with MGX Minerals Inc. ("MGX"), a former parent company prior to a spin-out, (the "Promissory Note"). The Promissory Note bore interest at 12%, was unsecured and due on December 31, 2020. Additional loans received from MGX subsequent to the Promissory Note had the same terms as the Promissory Note.

	\$
<b>Balance, December 31, 2018</b>	<b>4,104,558</b>
Additions	739,038
Repayments	(251,499)
Interest	582,591
<b>Balance, December 31, 2019</b>	<b>5,174,688</b>
Interest	61,464
Gain on debt settlement	(3,736,152)
Repayment	(1,500,000)
<b>Balance, December 31, 2020</b>	<b>-</b>

On March 6, 2020, the Company settled the amount of \$5,236,152 owing on the Promissory Note to MGX for \$1,500,000. The full cash payments of \$1,500,000 were made to MGX and the Company recorded a gain on debt settlement of \$3,736,152 during the year-ended December 31, 2020.

Upon completion of the settlement, Jared Lazerson resigned from his position as a director of the Company. Mr. Lazerson agreed to a severance agreement with the Company whereby the Company issued 800,000 units with each unit consisting of one common share and one share purchase warrant. Each warrant is exercisable for 2 years at a price of \$0.50 per warrant and the units were issued on May 5, 2020. The units were fair valued at \$420,881 and recorded as a severance expense. The Company fair valued 800,000 common shares at \$244,000 using a market closing price of \$0.305. And the Company also fair valued 800,000 warrants at \$176,881 using the Black-Scholes option pricing model based on the following assumptions: risk free rate – 1.90%; expected dividend - nil; expected life – 2 years; expected volatility – 173%.

**Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

**8. LEASE LIABILITIES**

During the year ended December 31, 2020 the Company entered into leases for an office space and certain pieces of office equipment. The office lease was entered into on June 1, 2020 and has a two-year term with monthly lease payments of \$12,441. The Company also entered into leases for an office copier and office chairs with the lease terms commencing on April 1, 2020 and July 1, 2020 respectively. The copier has a 60-month term with monthly payment of \$107 while the office chair lease has a 24 month term with monthly payment of \$1,142. The Company recognized its right-of-use assets and lease liabilities for these leases based on the present value of future minimum lease payments. The present value of minimum lease payments for the copier and office chairs were calculated using the interest rate implicit in the leases and the present value of minimum lease payments for office lease was calculated using the incremental borrowing rate of 8%.

The terms and outstanding balances as at December 31, 2020 are as follows:

	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>
	<b>December 31, 2020</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Less than one year	164,284	78,785
More than one year and less than 5 years	73,554	61,000
	237,838	139,785
Interest included in minimum lease payments	(98,053)	
Present value of minimum lease payments	139,785	
<b>Future minimum lease payments:</b>		
< 1 year	-	78,785
> 1 year < 5 years	-	61,000
> 5 years	-	-
<b>Total</b>		<b>139,785</b>

<i>Lease obligations</i>	\$
As at January 1, 2020	-
Additions	165,093
Payments	(25,308)
As at December 31, 2020	139,785

**Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

**9. INCOME TAXES**

A reconciliation between the Company's income tax provision, computed at statutory rates, to the reported income tax provision is as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
	27%	27%
Expected tax expense (recovery)	(551,832)	(1,389,655)
Share issuance costs	(83,814)	(23,589)
Items not deductible for tax purposes	302,228	255,311
Income tax benefit not recognized	333,417	1,157,933
Income tax recovery	-	-

The significant components of the Company's net deferred tax assets and liabilities as at December 31, 2020 and 2019 are as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Deferred Tax Assets</b>		
Equipment	31,595	3,406
Tax losses	2,538,369	2,245,185
Share issuance costs	55,006	18,871
Offset against deferred tax liabilities	(30,098)	(30,098)
Unrecognized deferred tax assets	(2,594,872)	(2,237,364)
Deferred Tax Assets	-	-
<b>Deferred Tax liabilities</b>		
Intangible	(30,098)	(30,098)
Offset with deferred tax assets	30,098	30,098
Deferred tax liability	-	-

As at December 31, 2020 the Company had estimated non-capital loss for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. Their expiry dates are as follow:

2036	1,426,358
2037	7,602
2038	2,639,630
2039	4,241,910
2040	1,085,865
	<b>9,401,365</b>

As at December 31, 2020, deferred tax assets have not been recognized because it is not probable that future taxable income will be available against which the Company can utilize the benefits from the deductible temporary differences and unused tax losses.

## Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 10. FINANCIAL INSTRUMENTS

(a) Fair values

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

As at December 31, 2020, the fair values of cash, amounts receivable, accounts payable and accrued liabilities, and loans payable approximate their carrying value due to the short-term maturity of these instruments. Lease liabilities are measured at amortized costs using effective interest rate. Cash is carried at level 1 fair value measurement.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at December 31, 2020, the Company had working capital of \$328,464.

(c) 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 Company's cash is largely held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper. The Company's receivables consist of GST receivable due from the Federal Government of Canada. The Company maintains cash deposits with Schedule A financial institutions, which from time to time may exceed federally insured limits. The Company has not experienced any significant credit losses and believes it is not exposed to any significant credit risk.

(d) Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates but it does not believe it is currently subject to any significant interest rate risk.

(e) Foreign currency exchange rate risk

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

## **Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### **11. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include administrative costs and general expenditures. In the management of capital, the Company includes cash, loan payable, lease liabilities, and the components of shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Historically, funding for the Company's plan is primarily managed through the issuance of additional common shares, through its commercial activities and through obtaining financing. There are no assurances that funds will be made available to the Company when required.

In order to carry out the planned development and pay for administrative costs, the Company will spend its existing working capital and expects to raise additional amounts as needed. The Company will continue to assess new business and seek to acquire an interest in additional business if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash, and all are held in major Canadian financial institutions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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

### **12. CONTINGENCIES**

On September 5, 2019, Market One Media Group Inc. ("Market One") filed a claim against the Company for unpaid invoices of \$208,950 relating to a media advertising and promotion services agreement. The Company's position is that it has not received any of the services discussed in the contract. Market One has been attempting to schedule a summary trial hearing but has not been able to obtain a date yet. No settlement has been made and the eventual outcome is not determinable. The full amount of \$208,950 has been recorded as accounts payable and accrued liabilities at December 31, 2020.

On January 10, 2020, Dig Media filed a claim against the Company for unpaid invoices of \$60,900 plus interest of \$20,367 relating to media and promotion services. It is the Company's position that it has not received any of the services. The arbitration proceeding is on hold to allow the parties to settle this matter. If not successful, the case will be referred to a mediator/arbitrator. No settlement has been made and the eventual outcome is not determinable. The full amount of \$60,900 and interest of \$20,367 has been recorded as accounts payable and accrued liabilities at December 31, 2020.

On February 25, 2021, Miller Thomson LLP filed a claim against the Company for unpaid invoices relating to legal services in the amount of \$69,718 plus interest of \$9,984 for a total claim of \$79,702. No settlement has been made and the eventual outcome is not determinable. The full amount of \$69,718 and interest of \$9,983 has been recorded as accounts payable and accrued liabilities at December 31, 2020.

On March 25, 2021, Michael Reimann, a former director of the Company, filed a claim against the Company for breach of contract and seeking payment of \$25,969. No settlement has been made and the eventual outcome is not determinable. The full amount of \$25,969 has been recorded as accounts payable and accrued liabilities at December 31, 2020.

## **Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### **13. LOANS PAYABLE**

As at December 31, 2020, the Company had \$60,000 (2019 - \$233,671) in loans payable. The amounts owing are unsecured, due on demand and non-interest bearing.

### **14. COOPERATION AGREEMENT**

The Company entered into a Cooperation agreement (the "Agreement") dated December 24, 2019 with The Power Authority of the State of New York (the "Authority") for the installation of a 100kW/1MWh Zinc-Air Battery Energy Storage System in New York State.

Under the Agreement with the Authority, the Authority agreed to collaborate with the Company and contribute to a research and development project through its participation in aspects of design and fabrication of a zinc air energy storage system, the demonstration of the system and the Company agreed to collaborate with the Authority to pursue the research and development project.

The Authority agreed to contribute the following monetary contributions to the Company for the research and development of the Product:

- First Contribution - \$835,000 USD (CAD\$ 1,109,632 received in 2020), to be paid within 30 days following the Effective Date of this Agreement.
- Second Contribution - \$0 USD, to be paid after 6 months following the Effective Date of this Agreement, after receipt and approval of the first interim fiscal report for the first 6-month period, but not before actual qualified expenses and the Company's project expenses have equaled or exceeded the minimum required expenditures.

Minimum Required Qualified Expenses: \$355,000 USD

Minimum Required Company's Project Expenses: \$0

- Third Contribution - \$0 USD, to be paid after 12 months following the Effective Date of this Agreement, after receipt and approval of the second interim fiscal report for the second 6-month period, but not before actual qualified expenses and the Company's project expenses have equaled or exceeded the minimum required expenditures.

Minimum Required Qualified Expenses: \$835,000 USD

Minimum Required Company's Project Expenses: 80% of \$2,950,000 USD

- Fourth Contribution - \$160,000 USD, to be paid after 18 months following the Effective Date of this Agreement, after receipt and approval of the third interim fiscal report for the third 6-month period, but not before actual qualified expenses and the Company's project expenses have equaled or exceeded the minimum required expenditures.

Minimum Required Qualified Expenses: \$995,000 USD

Minimum Required the Company's Project Expenses: 80% of \$4,100,000 USD

- Fifth Contribution - \$380,000 USD, to be paid after 24 months following the Effective Date of this Agreement, after receipt and approval of the fourth interim fiscal report for the fourth 6-month period, but not before actual qualified expenses and the Company's project expenses have been equaled or exceeded the minimum required expenditures, whichever is later.

## **Zinc8 Energy Solutions Inc. (Formerly, MGX Renewables Inc.)**

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

---

Minimum Required Qualified Expenses: \$1,375,000 USD  
Required the Company's Project Expenses: 80% of \$5,400,000 USD

- Sixth Contribution - \$20,000 USD, to be paid after 30-months following the Effective Date of this Agreement, after receipt and approval of the fifth interim fiscal report for the fifth 6-month period, or after actual qualified expenses and the Company's project expenditures have been equaled or exceeded the required expenditure, whichever is later.

Minimum Required Qualified Expenses: \$1,395,000 USD  
Minimum Required the Company's Project Expenses: 80% of \$6,450,000 USD

- Final Contribution – After receipt and approval of the final fiscal report, a final contribution of \$155,000 will be paid for actual qualified expenses and the Company's project expenditures have equaled or exceeded the required expenditures.

Minimum Required Qualified Expenses: \$1,550,000 USD  
Minimum Required the Company's Project Expenses: 80% of \$6,450,000 USD

The term of this Agreement (the "Term") shall begin on the Effective Date and shall be valid for an initial period of 10 years as of the Effective Date, with automatic renewals of one (1) year periods each unless either Party provides written notification to the other. The Authority, within its sole discretion and for any reason, may terminate this Agreement at any time upon 30 days' notice to the Company. Upon such termination, the Parties will conduct a final payment schedule, which will include any and all final payments due to each side.

### **15. SUBSEQUENT EVENTS**

On February 24, 2021, the Company closed a private placement offering of 28,750,000 common shares at a price of \$0.54 per share for gross proceeds of \$15,525,000. The Company incurred cash commission of \$931,500 and issue 1,725,000 compensation warrants with each compensation warrant exercisable at a price of \$0.54 per warrant until February 24, 2023.

On April 21, 2021, the Company granted 7,275,000 stock options to directors, officers, employees and consultants of the Company. Each option is exercisable for a period of 5 years at a price of \$0.62 per option.

Subsequent to December 31, 2020, 15,492,565 warrants were exercised.

Subsequent to December 31, 2020, 400,983 stock options were exercised.