DYNACERT INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

(EXPRESSED IN CANADIAN DOLLARS)

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Independent Auditor's Report

To the Shareholders of dynaCERT Inc.

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Group incurred a net loss of $13,725,049 and had negative operating cash flows of $11,434,650. 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 Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* we have determined the matters described below to be the key audit matters to be communicated in our report.

Recoverability of Long-lived Assets and Investment in Associate

<u>Description of the key audit matter</u>

The Company performs an impairment test whenever events or changes in circumstances indicate that the carrying amounts of its investment in associate and its intangible assets and property and equipment, or the cash-generating units to which these long-lived assets belong, exceeds their recoverable amount. The recoverable amount is determined based on the estimated future cash flows related to the sale of the Company's hydrogen generator products, including sales to their associate KarbonKleen Inc. ("KK"), their preferred distributor. Management performed an impairment test and determined that the carrying amounts of the investment in KK and long-lived assets were not impaired. Refer to Note 1, 2 and 14 to the consolidated financial statements.

The impairment assessment related to the Company's investment in KK and its long-lived assets was significant to our audit due to the importance of the estimated future cash flows in the assessment given sales volumes to date have not been significant, along with the economic uncertainty caused by the COVID-19 pandemic.

<u>How our audit addressed the key audit matter</u>

Our audit procedures focused on evaluating management's assumptions with respect to the timing and quantity of estimated future cash flow projections, including:

- Assessing estimated future product sales, including reviews of order backlog and expected pipeline, along with probabilities related to future orders and sales;
- Reviewing managements estimates of the costs of manufacturing and distribution and the related margins estimated to be realized on future product sales against historic results and estimated future expected cost structures and economies;
- Reviewing the adequacy of the Company's disclosures on its impairment methodologies in Notes 2, 3 and 14 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises:

- The information included in the Management's Discussion and Analysis of Financial Conditions and Results of Operations for the year ended December 31, 2020.

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

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

We obtained the Management's Discussion and Analysis of Financial Conditions and Results of Operations for the year ended December 31, 2020 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We 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 these consolidated financial statements in accordance with IFRS, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we 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 our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jeanny Gu.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 31, 2021

DynaCERT INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2020	As at December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**$ 18,836,013**	$ 16,319,235
Accounts and other receivable (note 7)	**431,133**	287,731
Sales tax receivable	**294,536**	346,705
Inventory (note 8)	**2,332,493**	1,487,409
Prepaid expenses (note 6)	**1,608,202**	762,634
Note receivable from associate (note 13)	**807,463**	-
Total current assets	**24,309,840**	19,203,714
Non-current assets		
Property and equipment (note 9)	**1,837,456**	812,667
Intangible assets (note 10)	**730,574**	437,751
Right-of-use asset (note 11)	**5,776**	110,572
Investment in associate (note 13)	**612,512**	-
Total assets	**$ 27,496,158**	$ 20,564,704
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 835,493**	$ 947,958
Deferred revenue	**233,442**	272,575
Lease obligation (note 12)	**1,854**	112,956
Promissory note (note 14)	**76,086**	214,092
Total current liabilities	**1,146,875**	1,547,581
Non-current liabilities		
Lease obligation (note 12)	**4,845**	3,467
Promissory note (note 14)	**-**	83,972
Total liabilities	**1,151,720**	1,635,020
Shareholders' equity		
Share capital (note 15)	**89,660,391**	69,902,351
Warrant reserve (note 17)	**1,403,573**	1,721,713
Share-based payments reserve (note 16)	**11,871,701**	10,171,798
Deficit	**(76,591,227)**	(62,866,178)
Total shareholder's equity	**26,344,438**	18,929,684
Total shareholders' equity and liabilities	**$ 27,496,158**	$ 20,564,704

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

Nature of operations and going concern (note 1)
Contingencies (note 22)

Approved on behalf of the Board:

"Jim Payne"	*"Jean-Pierre Colin"*
Director	*Director*

DynaCERT INC.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year Ended December 31, 2020	Year Ended December 31, 2019
Revenue	**$ 467,610**	$ 1,064,627
Operating expenses		
Cost of goods sold	**443,436**	304,800
Accretion on promissory note	**47,517**	58,335
Business development and marketing	**1,992,975**	1,907,932
General and administrative	**2,018,326**	1,571,721
Interest income	**(225,359)**	(5,838)
Legal and audit	**447,736**	154,439
Research and development	**4,587,355**	2,616,360
Loss on investment in associate (note 13)	**173,737**	-
Canada Emergency Wage Subsidy	**(1,009,539)**	-
Wages, benefits, and third-party consultants (note 20)	**2,224,833**	2,182,534
	10,701,017	8,790,283
Foreign exchange gain (loss)	**6,665**	(85,767)
Share based compensation	**3,469,992**	4,602,845
Loss on debt settlement (note 14 & 15b(vi))	**14,985**	423,389
Total comprehensive loss for the year	**$ 13,725,049**	$ 12,666,123
Basic and diluted net loss per share	**$ 0.039**	$ 0.043
Weighted average number of common shares outstanding	**354,709,118**	291,776,226

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

DynaCERT INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2020	Year Ended December 31, 2019
Operating activities		
Net loss for the year	**$ (13,725,049)**	$ (12,666,123)
Adjustments for:		
Loss on disposal of property and equipment	**-**	63,597
Depreciation of property and equipment	**211,975**	165,264
Amortization of intangible assets	**121,359**	86,544
Share based compensation	**3,469,992**	4,602,845
Accretion of lease obligations	**-**	19,449
Amortization of right-of-use asset	**108,654**	129,180
Loss on investment in associate	**173,737**	58,335
Loss on debt settlement	**-**	423,389
Foreign exchange	**6,784**	(5,231)
Accrued interest on note receivables	**(56,940)**	-
Accretion of promissory note	**46,322**	-
Changes in non-cash working capital items:		
Sales tax receivable, and accounts and other receivables	**(91,233)**	(244,115)
Inventory	**(845,084)**	773,116
Prepaid expenses	**(845,568)**	(232,813)
Amounts payable and other liabilities	**29,534**	(2,181,577)
Deferred revenue	**(39,133)**	(221,097)
Net cash used in operating activities	**(11,434,650)**	(9,229,237)
Investing activities		
Acquisition of property and equipment	**(1,236,764)**	(498,520)
Acquisition of intangible assets	**(414,182)**	(202,319)
Note receivable	**(1,020,293)**	-
Investment in associate	**(516,479)**	-
Net cash used in investing activities	**(3,187,718)**	(700,839)
Financing activities		
Proceeds from issuance of units	**8,367,400**	21,600,000
Share issuance costs	**(770,430)**	(29,447)
Proceeds from exercise of options	**1,991,231**	1,005,850
Proceeds from exercise of warrants	**7,939,610**	3,884,786
Repayment of promissory note	**(268,300)**	(178,427)
Lease obligation expense	**(120,365)**	(142,778)
Net cash provided by financing activities	**17,139,146**	26,139,984
Net change in cash and cash equivalents	**2,516,778**	16,209,908
Cash and cash equivalents, beginning of year	**16,319,235**	109,327
Cash and cash equivalents, end of year	**$ 18,836,013**	$ 16,319,235
Supplemental information		
Shares issued for debt (note 15 (vi))	**$ 142,000**	$ -
Unpaid share capital (note 15 (vii))	**$ 567,549**	$ -

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

DynaCERT INC.

Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share capital	Warrants reserve	Share-based reserve	Deficit	Total
Balance, December 31, 2018	**$ 43,071,876**	**$ 1,364,853**	**$ 6,308,174**	**$ (50,213,130)**	**$ 531,773**
Units issued	20,480,001	1,119,999	-	-	21,600,000
Finance costs	(29,447)	-	-	-	(29,447)
Exercise of stock options	1,745,071	-	(739,221)	-	1,005,850
Share based compensation	-	-	4,602,845	-	4,602,845
Exercise of warrants	4,634,850	(750,064)	-	-	3,884,786
Expiry of warrants	-	(13,075)	-	13,075	-
Net loss for the year	-	-	-	(12,666,123)	(12,666,123)
Balance, December 31, 2019	**$ 69,902,351**	**$ 1,721,713**	**$ 10,171,798**	**$ (62,866,178)**	**$ 18,929,684**
Units issued	8,367,400	-	-	-	8,367,400
Share issued to settle debt	142,000	-	-	-	142,000
Exercise of stock options	4,101,369	-	(1,770,089)	-	2,331,280
Unpaid share capital	(567,549)	-	-	-	(567,549)
Share based compensation	-	-	3,792,387	-	3,792,387
Option cancelled	-	-	(322,395)	-	(322,395)
Exercise of warrants	8,768,824	(601,714)	-	-	8,167,110
Share issuance costs	(1,054,004)	283,574	-	-	(770,430)
Net loss for the year	-	-	-	(13,725,049)	(13,725,049)
Balance, December 31, 2020	**$ 89,660,391**	**$ 1,403,573**	**$ 11,871,701**	**$ (76,591,227)**	**$ 26,344,438**

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

1. Nature of operations and going concern

Nature of business

DynaCERT Inc. ("dynaCERT" or the "Company") was incorporated under the laws of the Province of Ontario. The address of the Company's head office is 501 Alliance Avenue – Suite 101, Toronto, Ontario. The Company's shares were listed on the TSX-V under the trading symbol DYA until July 7, 2020, at which points the common shares of the Company commenced trading on the Toronto Stock Exchange ("TSX") under the same trading symbol and were concurrently delisted from the TSX-V. On June 9, 2020, the common shares of the Company were listed on the USA OTCQX under the symbol "DYFSF" and delisted from the OTCQB. These consolidated financial statements include the results of DynaCERT and its wholly owned subsidiaries, DynaCERT GmbH Inc, its wholly owned German subsidiary, and DynaCERT International Strategic Holdings Inc. ("DISH").

The Company is engaged in the design, engineering, testing, manufacturing and distribution of a patent pending transportable hydrogen generator aftermarket product. The system is a patent pending aftermarket retrofit product that provides performance enhancements by injecting hydrogen and oxygen into the air intake manifold, resulting in improved fuel efficiency and reduced carbon emissions.

Going concern uncertainty

At each reporting period, management assesses the basis of preparation of the financial statements. These financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements do not include any adjustments to amounts and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

For the year ended December 31, 2020, the Company incurred a net loss of $13,725,049 (December 31, 2019 - $12,666,123) and had negative operating cash flows of $11,434,650 (December 31, 2019 - $9,229,237). Although the Company has generated revenue from customer sales, the sales volumes achieved to date have not been significant and has not generated sufficient margins to cover the Company's operating costs and research and development costs. The Company has an accumulated deficit of $76,591,227 since inception (December 31, 2019 - $62,866,178).

The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to generate cash flows from operations and to complete negotiations to obtain and successfully close additional funding from debt financing, equity financings or through other arrangements. While the Company has been successful in arranging financing in the past, there can be no assurance the debt financing or any equity offering will be successful in light of the impact of the COVID-19 on the global capital markets. As a result management has determined that it would be prudent to disclose that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The rapid spread of COVID-19 worldwide has caused significant economic contraction and uncertainty, resulting in delays in sales. The worldwide pandemic starting in late 2019 slowed down parts of the Company's supply chain, thereby stopping all final assembly work on existing client orders until raw material deliveries resumed and were received towards the end of March 2020. Further, European shut down of non-essential commerce in January through September significantly affected the Company's ability to delivery finished goods as our customers were not able to accept incoming goods or install HydraGEN™ Technology Units on their trucks and equipment.

2. Basis of preparation

Statement of compliance

The Company applies 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").

The policies applied in these consolidated financial statements are based on IFRS, which have been applied consistently to all periods presented. These consolidated financial statements were issued and effective as of March 31, 2021, the date the Board of Directors approved the statements.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. The functional currency of each individual entity is measured using the currency of the primary economic environment in which the entity operates.

Basis of consolidation

These consolidated financial statements include the results of DynaCERT and its wholly owned subsidiaries, which include DynaCERT GmbH Inc, its wholly owned German subsidiary, and DISH.

The Company incorporated DISH, on April 17, 2020 as a wholly-owned Canadian subsidiary of the Company.

These consolidated financial statements incorporate the assets, liabilities and results of operations of all entities controlled by the Company. The effects of all transactions between entities in the consolidated group have been eliminated.

Use of estimates and judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes may differ from these estimates.

Significant areas requiring the use of estimates and assumptions include the determination of the useful lives of property and equipment and intangible assets with finite lives, provisions, recoverability of deferred tax assets, valuation of share-based payments, recoverability of investments in associate, and the determination of impairment of long-lived assets.

2. Basis of preparation (continued)

Use of estimates and judgments (continued)

The critical judgments management has made in the process of applying the Company's accounting policies, apart from those involving estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are in relation to the assumption that the Company will continue as a going concern. The most significant accounts that require estimates as the basis for determining the stated amounts include the following:

<u>Share-Based Payments</u>

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option pricing model. In assessing the fair value of equity-based compensation, estimates have been made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

<u>Inventory Valuation</u>

The Company regularly reviews inventory quantities on hand and records a provision for those inventories no longer deemed to be fully recoverable. The cost of inventories may no longer be recoverable if those inventories are slow moving, damaged, if they have become obsolete, or if their selling prices or estimated forecast of product demand decline. If actual market conditions are less favorable than previously projected, or if liquidation of the inventory no longer deemed to be fully recoverable is more difficult than anticipated, additional provisions may be required.

<u>Provisions</u>

A provision is recognized if the Company has a present legal or constructive obligation, as a result of past events, that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Management must use judgment in determining whether all of the above three conditions have been met to recognize a provision or whether a contingent liability is in existence at the reporting date.

Management formulates a reliable estimate for the obligation once the applicable criteria have been satisfied to recognize the liability. Management's estimate is based on the likelihood and timing of economic outflows, discount rates, historical experience, nature of provision, opinions of legal counsel and other advisors and if there is a claim amount. Provisions and contingencies can vary materially from management's initial estimate and affect future consolidated financial statements.

The other items subject to judgment or significant estimates are detailed in the corresponding disclosures.

2. Basis of preparation (continued)

Use of estimates and judgments (continued)

Impairment of Investment in Associates

At the end of each financial reporting period, the Company's management evaluates whether there is impairment of its investments in associates based on objective evidence, which includes observable data indicating that there is a measurable decrease in the estimated future cash flows of the associate's operation. When such objective evidence is discovered, the Company writes down the value of its investment to its recoverable amount, which is the higher of fair value less cost to sell and value in use. Such impairment tests and recoverable value models have a degree of estimation and judgment which may differ in the future.

Impairment of long-lived assets

Long-lived assets consist of intangible assets and property, and equipment.

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that the carrying amount is not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When an individual asset does not generate independent cash flows, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

New standards adopted

Definition of a Business (Amendments to IFRS 3)

The IASB has issued Definition of a Business (Amendments to IFRS 3) to clarify the definition of a business for the purpose of determining whether a transaction should be accounted for as an asset acquisition or a business combination. The amendments:

- clarify the minimum attributes that the acquired assets and activities must have to be considered a business
- remove the assessment of whether market participants can acquire the business and replace missing inputs or processes to enable them to continue to produce outputs
- narrow the definition of a business and the definition of outputs
- add an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business

The Company has adopted this policy on January 1, 2020, and there was no material impact to the consolidated financial statements.

2. Basis of preparation (continued)

New standards not yet adopted

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period"
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

3. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid short-term investments held in the form of high quality money market investments with a maturity date of less than three months at acquisition.

(b) Financial instruments

Below is a summary showing the classification and measurement bases of the Company's financial instruments:

Classification	**IFRS 9**
Cash and cash equivalents	FVTPL
Accounts and other receivable	Amortized cost
Note receivable from associate	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Promissory note	Amortized cost

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

Financial assets (continued)

ii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at FVTPL: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Amortized cost
Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

ii. Financial liabilities recorded at FVTPL
Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Transaction costs
Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement
Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Derecognition
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. 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 profit or loss.

Expected credit loss impairment model
The Company applies a single expected credit loss impairment model, which is based on changes in credit quality since initial application.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

Expected credit loss impairment model (continued)
The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(c) Inventory

Inventory is measured at the lower of cost and net realizable value, with cost being determined on a first-in first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs.

(d) Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:
- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under any residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- The lease term has changed or there is a significant event or change in circumstances resulting in a change the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. Significant accounting policies (continued)

(d) Leases (continued)

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

(e) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Shares issued by the Company are recorded at the value of proceeds received. When the Company issues units consisting of shares and warrants, the residual value method is used to allocate value to the shares and warrants. If and when warrants are exercised, the applicable amounts from warrants reserve are transferred to capital stock. If warrants expire, the related amounts from warrants reserve and transferred to deficit.

(f) Share based compensation

The Company’s stock option plan allows employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Share based compensation to non-employees are measured at the fair value of the goods or services received or at 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 is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. The fair value of the options is accrued and charged to operations, with the offset credit to share-based payments reserve, over the vesting period. If and when the stock options are exercised, the applicable amounts from share based payments reserve are transferred to capital stock. If options expire, the related amounts from share-based payments reserve are transferred to deficit.

The Black-Scholes option valuation model used by the Company to determine fair values of options and similar financial instruments requires the input of highly subjective assumptions including future stock volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate.

3. Significant accounting policies (continued)

(g) Revenue recognition

Revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer at the time when the Hydrogen generator system is shipped, applying the following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(h) Basic and diluted loss per share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. The dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(i) Income taxes

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. Significant accounting policies (continued)

(j) Property and equipment

Property and equipment are carried at acquisition cost less accumulated depreciation and impairment, if any.

Property and equipment are depreciated on a declining balance method to their residual value over their estimated useful lives commencing from when available for their intended use. The estimated useful lives and amortization method are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis. The various components of an item of property or equipment are recognized separately when their estimated useful lives, and thus their depreciation period, are significantly different. Residual values and estimated useful lives are reviewed annually with the effect of any property changes in estimate being accounted for on a prospective basis.

Depreciation rates are as follows:

Plant equipment	20% declining balance basis
Office equipment	20% declining balance basis
Furniture and fixtures	20% declining balance basis
Leasehold improvements	Straight-line over lease term
Tooling equipment	Straight-line over five years

All property and equipment are reviewed for impairment when there are indications that the carrying value may not be recoverable.

(k) Impairment of long-lived assets

The carrying amount of property and equipment is reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset to the recoverable amount. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset’s value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized whenever the carrying amount of an asset or the asset’s cash-generating unit, exceeds its recoverable amount. Impairment losses are recorded in the consolidated statement of loss and comprehensive loss. Impairment losses recognized in prior periods are assessed at each reporting period for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years, net of accumulated amortization and depreciation.

At December 31, 2020, the Company assessed that there were indicators of impairment primarily due to (i) slower-than-expected ramp-up of commercial activities due to COVID-19, (ii) significant adverse changes in the business climate, and (iii) current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the assets. The Company determined that there was no impairment as at December 31, 2020, based on cash flow projections, and forecasted sales. In arriving at its forecast the Company considered the deals in the current pipeline, distribution channels, and governments green incentives. Additionally, the Company also considered current industry and market trends.

3. Significant accounting policies (continued)

(k) Impairment of long-lived assets (continued)

Expected future cash flows used to determine the value in use are inherently uncertain and could materially change over time. Any significant change in these assumptions could result in a fair value that is less than the carrying value. Asset impairment testing is subject to numerous assumptions, inherent risks and uncertainties, and the risk that these assumptions may not be realized.

(l) Intangible assets

Intangible assets with finite useful lives are measured at cost and are amortized on a straight line basis over their estimated useful lives. The estimated useful lives and amortization method are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis. All intangible assets with finite lives are reviewed for impairment where there are indicators that the carrying value may not be recoverable. In addition, intangible assets with indefinite useful lives are reviewed to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate. Impairment losses recognized in prior periods are assessed at each reporting period for any indication that the loss has decreased or no longer exists.

Patents and patents pending held by the Company, which will be used in the manufacture of the HydraGEN products, are carried at cost and once the patents are put into use are amortized on a straight-line basis over their useful lives, being 10 years. External costs incurred in filing and protecting patent applications, for which no future benefit is reasonably assured, are expensed as incurred.

Computer software is amortized at 30% per year using the declining balance method.

(m) Research and development costs

Expenditures on research and development activities are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognized only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. To date, all development costs have been expensed as incurred as their recoverability cannot be regarded as assured.

(n) Investments in Associates

An associate is an entity over which the Company has significant influence but not control and is not a subsidiary or joint venture. Significant influence is presumed to exist where the Company has between 20% and 50% of the voting rights, but can also arise when the Company has power to be actively involved and influential in financial and operating policy decisions of the entity even though Company has less than 20% of voting rights.

The Company accounts for its investments in associates using the equity method. Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of profit and loss of the associate and for impairment losses after the initial recognition date. The Company's share of an associate's loss that are in excess of its investment are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of comprehensive income or losses attributable to shareholders of associates are recognized in comprehensive income during the period. The carrying amount of the Company's investments in associates also include any long-term debt interests which in substance form part of the Company's net investment. Distributions received from an associate are accounted for as a reduction in the carrying amount of the Company's investment.

3. Significant accounting policies (continued)

(n) Investments in Associates (continued)

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating there is a measurable decrease in the estimated future cash flows of the associate's operations. When there is objective evidence that an investment in an associate is impaired, the carrying amount is compared to its recoverable amount, being the higher of its fair value less cost to sell and value in use. An impairment loss is recognized if the recoverable amount is less than its carrying amount. When an impairment loss reverses in a subsequent period, the carrying amount of the investment is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. Impairment losses and reversal of impairment losses, if any, are recognized in net income in the period in which the relevant circumstances are identified.

4. Capital risk management

The Company defines its capital under management as shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its HydraGEN products and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk level.

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. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. 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 considers its capital structure to consist of capital stock, contributed surplus (reserves) and deficit, which at December 31, 2020 totaled $26,344,438 (December 31, 2019 - $18,929,684). When managing capital, the Company's objective is to ensure the Company continues as a going concern, to identify a new project as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management reviews and adjusts its capital structure on an ongoing basis. There can be no assurance that the Company will be able to continue to meet its funding requirements in this manner.

The Company is dependent on external financing to fund its activities. In order to identify a new project and pay for administrative costs, the Company will spend its existing working capital and may issue new shares to facilitate the management of its capital requirements. The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2020. The Company is not subject to any externally imposed capital requirements.

5. Financial instruments

Fair value

The Company has established a fair value hierarchy that reflects the significance of inputs of valuation techniques used in making fair value measurements as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and,

Level 3 - inputs for the asset or liability that are not based upon observable market data.

The carrying values of cash and cash equivalents, accounts and other receivables, and accounts payables and accrued liabilities approximate their fair value due to their short-term nature, and are classified at amortized cost that would be categorized as Level 1 in the fair value hierarchy above.

The carrying values of long term receivables note receivables from related party and promissory note is approximately equal to it's carry value as future payments or receivables from instalments have been discounted and that would be categorized as Level 3 in the fair value hierarchy above.
At December 31, 2020, and 2019, there were no financial assets or liabilities measured and recognized in the consolidated statements of financial position at fair value that would be categorized as Level 2 in the fair value hierarchy above.

There were no transfers between Level 1, Level 2, and Level 3 during the year ended December 31, 2020.

Credit risk

Credit risk is the risk of potential loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash and accounts receivable and other. The Company's credit risk is primarily attributable to cash and receivables. Management believes that the credit risk concentration with respect to cash and receivables is remote as it maintains accounts with highly rated financial institutions.

Liquidity risk (see note 1 - Going Concern)

Liquidity risk is the risk that the Company may encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. At December 31, 2020, the Company had current liabilities of $1,146,875 (December 31, 2019 - $1,547,581) and cash and receivables of $19,561,682 (December 31, 2019 – $16,953,671).

Based on the current funds held, the Company may need to raise additional funds to meet its obligations.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity prices. The Company is not exposed to any significant interest risk volatility.

(Expressed in Canadian Dollars)

6. Prepaid expenses

	As at December 31, 2020	As at December 31, 2019
Prepaid expenses (note 20)	**$ 374,242**	**$ 762,634**
Software development deposits (1)	**1,233,960**	**-**
	$ 1,608,202	**$ 762,634**

(1) In September 2020, the Company entered into a 25 month software development contract, and placed a deposit with the vendor.

7. Accounts and other receivables

	As at December 31, 2020	As at December 31, 2019
Accounts receivables	**$ 68,783**	**$ 287,731**
Other receivables (1)	**362,350**	**-**
	$ 431,133	**$ 287,731**

(1) Included in other receivables is a loan in the amount of $362,350 bearing interest at 2.1% per annum receivable from an entity controlled by an officer and director of the Company. Total interest income earned on the loan amounted to $19,325.

8. Inventory

	As at December 31, 2020	As at December 31, 2019
Raw materials	**$ 1,950,127**	$ 1,114,312
Work in process	**69,631**	255,046
Finished goods	**312,735**	118,051
	$ 2,332,493	$ 1,487,409

During the year ended December 31, 2020, $127,068 (December 31, 2019 - $304,800) of inventory has been included in cost of goods sold.

(Expressed in Canadian Dollars)

9. Property and equipment

	December 31, 2020			December 31, 2019		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Plant equipment	$ 1,652,842	$ 1,054,228	$ 598,614	$ 1,394,917	$ 936,830	$ 458,087
Tooling equipment	337,255	86,186	251,069	231,001	31,238	199,763
Office equipment	243,760	236,048	7,712	243,760	234,125	9,635
Furniture and fixtures	572,553	509,703	62,850	517,179	501,515	15,664
Leasehold improvements	317,378	276,302	41,076	276,302	246,784	29,518
Construction in progress (1)	876,135	-	876,135	100,000	-	100,000
	$ 3,999,923	$ 2,162,467	$ 1,837,456	$ 2,763,159	$ 1,950,492	$ 812,667

(1) Assets included in construction in progress represent leasehold improvements on new facilities not yet completed or otherwise not ready for use (note 20), and development of new software.

10. Intangible assets

	December 31, 2020			December 31, 2019		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents	$ 658,874	$ 268,476	$ 390,398	$ 500,428	$ 223,484	$ 276,944
Trademarks	102,807	5,037	97,770	15,321	3,949	11,372
Software	499,403	256,997	242,406	331,153	181,718	149,435
	$ 1,261,084	$ 530,510	$ 730,574	$ 846,902	$ 409,151	$ 437,751

11. Rights-of-use assets

Right-of-use assets at January 1, 2019	**$ 239,752**
Amortization	(129,180)
Balance, December 31, 2019	**$ 110,572**
Additions	3,858
Amortization	(108,654)
Balance, December 31, 2020	**$ 5,776**

Right-of-use assets consist of office equipment amortized over 48 months.

(Expressed in Canadian Dollars)

11. Rights-of-use assets (continued)

Maturity analysis - contractual undiscounted cash flows		
As at December 31, 2020		
Less than one year	$	2,328
Greater than one year		4,371
Total undiscounted lease obligation	$	6,699

12. Lease obligations

At the commencement date of the leases, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 10%, which is the Company's incremental borrowing rate. The lease liabilities are operating type leases for office equipment and premises. The continuity of the lease liabilities is presented in the table below:

Balance, January 1, 2019	**$**	**239,752**
Interest expense		19,449
Lease payments		(142,778)
Balance, December 31, 2019	**$**	**116,423**
Additions		3,858
Interest expense		6,783
Lease payments		(120,365)
Balance, December 31, 2020	**$**	**6,699**

As at December 31, 2020		
Less than one year	$	1,854
Greater than one year		4,845
Total lease obligation	$	6,699

13. Investment in associate

During the year ended December 31, 2020, the Company purchased 2,000 shares in KarbonKleen Inc ("KK"), a private Delaware corporation, for $516,479 ($367,000 USD) in cash payments. The Company has granted to KK, dynaCERT's Preferred Service Provider, the exclusive Dealership rights in the trucking industry in the United States of America until December 31, 2024. The investment represents a 20% holding in issued and outstanding common shares of KK; and as a result the Company has accounted for the investment under the equity method. During the year ended December 31, 2020, the Company advanced $1,020,293 ($725,000 USD) to KK as a note receivable. The note bears interest at 10% per annum calculated monthly and matures on December 31, 2021. The fair value of the loan on the date of purchase was determined to be $750,522, and the fair value of the investment in associate was determined to be $786,249.

During the year ended December 31, 2020, the Company's share of the losses of KK of $173,737 have been recorded in the consolidated statements of loss and comprehensive loss.

(Expressed in Canadian Dollars)

13. Investment in associate (continued)

Summarized financial information of associate

The following table summarized, in aggregate, the financial information of KK in USD:

	As at December 31, 2020
Cash	170,881
Total current assets	307,611
Non-current assets	345,622
Current liabilities (excluding accounts payables)	727,021
Total current liabilities	822,709
Non-current liabilities	-

	For the period from May 9, 2020 to December 31, 2020
Revenue	4,941
Interest expense	45,883
Loss from continuing operations	664,809
Total comprehensive loss	664,809

14. Promissory note

On April 23, 2019, the Company and Urtech Manufacturing Inc., Urtech Florida LLC, Urtech U.S. Inc., and Urtech International Inc., jointly and severally (collectively referred to as "Urtech") entered into Minutes of Settlement whereby all title to inventory of the Company consigned at Urtech's premises (valued at USD $716,301) would be transferred to Urtech and all accounts payable by the Company to Urtech (valued at USD $641,822) would be replaced with a single promissory note whereby the Company shall pay to Urtech USD$400,000 interest free in 24 equal monthly installments commencing May 1, 2019.

The promissory note was recorded at its net present value of $427,837 using the effective interest rate method with an effective interest rate of 25% per annum and a term of 24 months. As of December 31, 2020, the balance owed on the promissory note was $76,086 (December 31, 2019 - $298,064).

15. Share capital

a) Authorized share capital

The authorized share capital consisted of unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

15. Share capital (continued)

b) Common shares issued

(i) During the year ended December 31, 2019, the Company announced a private placement of units at a price of $0.25 per unit for an aggregate of $5,250,000. Each unit consists of one common share and one-half of one common share purchase warrant; each whole warrant entitled the holder to purchase one share at an exercise price of $0.35 per share expiring December 1, 2020, subject to a 30-day acceleration clause if, for any ten consecutive trading days during the unexpired term of such warrants, the closing price of the Company's shares is greater than $0.50 on the TSX Venture Exchange. In conjunction with the private placement, $8,750 of financing costs were recognized.

(ii) During the year ended December 31, 2019, the Company announced the completion of an arm's length equity offering for aggregate gross proceeds of $1,350,000. The Company has issued an aggregate of 2,700,000 Units at a price of $0.50 per Unit, with each Unit consisting of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one Share at an exercise price of $0.65 per Share on or before November 15, 2021, subject to the following clause: If at any time after the date that is four months and one day after the date hereof, the closing trading price of the Common Shares on the TSX Venture Exchange is greater than $0.80 per Common Share for a period of ten consecutive Business Days, then the Company may, at its discretion give notice of the acceleration of some or all of the Warrants to the Holder and, in such case, the Expiry Time shall be 5:00 p.m. (Toronto time) on the 30th day after the date on which such notice is deemed to have been given by the Company to the Holder. In accordance with applicable securities laws, all of the Shares and Warrants issued under the Offering are subject to a hold period equal to four month plus one day, which will expire on March 14, 2020.

(iii) During the year ended December 31, 2019, the Company announced the completion of an arm's length equity offering for aggregate gross proceeds of $14,000,000 (the "Offering"), which has been fully subscribed by an entity controlled by Mr. Eric Sprott. The Company has issued an aggregate of 28,000,000 units (each, a "Unit") at a price of $0.50 per Unit. Each Unit consists of one common share (a "Share") and one-half of one common share purchase warrant. In conjunction with the private placement, $20,697 of financing costs were recognized. Each whole warrant (a "Warrant") entitles the holder thereof to purchase one Share at an exercise price of $0.65 per Share on or before November 28, 2021, subject to the following clause: If at any time after the date that is four months and one day after the date hereof, the closing trading price of the Common Shares on the TSX Venture Exchange is greater than Cdn$0.80 per Common Share for a period of ten consecutive Business Days, then the Company may, at its discretion give notice of the acceleration of some or all of the Warrants to the Holder and, in such case, the Expiry Time shall be 5:00 p.m. (Toronto time) on the 30th day after the date on which such notice is deemed to have been given by the Company to the Holder. In accordance with applicable securities laws, all of the Shares and Warrants issued under the Offering are subject to a hold period equal to four month plus one day, which will expire on March 29, 2020.

(iv) During year ended December 31, 2019, the Company announced the completion of an arm's length equity offering for aggregate gross proceeds of $1,000,000 (the "Offering"), which has been fully subscribed by an entity controlled by Dr. Joerg Mosolf. The Company has issued an aggregate of 2,000,000 units (each, a "Unit") at a price of $0.50 per Unit. Each Unit consists of one common share (a "Share") and one-half of one common share purchase warrant. Each whole warrant (a "Warrant") entitles the holder thereof to purchase one Share at an exercise price of $0.65 per Share on or before December 13, 2021, subject to the following clause: If at any time after the date that is four months and one day after the date hereof, the closing trading price of the Common Shares on the TSX Venture Exchange is greater than $0.80 per Common Share for a period of ten consecutive Business Days, then the Company may, at its discretion give notice of the acceleration of some or all of the Warrants to the Holder and, in such case, the Expiry Time shall be 5:00 p.m. (Toronto time) on the 30th day after the date on which such notice is deemed to have been given by the Company to the Holder. In accordance with applicable securities laws, all of the Shares and Warrants issued under the Offering are subject to a hold period equal to four month plus one day, which will expire on April 14, 2020.

(Expressed in Canadian Dollars)

15. Share capital (continued)

b) Common shares issued (continued)

(v) During the year ended December 31, 2020, the Company completed a public bought deal financing of units at a price of $0.68 per unit for an aggregate of $8,367,400. Each unit consists of one common share and one-half of one common share purchase warrant; each whole warrant entitled the holder to purchase one share at an exercise price of $1.00 per share expiring June 18, 2022, In conjunction with the public bought deal financing, $1,054,004 of financing costs were recognized and 598,260 broker warrants were issued.

(vi) During the year ended December 31, 2020, the Company issued 200,000 common shares valued at $142,000, and $55,000 of cash to settle debt of $197,000 pursuant to shares for debt settlements with a previous employee.

(vii) During the year ended December 31, 2020, there is $567,549 of unpaid capital relating loans granted to employees, officers, and directors of the Company to the exercise of options and warrants. Included within the unpaid capital amount is $221,000 related to an officer and director of the Company (note 20). The amount recorded as a reduction of capital represents loans to employees secured by their respective unpaid shares. Upon receipt of repayment from the employee, the amount of consideration received would be recorded as an increase in share capital.

	Number of common shares	Amount
Balance, December 31, 2018	266,804,936	$ 43,071,876
Units issued on private placement (i), (ii), (iii), (iv)	53,700,000	21,600,000
Value of warrants (i), (ii), (iii), (iv)	-	(1,119,999)
Finance costs (i), (iii)	-	(29,447)
Exercise of stock options (note 16((xii)))	5,181,790	1,745,071
Exercise of warrants (note 17)	11,206,534	4,634,850
Balance, December 31, 2019	**336,893,260**	**$ 69,902,351**
Public bought deal financing of units (v)	12,305,000	8,367,400
Shares issued to settle debt (vi)	200,000	142,000
Finance costs (v)	-	(1,054,004)
Exercise of stock options (note 16(xiii)))	9,017,500	4,101,369
Unpaid share capital (note (vii))	-	(567,549)
Exercise of warrants (note 17)	22,098,420	8,768,824
Balance, December 31, 2020	**380,514,180**	**$ 89,660,391**

16. Stock options

(i) During the year ended December 31, 2019, the Company granted 5,000,000 stock options to its employees, consultants, directors and officers, with an exercise price $0.38. The options vested immediately, and expire on March 1, 2024. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.81%; expected life in years – 5; expected volatility 122.58%; and expected forfeiture rate – 0%.

(ii) During the year ended December 31, 2019 the Company granted 550,000 stock options to its employees, consultants, directors and officers, with an exercise price $0.35. The options vested immediately, and expire on May 15, 2024. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.54%; expected life in years – 5; expected volatility 118.93%; and expected forfeiture rate – 0%.

16. Stock options (continued)

(iii) During the year ended December 31, 2019, the Company granted 600,000 stock options to its employees, consultants, directors and officers, with an exercise price $0.50. The options vested immediately, and expire on July 30, 2024. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.44%; expected life in years – 5; expected volatility 116.89%; and expected forfeiture rate – 0%.

(iv) During the year ended December 31, 2019, the Company granted 700,000 stock options to its employees, consultants, directors and officers, with an exercise price $0.50. The options vested immediately, and expire on September 11, 2024. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.43%; expected life in years – 5; expected volatility 116.78%; and expected forfeiture rate – 0%.

(v) During the year ended December 31, 2019, the Company granted 50,000 stock options to its employees, consultants, directors and officers, with an exercise price $0.50. The options vested immediately, and expire on October 11, 2024. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.52%; expected life in years – 5; expected volatility 116.96%; and expected forfeiture rate – 0%.

(vi) During the year ended December 31, 2019, the Company granted 1,024,000 stock options to its employees, consultants, directors and officers, with an exercise price $0.50. The options vested immediately, and expire on November 12, 2024. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.57%; expected life in years – 5; expected volatility 116.75%; and expected forfeiture rate –0%.

(vii) During the year ended December 31, 2019, the Company granted 3,650,000 stock options to its employees, consultants, directors and officers, with an exercise price $0.52. The options vested immediately, and expire on December 9, 2024. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.61%; expected life in years – 5; expected volatility 115.54%; and expected forfeiture rate – 0%.

(viii) During the year ended December 31, 2019, the Company granted 400,000 stock options to its employees, consultants, directors and officers, with an exercise price $0.55. The options vested immediately, and expire on December 17, 2024. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.64%; expected life in years – 5; expected volatility 115.78%; and expected forfeiture rate – 0%.

(ix) During the year ended December 31, 2020, the Company granted 275,000 stock options to its employees, consultants, directors and officers, with an exercise price $0.70. The options vested immediately, and expire on February 12, 2025. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.39%; expected life in years – 5; expected volatility 114.40%; and expected forfeiture rate – 0%.

(x) During the year ended December 31, 2020, the Company granted 6,765,000 stock options to its employees, consultants, directors and officers, with an exercise price $0.70. The options vested immediately, and expire on July 2, 2025. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 0.30% - 0.38%; expected life in years – 5; expected volatility 119.91% - 120.53%; and expected forfeiture rate – 0%.

(xi) During the year ended December 31, 2020, the Company granted 100,000 stock options to a consultant, with an exercise price $0.55. The options vested immediately, and expire on October 30, 2025. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 0.40%; expected life in years – 5; expected volatility 109.88%; and expected forfeiture rate – 0%.

(Expressed in Canadian Dollars)

16. Stock options (continued)

(xii) During the year ended December 31, 2019, certain employees exercised 5,181,790 stock options with a Black-Scholes value of $739,221 and exercise prices between $0.10 and $0.50.

(xiii) During the year ended December 31, 2020, certain employees exercised 9,017,500 stock options with a Black-Scholes value of $1,770,089 and an exercise price between $0.10 and $0.80.

(xiv) During the year ended December 31, 2020, 532,000 stock options with a Black-Scholes value of $322,395 were forfeited with exercise prices between $0.25 and $0.94.

	Number of stock options	Weighted average exercise price
Balance, December 31, 2018	23,023,096	$ 0.39
Issued (i), (ii), (iii), (iv), (v), (vi), (vii), (viii)	11,974,000	0.45
Exercised (xii)	(5,181,790)	0.19
Balance, December 31, 2019	**29,815,306**	**$ 0.45**
Issued (ix), (x), (xi)	7,140,000	0.68
Exercised (xiii)	(9,017,500)	0.26
Forfeited (xiv)	(532,000)	0.75
Balance, December 31, 2020	**27,405,806**	**$ 0.53**

The following table reflects the actual stock options issued and outstanding as of December 31, 2020:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding
July 13, 2021	0.10	0.53	350,000
November 30, 2021	0.40	0.92	500,000
December 16, 2021	0.80	0.96	3,275,000
March 13, 2022	0.71	1.20	350,000
September 19, 2022	0.58	1.72	1,000,000
October 23, 2022	0.58	1.81	1,166,000
January 31, 2023	0.50	2.09	3,770,000
April 05, 2023	0.50	2.26	238,096
August 17, 2023	0.25	2.63	100,000
October 04, 2023	0.25	2.76	326,000
March 01, 2024	0.38	3.17	4,144,210
May 15, 2024	0.35	3.38	250,000
July 30, 2024	0.50	3.58	600,000
September 11, 2024	0.50	3.70	500,000
October 11, 2024	0.50	3.78	50,000
November 12, 2024	0.50	3.87	882,000
December 09, 2024	0.52	3.95	2,804,500
December 17, 2024	0.55	3.97	400,000
July 02, 2025	0.70	4.50	5,255,000
August 04, 2025	0.70	4.59	1,345,000
October 30, 2025	0.55	4.83	100,000
		2.99	27,405,806

(Expressed in Canadian Dollars)

17. Warrants

	Number of warrants	Weighted average exercise price
Balance, December 31, 2018	19,638,897	$ 0.46
Issued (note 15b((i)(ii)(iii)(iv))	26,850,000	0.53
Warrants issued	2,000,000	0.35
Exercised	(11,206,534)	0.54
Forfeited	(268,095)	0.50
Balance, December 31, 2019	**37,014,268**	**$ 0.48**
Issued (note 15b(v))	6,750,760	0.97
Exercised	(22,098,420)	0.37
Forfeited	(16,348)	0.50
Balance, December 31, 2020	**21,650,260**	**$ 0.75**

The following table reflects the actual share purchase warrants issued and outstanding as of December 31, 2020:

Expiry date	Remaining contractual life (years)	Number of warrants outstanding	Exercise price ($)
November 15, 2021 (1)	0.88	900,000	0.65
November 28, 2021 (2)	0.91	14,000,000	0.65
June 18, 2022	1.46	6,152,000	1.00
June 18, 2022 (2)	1.46	598,260	0.68
		21,650,260	

(1) Broker warrants

(2) If at any time after the date that is four months and one day after the date hereof, the closing trading price of the Common Shares on the TSX Venture Exchange is greater than $0.80 per Common Share for a period of 10 consecutive Business Days, then the Company may, at its discretion give notice of the acceleration of some or all of the Warrants to the Holder and, in such case, the Expiry Time shall be 5:00 p.m. (Toronto time) on the 30th day after the date on which such notice is deemed to have been given by the Company to the Holder.

18. Loss per share

For the period ended December 31, 2020, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $13,725,049 (December 31, 2019 - $12,666,123) and the weighted average number of common shares outstanding of 354,709,118 (December 31, 2019 - 291,776,226). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

(Expressed in Canadian Dollars)

19. Income taxes

A reconciliation between tax expense and the product of accounting loss multiplied by the Corporation's domestic rate is as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Loss before income taxes	**$ (13,725,049)**	$ (12,666,123)
Statutory tax rate	**26.50%**	26.50%
Expected income tax recovery	**(3,637,138)**	(3,356,523)
Permanent differences	**923,994**	1,226,467
Impact of foreign income tax rate differential	**(46,771)**	(19,285)
Taxable benefits not recognized	**2,759,915**	2,149,341
Income tax expense	**$ -**	$ -
Current tax expense	**$ -**	$ -
Deferred tax expense	**$ -**	$ -

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off the current tax assets and current tax liabilities or deferred tax assets and liabilities and they relate to taxes levied by the same tax authority.

The tax benefit of the following unused tax losses and other deductible temporary differences have not been recognized in the financial statements due to the unpredictability of future earnings:

	December 31, 2020 Canada	December 31, 2020 Germany	December 31, 2019 Canada	December 31, 2019 Germany
Non-capital losses	**$ 13,443,773**	**$ 454,919**	$ 11,145,249	$ 170,791
Reserves	**13,119**	**-**	21,200	-
Financing costs	**172,315**	**-**	19,328	-
Promissory note	**(2,330)**	**-**	(12,795)	-
Capital losses	**5,605**	**-**	5,605	-
Intangible assets	**74,430**	**-**	91,116	-
Right-of-use assets	**245**	**-**	1,551	-
Investment in associate	**46,040**	**-**	-	-
Property, plant, and equipment	**447,588**	**-**	341,305	-
	$ 14,200,785	**$ 454,919**	$ 11,612,559	$ 170,791

(Expressed in Canadian Dollars)

19. Income taxes (continued)

As at December 31, 2020, the Company has non-capital losses of $50,731,217 (2019 - $42,057,542) available to reduce taxable income in future years expiring as follows:

Year of expiry		
	2026	$ 1,782,006
	2027	812,043
	2028	2,856,336
	2029	4,049,000
	2030	3,775,886
	2031	184,495
	2032	1,060,097
	2033	2,246,505
	2034	665,802
	2035	1,079,764
	2036	1,989,879
	2037	5,193,380
	2038	8,993,907
	2039	6,933,969
	2040	9,108,148
		$ 50,731,217

The Company also has $1,421,623 (2019 - $533,721) of tax loss carry-forwards in Germany that do not expire.

20. Related party transactions

The Company paid or accrued the following amounts to directors, companies controlled by directors or companies having common directors during the year ended December 31, 2020 and December 31, 2019:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Rent	**$ 240,842**	$ 240,702
Consulting fees paid to directors	**546,990**	729,706
	$ 787,832	$ 970,408

Key management includes directors and other key personnel, including the CEO, President and CFO, who have authority and responsibility for planning, directing, and controlling the activities of the Company.

Included in accounts payable and accrued liabilities as at December 31, 2020 is $nil (December 31, 2019 - $47,670) owed to directors, companies controlled by former directors or companies having certain directors in common.

Included in prepaid expenses as at December 31, 2020 is $124,465 (December 31, 2019 - $nil) for advance payments of salaries to an officer and director of the Company for services to be provided in fiscal 2021 (note 6).

Included in construction in progress is $701,880 of renovation expenditure paid to an entity controlled by the family of an officer and director of the Company (note 9).

See note 7 & 15 (vii).

(Expressed in Canadian Dollars)

20. Related party transactions (continued)

The compensation paid to these key management personnel for the year ended December 31, 2020 and December 31, 2019 is:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Short-term benefits	**$ 547,329**	$ 751,400
Share based compensation	**1,883,149**	3,044,092
	$ 2,430,478	$ 3,795,492

The Chief Financial Officer ("CFO") of the Company is a senior employee of Marrelli Support Services Inc. ("MSSI"). During the year ended December 31, 2020, the Company paid or accrued professional fees of $60,540 (year ended December 31, 2019 - $58,882) to MSSI. These services were incurred in the normal course of operations for general accounting and financial reporting matters. As at December 31, 2020, MSSI was owed $nil (December 31, 2019 - $5,700) with respect to services provided.

21. Segmented information

The Company currently has one business segment, being the development, production and sale of hydrogen generating systems. During the period December 31, 2020, the Company held $63,360 of cash (December 31, 2019 - $6,769) and during the year ended December 31, 2020 incurred $988,632 (December 31, 2019 - $326,319) of expenses in Germany through its German subsidiary. The Company's subsidiary DISH holds the shares in the Company's investment in KK (note 13).

Revenue by geographical location:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Europe	**$ 349,272**	$ -
Canada and other	**118,338**	1,064,627
	$ 467,610	$ 1,064,627

22. Contingencies

In the ordinary course of business and from time to time, the Company is involved in various claims related to software, intellectual property rights, commercial, employment and other claims. Although such matter cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these consolidated financial statements.