

# **Zinc8 Energy Solutions Inc.**

**Condensed Interim Financial Statements**

**For the Three and Nine months Ended September 30, 2021 and 2020**

**(Unaudited - expressed in Canadian Dollars)**

# **Zinc8 Energy Solutions Inc.**

## **NOTICE OF NO AUDITOR REVIEW OF**

### **CONDENSED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim financial statements of the Company and all information contained in the report have been prepared by and are the responsibility of the Company's management.

The Audit Committee of the Board of Directors has reviewed the condensed interim financial statements and related financial reporting matters.

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of condensed interim financial statements by an entity's auditor.

**Zinc8 Energy Solutions Inc.**Condensed Interim Statements of Financial Position  
(Unaudited - expressed in Canadian Dollars)

	Note	September 30, 2021	December 31, 2020
		\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash		12,645,195	1,576,581
Prepaid and deposits		158,144	97,824
Amounts receivable		41,741	46,485
		12,845,080	1,720,890
<b>Non-Current Assets</b>			
Equipment	5	2,629,738	510,589
Intangible assets	4	4,950,134	4,950,134
		7,579,872	5,460,723
<b>Total Assets</b>		20,424,952	7,181,613
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		967,542	1,253,641
Loans payable	12	-	60,000
Lease liability – short term		325,171	78,785
		1,292,713	1,392,426
Lease liability – long term	8	842,686	61,000
<b>Total Liabilities</b>		2,135,399	1,453,426
<b>Shareholders' Equity (deficiency)</b>			
Share capital	6	38,137,513	21,437,511
Subscriptions received		-	15,500
Contributed surplus	6	6,592,122	2,098,703
Deficit		(26,440,082)	(17,823,527)
		18,289,553	5,728,187
<b>Total Liabilities and Shareholders' Equity</b>		20,424,952	7,181,613

Nature of operations (Note 1)

Contingencies (Note 10)

Approved and authorized by the Board on November 29, 2021

<u>“Ron MacDonald”</u>	Director	<u>“Charn Deol”</u>	Director
Ron MacDonald		Charn Deol	

The accompanying notes are an integral part of these condensed interim financial statements

**Zinc8 Energy Solutions Inc.**

Condensed Interim Statements of Loss and Comprehensive Loss  
For the Three and Nine months Ended September 30, 2021 and 2020  
(Unaudited - expressed in Canadian Dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Note	2021	2020	2021	2020
		\$	\$	\$	\$
<b>Revenue</b>					
Contract revenue		93,750	-	93,750	-
Grant Revenue		-	-	290,000	1,109,706
		93,750	-	383,750	1,109,706
<b>Expenses</b>					
Amortization	5	200,154	20,851	303,079	42,191
General and administrative		103,019	42,123	269,421	182,821
Interest (recovery)		(117,221)	61	(66,167)	63,487
Filing and listing fees		6,523	32,504	104,336	90,964
Management fees	7	169,743	104,560	483,156	316,560
Marketing		80,359	161,239	412,544	632,169
Payroll	7	93,616	52,321	228,234	158,892
Professional fees		59,920	62,559	176,739	173,691
Research and development		1,162,323	65,275	3,531,198	1,862,328
Rent		37,126	57,520	94,639	172,114
Share-based compensation	6	2,658	6,076	3,730,302	969,623
Travel		9,723	5,763	14,696	30,076
		1,789,193	610,852	9,263,427	4,694,916
<b>Loss before other items</b>		<b>(1,714,193)</b>	<b>(610,852)</b>	<b>(8,898,427)</b>	<b>(3,585,210)</b>
<b>Other Items:</b>					
Severance	7	-	-	-	(420,881)
Disposal of asset		-	-	9,000	-
Gain on debt settlement		29,703	-	199,004	3,736,152
Interest income		33,101	-	73,868	-
		62,804	-	281,872	3,315,271
<b>Net and Comprehensive income/(loss) for the period</b>		<b>(1,651,389)</b>	<b>(610,852)</b>	<b>(8,616,555)</b>	<b>(269,939)</b>
Basic and diluted loss per share		0.01	(0.01)	(0.06)	0.00
Weighted average shares outstanding		150,521,929	83,258,958	142,836,158	74,872,023

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**Zinc8 Energy Solutions Inc.**

Condensed Interim Statements of Changes in Equity  
For the Three and Nine months Ended September 30, 2021 and 2020  
(Unaudited - expressed in Canadian Dollars)

	<b>Common shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Subscriptions received in advance</b>	<b>Deficit</b>	<b>Total</b>
	<b>#</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<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
Share Issue costs	-	(224,454)	-	-	-	(224,454)
Brokers warrants	-	(175,050)	175,050	-	-	-
Settlement	800,000	244,000	176,881	-	-	420,881
Warrants exercised	7,086,685	1,114,350	(80,055)	-	-	1,034,295
Share-based compensation	-	-	969,623	-	-	969,623
Net income for the period	-	-	-	-	(269,939)	(269,939)
<b>Balance, September 30, 2020</b>	<b>91,639,727</b>	<b>19,311,430</b>	<b>2,217,401</b>	<b>21,000</b>	<b>(16,049,644)</b>	<b>5,500,187</b>
Shares issued pursuant to:						
Subscriptions received in advance	-	-	-	(5,500)	-	(5,500)
Share Issue costs	-	1,401	-	-	-	1,401
Options exercised	442,263	181,942	(89,066)	-	-	92,876
Warrants exercised	13,140,577	1,942,738	(38,365)	-	-	1,904,373
Share-based compensation	-	-	8,733	-	-	8,733
Net loss for the period	-	-	-	-	(1,773,883)	(1,773,883)
<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>
Shares issued pursuant to:						
Private Placement	28,750,000	14,635,406	889,594	-	-	15,525,000
Share Issue costs	-	(1,005,377)	-	-	-	(1,005,377)
Debt settlement	116,279	60,465	-	-	-	60,465
Warrants exercised	17,667,564	2,824,819	(35,402)	(15,500)	-	2,773,917
Options exercised	428,199	184,689	(91,075)	-	-	93,614
Share-based compensation	-	-	3,730,302	-	-	3,730,302
Net loss for the period	-	-	-	-	(8,616,555)	(8,616,555)
<b>Balance, September 30, 2021</b>	<b>152,184,609</b>	<b>38,137,513</b>	<b>6,592,122</b>	<b>-</b>	<b>(26,440,082)</b>	<b>18,289,553</b>

The accompanying notes are an integral part of these condensed interim financial statements

**Zinc8 Energy Solutions Inc.**

## Condensed Interim Statements of Cash Flows

For the Nine months Ended September 30, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

	2021	2020
	\$	\$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net income (loss) for the period	(8,616,555)	(269,939)
Items not affecting cash:		
Amortization	303,079	42,191
Accrued interest	-	61,464
Gain on debt settlement	(199,004)	(3,736,152)
Severance	-	420,881
Share-based compensation	3,730,302	969,623
Changes in non-cash working capital items:		
Prepaid expense	(60,320)	114,680
Amounts receivable	4,744	1,765
Accounts payable and accrued liabilities	(26,631)	(143,944)
<b>Net cash used in operating activities</b>	<b>(4,864,385)</b>	<b>(2,539,431)</b>
<b>Investing activity</b>		
Purchase of equipment	(1,192,845)	(253,977)
<b>Net cash from investing activity</b>	<b>(1,192,845)</b>	<b>(253,977)</b>
<b>Financing activities</b>		
Proceeds from Private placement	15,525,000	4,445,746
Share issue costs	(1,005,377)	(224,454)
Warrant exercises	2,773,918	1,034,295
Option exercise	93,614	-
Lease payments	(201,311)	(4,059)
Advances payable	-	(173,671)
Loan repayment	(60,000)	(1,380,000)
<b>Net cash from financing activities</b>	<b>17,125,844</b>	<b>3,697,857</b>
<b>Change in cash for the period</b>	<b>11,068,614</b>	<b>904,449</b>
<b>Cash, beginning of period</b>	<b>1,576,581</b>	<b>86,499</b>
<b>Cash, end of period</b>	<b>12,645,195</b>	<b>990,948</b>
<b>Supplemental information</b>	<b>\$</b>	<b>\$</b>
Interest paid	64,034	-
Taxes paid	-	-

The accompanying notes are an integral part of these condensed interim financial statements

## **Zinc8 Energy Solutions Inc.**

Notes to the Condensed Interim Financial Statements

For the Three and Nine months Ended September 30, 2021 and 2020

(Unaudited - 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.

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

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB.

The Company uses the same accounting policies and methods of computation as in the annual financial statements for the year ended December 31, 2020.

### **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. The Company’s critical accounting estimates and judgements are disclosed in the audited financial statements for the year ended December 31, 2020 and 2019.

## Zinc8 Energy Solutions Inc.

Notes to the Condensed Interim Financial Statements

For the Three and Nine months Ended September 30, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

### 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 September 30, 2021.

### 5. EQUIPMENT

	Lab Equipment \$	Equipment \$	Right of use asset \$	Leasehold improvements \$	Software \$	Total \$
<b>Cost:</b>						
<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>
Additions	769,426	113,902	1,229,383	296,746	12,771	2,422,228
<b>Balance, September 30, 2021</b>	<b>1,161,866</b>	<b>148,945</b>	<b>1,394,476</b>	<b>328,624</b>	<b>59,006</b>	<b>3,092,917</b>
<b>Accumulated Amortization:</b>						
<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>
Amortization	57,092	20,903	181,941	32,080	11,063	303,079
<b>Balance, September 30, 2021</b>	<b>137,679</b>	<b>27,002</b>	<b>223,891</b>	<b>40,007</b>	<b>34,600</b>	<b>463,179</b>
<b>Net Book Value:</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>
<b>September 30, 2021</b>	<b>1,024,187</b>	<b>121,943</b>	<b>1,170,585</b>	<b>288,617</b>	<b>24,406</b>	<b>2,629,738</b>

### 6. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.

Unlimited number of preferred shares without par value.

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 issue costs of \$1,014,230 and issue 1,725,000 compensation warrants with each compensation warrant exercisable at a price of \$0.54 per warrant until February 24, 2023. The Company fair valued the warrants at \$889,594 using the Black-Scholes option pricing model based on the following assumptions: risk free rate – 0.23%; expected dividend - nil; expected life – 2 years; expected volatility – 138%.

On June 7, 2021, the Company issued 116,279 common shares as part of a debt settlement agreement, the shares were fair valued at \$60,465. (Note 11).



**Zinc8 Energy Solutions Inc.**

Notes to the Condensed Interim Financial Statements

For the Three and Nine months Ended September 30, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

**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.

During the nine months ended September 30, 2021, the Company recorded \$3,730,302 (2020 - \$969,623) in share-based compensation expense pursuant to the vesting of previously granted options and additional grants during the period. During the nine months ended September 30, 2021, the Company granted 7,275,000 options, exercisable at \$0.62 per option, to directors, consultants and employees of the Company. The options expire on April 5, 2026 and vested immediately. The Company fair valued the options at \$3,710,462 using the Black-Scholes option pricing model using the following assumptions: risk free rate – 0.92%; volatility – 112%, expected forfeiture – nil; expected dividends – nil; expected life – 5 years.

The balance of options outstanding as at September 30, 2021 and December 31, 2020 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, 2020</b>	<b>6,621,323</b>	<b>0.26</b>	<b>3.85</b>
Granted	7,275,000	0.62	-
Exercised	(428,199)	0.22	-
Forfeited	(641,674)	0.27	-
<b>Balance, September 30, 2021</b>	<b>12,826,450</b>	<b>0.46</b>	<b>3.90</b>

As at September 30, 2021 the following options were outstanding:

<b>Expiry Date</b>	<b>Exercise Price \$</b>	<b>Options #</b>
September 12, 2024	0.21	2,932,543
February 18, 2025	0.32	2,418,907
July 28, 2023	0.20	200,000
April 5, 2026	0.62	7,275,000
		<b>12,826,450</b>

## Zinc8 Energy Solutions Inc.

Notes to the Condensed Interim Financial Statements

For the Three and Nine months Ended September 30, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

### c) Warrants

The balance of warrants outstanding as at September 30, 2021 and December 31, 2020 and the changes for the periods then ended is as follows:

	Number of Warrants #	Weighted Average Exercise Price \$	Weighted Average Life Remaining (years)
<b>Balance, December 31, 2020</b>	<b>26,904,417</b>	<b>0.21</b>	<b>1.27</b>
Exercised	(17,667,564)	0.16	-
Expired	(58,333)	0.12	-
Issued	1,725,000	0.54	-
<b>Balance, September 30, 2021</b>	<b>10,903,520</b>	<b>0.35</b>	<b>0.96</b>

As at September 30, 2021 the following share purchase warrants were outstanding and exercisable:

Expiry Date	Number Outstanding	Exercise Price \$
February 10, 2022	308,332	0.155
May 5, 2022	800,000	0.50
September 4, 2022	8,070,188	0.30
February 24, 2023	1,725,000	0.54
	<b>10,903,520</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 three and nine months ended September 30, 2021 and 2020 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Management fees	143,500	96,000	440,500	121,000
Payroll expense	55,500	33,000	166,500	99,000
Share-based compensation	-	-	2,268,099	493,292
	<b>199,000</b>	<b>129,000</b>	<b>2,875,099</b>	<b>713,292</b>

As at September 30, 2021, the Company had pre-payment of \$nil (2020 - \$22,600) and had \$nil included in accounts payable and accrued liabilities (2020 - \$100,000) owing to a company controlled by the CEO of the Company.

A company related by common directors charged marketing fees of \$50,000 (2020 - \$136,450) and rent of \$9,000 (2020 - \$7,000) during the nine months ended September 30, 2021. The Company had a deposit of \$nil (2020 - \$50,000) and owed \$nil included in accounts payable and accrued liabilities (2020 - \$52,500) to the same company as at September 30, 2021.

## Zinc8 Energy Solutions Inc.

### Notes to the Condensed Interim Financial Statements

For the Three and Nine months Ended September 30, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

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As at September 30, 2021, the Company had \$nil (2020 - \$26,000) 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, 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.

## 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.

During the nine months ended September 30, 2021, the Company entered into additional leases for office equipment, the leases range from 24 to 60 months with monthly payments between \$138 and 1,332 per month. During the nine months ended September 30, 2021, the Company recalculated certain outstanding leases and recorded a credit to previously incurred lease interest expense of \$101,373.

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 lease payments for office lease was calculated using the incremental borrowing rate of 8%.

## Zinc8 Energy Solutions Inc.

### Notes to the Condensed Interim Financial Statements

For the Three and Nine months Ended September 30, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

The Company's future minimum lease payments as at September 30, 2021 and December 31, 2020 are as follows:

	September 30, 2021 \$	December 31, 2020 \$
Less than 1 year	401,997	164,284
1 to 5 years	967,500	73,554
5+ Years	-	-
Total minimum lease payments	1,369,497	237,868
Less: imputed interest	(201,640)	(98,083)
Total lease obligation	1,167,857	139,785
Current portion of lease obligations	(325,171)	(78,785)
<b>Non-current portion of lease obligations</b>	<b>842,686</b>	<b>61,000</b>

<i>Lease obligations</i>	\$
At January 1, 2020	-
Additions	165,093
Payments	(25,308)
<b>At December 31, 2020</b>	<b>139,785</b>
Additions	904,212
Payments	(201,311)
<b>At September 30, 2021</b>	<b>842,686</b>

## 9. 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 September 30, 2021, 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 September 30, 2021, the Company had working capital of \$11,552,367.

### (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.

## **Zinc8 Energy Solutions Inc.**

### Notes to the Condensed Interim Financial Statements

For the Three and Nine months Ended September 30, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

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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.

## **10. 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 September 30, 2021. The Company is not subject to externally imposed capital requirements.

## **11. 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. On June 7, 2021, the Company entered into a debt settlement agreement with Market One whereby the

## **Zinc8 Energy Solutions Inc.**

Notes to the Condensed Interim Financial Statements

For the Three and Nine months Ended September 30, 2021 and 2020

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Company made a cash payment of \$30,000 and issued 116,279 common shares of the Company to settle the outstanding debt of \$208,950. The shares were fair valued at \$60,465 and the Company recorded a gain on debt settlement of \$118,485.

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. During the nine months ended September 30, 2021, the Company settled the amounts outstanding with Dig Media for cash consideration of \$30,450 and recorded a gain on debt settlement of \$50,817.

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. During the period ended September 30, 2021, the Company settled the amount owing for \$50,000 and recorded a gain on debt settlement of \$29,702.

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 September 30, 2021.

## **12. LOANS PAYABLE**

During the nine months ended September 30, 2021, the Company repaid \$60,000 in loans payable and as at September 30, 2021, the Company had \$nil (2020 - \$60,000) in loans payable.

## **13. A 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, then 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 the Company's Project Expenses: \$0

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- 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 the 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.

Minimum Required Qualified Expenses: \$1,375,000 USD Minimum

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.