Zinc8 Energy Solutions Inc.

Condensed Interim Financial Statements
For the Three Months Ended March 31, 2020 and 2019

(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	March 31, 2020	December 31, 2019
		$	$
Assets			
Current Assets			
Cash		2,639,976	86,499
Prepaid and deposits		265,250	319,447
Amounts receivable		43,586	66,596
		2,948,812	472,542
Non-Current Assets			
Equipment	**5**	193,833	171,676
Intangible assets	**4**	4,950,134	4,950,134
		5,143,967	5,121,810
Total Assets		8,092,779	5,594,352
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		948,897	1,082,958
Advances payable		60,000	233,671
Promissory Note	**7**	1,240,000	5,174,688
		2,248,897	6,491,317
Total Liabilities		2,248,897	6,491,317
Shareholders' Equity (deficiency)			
Share capital	**6**	16,898,642	13,885,838
Subscriptions received		-	21,000
Contributed surplus	**6**	2,067,918	975,902
Deficit		(13,122,678)	(15,779,705)
		5,843,882	(896,965)
Total Liabilities and Shareholders' Equity		8,092,779	5,594,352

Nature of operations (Note 1)
Contingencies (Note 10)

Approved and authorized by the Board on July 15, 2020

"Ron MacDonald" Director
Ron MacDonald

"Michael Reimann" Director
Michael Reimann

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 Months Ended March 31, 2020 and 2019
(Unaudited - expressed in Canadian Dollars)

	Note	2020	2019
		$	$
Revenue			
Grant Revenue		1,109,706	-
Expenses			
Amortization	**5**	9,969	9,952
General and administrative		92,827	35,823
Interest		63,109	129,895
Filing and listing fees		33,606	-
Management fees	7	96,000	-
Marketing		249,015	32,928
Payroll	**7**	59,529	47,767
Professional fees		22,511	74,063
Research and development		525,726	524,427
Rent		53,307	50,528
Share-based compensation	6	963,547	-
Travel		19,685	-
		2,188,831	905,383
Loss before other items		(1,079,125)	(905,383)
Other Items:			
Gain on debt settlement		3,736,152	-
Net and Comprehensive income/(loss) for the period		**2,657,027**	**(905,383)**
Basic and diluted loss per share		0.04	(0.03)
Weighted average shares outstanding		63,276,187	30,000,000

Zinc8 Energy Solutions Inc.
Condensed Interim Statements of Changes in Equity
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - expressed in Canadian Dollars)

	Common shares	**Share Capital**	**Contributed Surplus**	**Deficit**	**Total**
	#	**$**	**$**	**$**	**$**
Balance, December 31, 2018	**30,000,000**	**11,500,001**	**-**	**(10,632,835)**	**867,166**
Net loss for the period	**-**	**-**	**-**	(905,383)	(905,383)
Balance, March 31, 2019	**30,000,000**	**11,500,001**	**-**	**(11,538,218)**	**(38,217)**
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 period	-	-	-	(4,241,487)	(4,241,487)
Balance, December 31, 2019	**47,123,529**	**13,906,838**	**975,902**	**(15,779,705)**	**(896,965)**
Shares issued pursuant to:					
Private Placement	27,879,513	3,066,746	-	-	3,066,746
Subscriptions received in advance	-	(21,000)	-	-	(21,000)
Share Issue costs	-	(186,893)	-	-	(186,893)
Brokers warrants	-	(128,469)	128,469	-	-
Warrants exercised	1,576,199	261,420	-	-	261,420
Share-based compensation	-	-	963,547	-	963,547
Net income for the period	-	-	-	2,657,027	2,657,027
Balance, March 31, 2020	**76,579,241**	**16,898,642**	**2,067,918**	**(13,122,678)**	**5,843,882**

Zinc8 Energy Solutions Inc.
Condensed Interim Statements of Cash Flows
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - expressed in Canadian Dollars)

	2019	2018
	$	$
Cash provided by (used in):		
Operating activities		
Net income (loss) for the period	2,657,027	(905,383)
Items not affecting cash:		
Amortization	9,969	9,952
Accrued interest	61,464	129,895
Gain on debt settlement	(3,736,152)	-
Share-based compensation	963,547	-
Changes in non-cash working capital items:		
Prepaid expense	54,197	(30,285)
Amounts receivable	23,010	(6,620)
Accounts payable and accrued liabilities	(134,061)	93,835
Net cash used in operating activities	(100,999)	(708,606)
Investing activity		
Purchase of equipment	(32,126)	-
Net cash from investing activity	(32,126)	-
Financing activities		
Proceeds from Private placement	3,045,746	-
Share issue costs	(186,893)	-
Warrant exercises	261,420	-
Advances payable	(173,671)	-
Loan repayment	(260,000)	-
Loan	-	720,000
Net cash from financing activities	2,686,602	720,000
Change in cash for the period	2,553,477	11,394
Cash, beginning of period	86,499	37,502
Cash, end of period	2,639,976	48,896

Supplemental information	**$**	**$**
Interest paid	-	-
Taxes paid	-	-

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 reasonable 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 2020.

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 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 March 31, 2020, the Company had an accumulated deficit of $13,122,678 (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 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, 2019, 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, 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.

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

4. 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.

(Unaudited - expressed in Canadian Dollars)

5. EQUIPMENT

	Lab Equipment $	Equipment $	Software $	Total $
Cost:				
Balance, December 31, 2019	**204,691**	**2,373**	**20,309**	**227,373**
Additions	30,520	1,605	-	32,125
Balance, March 31, 2020	**235,211**	**3,978**	**20,309**	**259,498**
Accumulated Depreciation:				
Balance, December 31, 2019	**39,664**	**971**	**15,061**	**55,696**
Amortization	7,088	376	2,505	9,969
Balance, March 31, 2020	**46,752**	**1,347**	**17,566**	**65,665**
Net Book Value:				
December 31, 2019	**165,026**	**1,402**	**5,247**	**171,676**
March 31, 2020	**188,459**	**2,631**	**2,743**	**193,833**

6. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.
Unlimited number of preferred shares without par value.

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 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%.

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.

(Unaudited - expressed in Canadian Dollars)

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

	Number of Options #	Weighted Average Exercise Price $	Weighted Average Life Remaining (years)
Balance, December 31, 2019	**4,688,000**	**0.21**	**4.45**
Granted	2,787,951	0.32	-
Balance, March 31, 2020	**7,475,951**	**0.25**	**4.62**

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%.

As at March 31, 2020 and December 31, 2019, the following options were outstanding:

Expiry Date	Number Outstanding	Exercise Price $
September 12, 2024	4,688,000	0.21
February 18, 2025	2,787,951	0.32
	7,475,951	

c) Warrants

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

	Number of Warrants #	Weighted Average Exercise Price $	Weighted Average Life Remaining (years)
Balance, December 31, 2019	**12,690,829**	**0.17**	**1.43**
Exercised	(1,576,199)	0.17	-
Issued	28,512,400	0.155	-
Balance, March 31, 2020	**39,627,030**	**0.16**	**1.67**

Subsequent to March 31, 2020, 1,256,459 warrants were exercised for gross proceeds of $100,517.

(Unaudited - expressed in Canadian Dollars)

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

Expiry Date	Number Outstanding	Exercise Price $
November 30, 2020	3,856,300	0.35
September 11, 2021	7,258,330	0.08
February 10, 2022	28,512,400	0.16
	39,627,030	

7. RELATED PARTY TRANSACTIONS

Compensation paid to key management during the three months ended March 31, 2020 and 2019 is as follows:

	2020 $	2019 $
Management fees	96,000	-
Payroll expense	33,000	33,000
Share-based compensation	491,031	-
	620,031	**33,000**

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. As at March 31, 2020 the Company had $4,552 (2019 - $113,460) owing to related parties included in accounts payable. The amounts owing are non-interest bearing and due on demand.

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.

	$
Balance, December 31, 2018	**4,104,558**
Additions	739,038
Repayments	(251,499)
Interest	582,591
Balance, December 31, 2019	**5,174,688**
Interest	61,464
Gain on debt settlement	(3,736,152)
Repayment	(260,000)
Balance, March 31, 2020	**1,240,000**

During the three months ended March 31, 2020 the Company agreed to a settlement of the loan with MGX for $1,500,000 and repaid $260,000. Subsequent to March 31, 2020 the Company paid an additional $620,000 and with the remaining $620,000 to by paid in August 2020. The Company recorded a gain on debt settlement of $3,736,152.

Upon completion of the settlement, Jared Lazerson resigned from his position as a Director of Zinc8. Mr. Lazerson agreed to a severance agreement with the Company whereby the Company issued 800,000 units at a deemed price of $0.38, 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 subsequent to March 31, 2020.

8. 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 March 31, 2020, 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 March 31, 2020, the Company had working capital of $699,915.

(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.

9. 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.

10. CONTINGENCIES

On September 5, 2019, Market One Media Group Inc. filed a claim against the Company for unpaid invoices of $207,900 relating to a media advertising and promotion services agreement from May 2019. The Company's position is that it has not received any of the services discussed in the contract. The full amount of $207,900 has been recorded as accounts payable at March 31, 2020.

On January 10, 2020, Dig Media filed a claim against the Company for unpaid invoices relating to media and promotion services from May 2019. It is the Company's position that it has not received any of the services. The full amount of $60,900 has been recorded as accounts payable at March 31, 2020.