

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

**Condensed Interim Financial Statements**

**For the Three and Six Months Ended June 30, 2019 and 2018**

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

# **MGX Renewables 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.

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

Condensed Interim Statements of Financial Position

As at

(Unaudited - expressed in Canadian Dollars)

	Note	June 30, 2019	December 31, 2018
		\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash		188,943	37,502
Prepaid and deposits		804,971	16,382
Amounts receivable		-	5,159
		993,914	59,043
<b>Non-Current Assets</b>			
Equipment	6	191,216	210,938
Intangible assets	5	4,950,134	4,950,134
		5,141,350	5,161,072
<b>Total Assets</b>		6,135,264	5,220,115
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		514,360	133,391
Advances payable	8	60,000	115,000
		574,360	248,391
Promissory Note	8	4,855,257	4,104,558
<b>Total Liabilities</b>		5,429,617	4,352,949
<b>Shareholders' Equity</b>			
Share capital	7	13,411,685	11,500,001
Contributed surplus	7	31,795	-
Deficit		(12,737,833)	(10,632,835)
		705,647	867,166
<b>Total Liabilities and Shareholders' Equity</b>		6,135,264	5,220,115

Nature of operations (Note 1)

Approved and authorized by the Board on August 29, 2019

<u>"Jared Lazerson"</u>	Director	<u>"Michael Reimann"</u>	Director
Jared Lazerson		Michael Reimann	

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

Condensed Interim Statements of Income (loss) and Comprehensive Income (loss)

For the Three and Six Months Ended June 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

		Three Months ended June 30,		Six Months Ended June 30,	
	Note	2019	2018	2019	2018
		\$	\$	\$	\$
<b>Expenses</b>					
Amortization	6	9,770	698	19,722	794
General and administrative		22,853	21,443	58,676	46,343
Interest		152,303	-	282,198	-
Filing and listing fees		14,482	-	14,482	-
Management fees		78,000	-	78,000	-
Marketing		334,246	15,093	367,174	36,799
Payroll	8	63,433	72,660	111,200	133,663
Professional fees		2,192	80,868	76,255	130,762
Research and development		474,221	364,697	998,648	557,082
Rent		41,390	51,196	91,918	102,393
Travel		6,725	-	6,725	-
		1,199,615	606,655	2,104,998	1,007,836
<b>Net and Comprehensive income (loss) for the period</b>					
		<b>(1,199,615)</b>	<b>(606,655)</b>	<b>(2,104,998)</b>	<b>(1,007,836)</b>
Basic and diluted loss per share		(0.04)	(0.03)	(0.07)	(0.06)
Weighted average shares outstanding		30,474,514	30,000,000	30,238,568	30,000,000

The accompanying notes are an integral part of these condensed interim financial statements  
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**MGX Renewables Inc. (Formerly, ZincNyx Energy Solutions Inc.)**

Condensed Interim Statements of changes in Equity

For the Six Months Ended June 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

	<b>Common shares #</b>	<b>Share Capital \$</b>	<b>Contributed Surplus \$</b>	<b>Earnings (Deficit) \$</b>	<b>Total \$</b>
<b>Balance, December 31, 2017</b>	<b>30,000,000</b>	<b>11,500,001</b>	-	<b>(8,037,291)</b>	<b>3,462,710</b>
Net loss for the period	-	-	-	(1,007,836)	(1,007,836)
<b>Balance, June 30, 2018</b>	<b>30,000,000</b>	<b>11,500,001</b>	-	<b>(9,045,127)</b>	<b>2,454,874</b>
Loss for the period	-	-	-	(1,587,708)	(1,587,708)
<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	8,020,000	2,005,000	-	-	2,005,000
Finders shares	770,200	-	-	-	-
Broker warrants	-	(31,795)	31,795	-	-
Net loss for the period	-	-	-	(2,104,998)	(2,104,998)
<b>Balance, June 30, 2019</b>	<b>38,790,200</b>	<b>13,411,685</b>	<b>31,795</b>	<b>(12,737,833)</b>	<b>705,647</b>

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

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

## Condensed Interim Statements of Cash flows

For the Six Months Ended June 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

	2019	2018
	\$	\$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net income (loss) for the period	(2,104,998)	(1,007,836)
Items not affecting cash:		
Amortization	19,722	794
Accrued interest	282,198	-
Changes in non-cash working capital items:		
Prepaid expense	(788,589)	(3,353)
Amounts receivable	5,159	2,146
Accounts payable and accrued liabilities	380,968	67,131
<b>Net cash used in operating activities</b>	<b>(2,205,540)</b>	<b>(941,118)</b>
<b>Investing activity</b>		
Purchase of equipment	-	(15,631)
<b>Net cash from investing activity</b>	<b>-</b>	<b>(15,631)</b>
<b>Financing activities</b>		
Proceeds from Private placement	2,005,000	-
Share issue costs	(61,520)	-
Advances payable	(55,000)	-
Loan repayment	(251,499)	-
Loan repayment	720,000	1,435,000
<b>Net cash from financing activity</b>	<b>2,356,981</b>	<b>1,435,000</b>
<b>Change in cash for the period</b>	<b>151,441</b>	<b>478,251</b>
<b>Cash, beginning of period</b>	<b>37,502</b>	<b>2,289</b>
<b>Cash, end of period</b>	<b>188,943</b>	<b>480,540</b>
<b>Supplemental information</b>	<b>\$</b>	<b>\$</b>
Interest paid	-	-
Taxes paid	-	-

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

Notes to the Condensed Interim Financial Statements

For the Three and Six Months Ended June 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

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

MGX Renewables Inc. (Formerly, ZincNyx Energy Solutions Inc.) (“MGX-R” or the “Company”) was incorporated on December 8, 2011 in Canada under the legislation of the Province of British Columbia. MGX-R’s head office is located at Unit 1 – 8765 Ash Street, Vancouver, BC, V6P 6T3, Canada. MGX-R 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”) under the symbol “MGXR” (Note 7).

At the date of the condensed interim financial 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 condensed interim 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 June 30, 2019, the Company had an accumulated deficit of \$12,737,833 (December 31, 2018 - \$10,632,835) 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 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**

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, 2018, 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, 2018 except as outlined in Note 3.

### **3. CHANGES IN ACCOUNTING STANDARDS**

The following standards were adopted during the period.

#### **IFRS 16 Leases**

IFRS 16 will replace IAS 17 Leases. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and

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For the Three and Six Months Ended June 30, 2019 and 2018

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liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard became effective on January 1, 2019. As the Company does not currently have any leases, the adoption of this standard did not have an impact on the Company's financial statements.

### **4. 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.

#### **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

### **5. INTELLECTUAL PROPERTY**

On March 6, 2015, the Company entered into a technology development agreement with 8230137 Canada Inc. ("8230137 Canada") whereby 8230137 Canada agreed to provide funding not exceeding \$6,000,000 for the development of intellectual property comprising the zinc regenerative fuel cell systems and zinc fuel cells (the "Zinc Technology"). The Company recognized funding of \$448,682 (2016 - \$1,480,177) received from 8230137 Canada on statement of loss during the year ended December 31, 2017.

On January 1, 2016 the Company entered into a technology purchase agreement with 8230137 Canada to purchase the Zinc Technology for \$11,500,000. In exchange, the Company issued 13,500,000 common shares in the capital of the Company. The Company incurred a transaction cost of \$3,500 related to an acquisition of intellectual property.

During the year ended December 31, 2017 the Company recorded an impairment charge of \$6,553,366 on the Zinc Technology.



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Notes to the Condensed Interim Financial Statements

For the Three and Six Months Ended June 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

**6. EQUIPMENT**

	Lab Equipment \$	Equipment \$	Software \$	Total \$
<b>Cost:</b>				
<b>Balance, June 30, 2019 and December 31, 2018</b>	<b>204,691</b>	<b>2,373</b>	<b>20,309</b>	<b>227,373</b>
<b>Accumulated Depreciation:</b>				
<b>Balance, December 31, 2018</b>	<b>11,132</b>	<b>396</b>	<b>4,907</b>	<b>16,435</b>
Amortization	14,357	287	5,077	19,722
<b>Balance, June 30, 2019</b>	<b>25,489</b>	<b>683</b>	<b>9,984</b>	<b>36,156</b>
<b>Net Book Value:</b>				
<b>December 31, 2018</b>	<b>193,559</b>	<b>1,977</b>	<b>15,402</b>	<b>210,938</b>
<b>June 30, 2019</b>	<b>179,202</b>	<b>1,690</b>	<b>10,325</b>	<b>191,216</b>

**7. SHARE CAPITAL**

## a) Authorized

Unlimited number of common shares without par value.

Unlimited number of preferred shares without par value.

On November 1, 2018 the Company amended its notice of articles, resulting in the following changes to the Company's share structure:

- 1) All Class A Voting Common shares without par value and Class B Voting Common shares without par value were eliminated from the authorized capital of the Company, none of which were allotted or issued as at such date.
- 2) All Class C Voting Common shares without par value have been re-named as Common shares without par value and all special rights and restrictions attached thereto were deleted.
- 3) Creation of an unlimited number of Preferred shares without par value and creating and attaching thereto special rights and restrictions.

On December 19, 2017 there was a change of control event whereby MGX Minerals Inc. ("MGX") acquired all of the outstanding common shares of the Company in exchange for common shares of MGX and cash considerations. On April 3, 2018, MGX announced it would pursue a reorganization, pursuant to which it would spin-out its interests in the Company, resulting in the Company becoming listed as a separate company on the Canadian Securities Exchange ("CSE") (the "Transaction").

On June 11, 2019 MGXR 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 on one common share of MGXR 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 \$61,520 of cash issue costs. Upon completion of the financing MGX's interest in MGXR was reduced from 100% to 77%. 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. The Company allocated

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

## Notes to the Condensed Interim Financial Statements

For the Three and Six Months Ended June 30, 2019 and 2018

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On June 26, 2019 the Transaction was completed and MGX completed a distribution of 11,991,761 common shares of MGXR as a return of capital reducing MGX's interest in MGXR from 77% to 46.4%. The common shares were distributed pursuant to a spin-out by MGX and MGX did not receive any proceeds from the distribution.

Subsequent to June 30, 2019 the Company's common shares began trading on the CSE under the trading symbol "MGXR".

**8. RELATED PARTY TRANSACTIONS**

Compensation paid to key management during the three and six months ended June 30, 2019 and 2018 was as follows:

	Three months ended		Six months ended	
	2019	June 30, 2018	2019	June 30, 2018
	\$	\$	\$	\$
Management fees	78,000	-	78,000	-
Payroll expense	33,000	68,696	66,000	121,471
	<b>111,000</b>	<b>68,696</b>	<b>144,000</b>	<b>121,471</b>

Key management includes the CFO, CEO, VP of Engineering and the Board of Directors. 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.

During the year ended December 31, 2018 the Company received \$2,376,744 (2017 - \$nil) in loans from MGX. On June 30, 2018 the Company entered into a promissory note agreement with MGX in the amount of \$2,952,222 (the "Promissory Note"). The Promissory Note replaced the existing loans payable that were owing to MGX. The Promissory Note bears interest at 12%, is unsecured and due on December 31, 2020. Additional loans received from MGX subsequent to the Promissory Note have the same terms as the Promissory Note.

	\$
<b>Balance, December 31, 2017</b>	-
Additions	3,893,966
Interest	210,592
<b>Balance, December 31, 2018</b>	<b>4,104,558</b>
Additions	720,000
Repayments	(251,499)
Interest	282,198
<b>Balance, June 30, 2019</b>	<b>4,855,257</b>

During the year ended December 31, 2018 the Company received \$115,000 in advances payable, the amounts were unsecured and due on demand. During the six months ended June 30, 2019 the Company repaid \$55,000 of advances payable.

**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:

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

### Notes to the Condensed Interim Financial Statements

For the Three and Six Months Ended June 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

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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 June 30, 2019, the fair values of financial instruments measured on a recurring basis include cash, determined based on level one inputs and consisting of quoted prices in active markets for identical assets. The fair values of other financial instruments, which include accounts payable and accrued liabilities, loan payable, approximate their carrying values due to the relatively short-term maturity of these instruments.

(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 June 30, 2019, the Company had working capital of \$419,554.

(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.

## **10. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain optimal capital structure to reduce the cost of capital. The Company's capital is composed of shareholder's equity in the statement of financial position.

The Company is not subject to externally imposed capital requirements. In managing capital structure, the Company manages its capital through regular reports to the Board of Directors and management review of monthly and quarterly financial information. There were no changes to the Company's management of capital during the period.