Financial Statements

For the years ended December 31, 2020 and 2019

To the Shareholders of Next Hydrogen Corporation:

Opinion

We have audited the financial statements of Next Hydrogen Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2020, December 31, 2019 and January 1, 2019, and the statements of comprehensive loss, changes in shareholders' deficit and cash flows for the years ended December 31, 2020 and December 31, 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, December 31, 2019 and January 1, 2019, and its financial performance and its cash flows for the years ended December 31, 2020 and December 31, 2019 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the 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.

Other Information

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

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

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management’s Discussion and Analysis 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. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

June 25, 2021 — Licensed Public Accountants

Statements of Financial Position

December 31, 2020, December 31, 2019 and January 1, 2019 (in Canadian dollars)

	Dec 31 2020	Dec 31 2019	Jan 1 2019 (note 3)
Assets			
Current			
Cash	$ 1,092,067	254,783	$ 34,634
Trade and other receivables (note 17)	212,591	56,631	134,604
Prepaid expenses and deposits (note 14)	75,000	1,110	1,110
Current income tax recoverable (note 15)	53,318	65,796	175,764
Inventory (note 4)	1,539,687	1,405,682	1,384,322
	2,972,663	1,784,002	1,730,434
Equipment (note 5)	39,482	48,801	62,708
Patents (note 6)	810,375	753,496	699,075
	$ 3,822,520	2,586,299	$ 2,492,217
Liabilities			
Current			
Bank indebtedness (note 20)	$ 40,000	-	$ -
Trade and other payables (note 17)	287,630	448,312	103,923
Deferred revenue (note 7)	1,611,807	1,459	17,132
Provisions (note 8)	557,968	1,061	12,738
Long-term debt (note 10)	33,560	134,576	56,832
Loan payable (note 11)	4,885,422	-	-
Deferred share unit liability (note 9)	1,523,314	-	-
	8,939,701	585,408	190,625
Deferred revenue (note 7)	1,159,834	2,236,010	1,894,957
Provisions (note 8)	132,747	105,574	106,635
Long-term debt (note 10)	300,909	232,004	366,580
Loan payable (note 11)	-	2,145,295	-
	10,533,191	5,304,291	2,558,797
Subsequent events (note 19)			
Shareholders' Deficit			
Share capital (note 12)	10,085,999	7,299,258	7,299,258
Contributed surplus (note 13)	71,196	-	-
Retained deficit	(16,867,866)	(10,017,250)	(7,365,838)
	(6,710,671)	(2,717,992)	(66,580)
	$ 3,822,520	2,586,299	$ 2,492,217

On behalf of the Board

"Raveel Afzaal" *"Allan Mackenzie"*

Statements of Comprehensive Loss

years ended December 31, 2020 and 2019 (in Canadian dollars)

	2020	2019
Revenue (notes 7, 16)	$ 1,775	$ 58,442
Direct costs	-	29,545
Gross margin	1,775	28,897
Expenses		
Research and development (note 14)	1,914,983	1,290,537
General and administrative (note 20)	1,629,131	908,835
Marketing and sales	139,833	66,511
Provisions (notes 4, 8)	1,249,195	154,923
	4,933,142	2,420,806
Loss before the following	(4,931,367)	(2,391,909)
Finance costs, net (notes 10, 11)	762,608	207,921
Depreciation and amortization (notes 5, 6)	40,513	51,582
Change in fair value of deferred share units (note 9)	1,116,128	-
	1,919,249	259,503
Net loss and comprehensive loss	$ (6,850,616)	$ (2,651,412)
Loss per share:		
Basic	$ (0.77)	$ (0.62)
Diluted	$ (0.77)	$ (0.62)
Weighted average number of shares outstanding: (note 12)		
Basic	8,901,071	4,250,098
Diluted	8,901,071	4,250,098

Statements of Changes in Shareholders' Deficit

years ended December 31, 2020 and 2019 (in Canadian dollars)

	Share Capital	Contributed Surplus	Retained deficit	Total
Balances at December 31, 2019	$ 7,299,258	-	(10,017,250)$	(2,717,992)
Share issuance (note 12)	2,806,560	-	-	2,806,560
Share repurchase (note 12)	(22,722)	-	-	(22,722)
Warrant exercise (note 12)	2,903	-	-	2,903
Share-based compensation expense (note 13)	-	71,196	-	71,196
Net loss and comprehensive loss	-	-	(6,850,616)	(6,850,616)
Balances at December 31, 2020	$ 10,085,999	71,196	(16,867,866)$	(6,710,671)
Balances at December 31, 2018	$ 7,299,258	-	(7,365,838)$	(66,580)
Share issuance (note 12)	-	-	-	-
Net loss and comprehensive loss	-	-	(2,651,412)	(2,651,412)
Balances at December 31, 2019	$ 7,299,258	-	(10,017,250)$	(2,717,992)

Statements of Cash Flows

years ended December 31, 2020 and 2019 (in Canadian dollars)

	2020	2019
Cash flows used in operating activities		
Net loss	$ (6,850,616)	$ (2,651,412)
Adjustments:		
Finance costs, net	762,608	207,921
Depreciation and amortization	40,513	51,582
Change in fair value of deferred share units	1,116,128	-
Provisions	1,249,195	154,923
Share-based compensation	71,196	-
Deferred share unit expense	407,186	-
	(3,203,790)	(2,236,986)
Net change in non-cash operating working capital	(643,319)	664,518
	(3,847,109)	(1,572,468)
Interest paid	(3,513)	(2,957)
Interest received	625	2,063
	(3,849,997)	(1,573,362)
Cash flows used in investing activities		
Acquisition of equipment (note 5)	(1,050)	-
Patent costs (note 6)	(87,023)	(92,096)
	(88,073)	(92,096)
Cash flows from financing activities		
Share issuance (note 12)	2,809,463	-
Share repurchase (note 12)	(22,722)	-
Proceeds from loan payable (note 11)	1,984,390	1,958,717
Repayment of long-term debt (note 10)	(35,777)	(73,110)
Proceeds from bank indebtedness (note 20)	40,000	-
	4,775,354	1,885,607
Increase in cash	837,284	220,149
Cash, beginning	254,783	34,634
Cash, ending	$ 1,092,067	$ 254,783

1. CORPORATE INFORMATION

Next Hydrogen Corporation ("Next Hydrogen" or the "Company") is a designer and manufacturer of electrolyzers that use water and electricity as inputs to create clean hydrogen for use as an energy source and to decarbonize transportation and industrial sectors. Founded in 2007, Next Hydrogen's innovative water electrolysis technology, with patented cell architecture, is designed to efficiently convert intermittent renewably-sourced electricity into green hydrogen on an infrastructure scale. Next Hydrogen's Intellectual Property includes 38 granted patents with several more pending and a well-laid out technology development roadmap for new product offerings, including both larger alkaline systems as well as PEM systems.

The Company's registered head office is at 102-2680 Matheson Blvd E, Mississauga, Ontario, L4W 0A5 and was incorporated on December 14, 2007 under the Ontario Business Corporations Act.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved and authorized for issue by the Board of Directors on June 25, 2021.

Basis of Measurement

These financial statements have been prepared on a going concern basis using historical cost.

Functional and Presentation Currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest dollar, except per share amounts and where otherwise indicated.

Revenue Recognition

Revenue from contracts with customers

The Company is in the business of providing electrolyzers and balance of plant equipment, inclusive of installation services. Revenue from contracts with customers is generally recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled.

Revenue recognition is determined on a contract to contract basis by determining the terms and performance obligations given in a specific contract. Based on the specific contract and its obligations, revenue under IFRS 15 - Revenue from contracts with customers ("IFRS 15") is recognized either at a point in time or over time.

The Company's revenues result from the sale of goods or services and reflect the consideration to which the Company expects to be entitled. IFRS 15 requires the Company to assess revenue recognition based on a five-step model. For its customer contracts, the Company identifies the performance obligations (goods or services), determines the transaction price, allocates the contract transaction price to the performance obligations, and recognizes the revenue when (or as) the performance obligations are satisfied. A good or service is transferred when (or as) the customer obtains control of that good or service.

The Company generates revenue from customer contracts from two principal sources: product and equipment sales and services as well as aftermarket sales. Product and equipment sales are generated from standard products.

Revenue from sale of standard products and equipment

The Company recognizes revenue at the point in time at which it satisfies a performance obligation by transferring the control of a good or service to the customer, which is generally at the time the equipment is installed at the customer's location and ready for use. The customer has control of a good or service when it has the ability to direct the use of and obtain substantially all of the remaining benefits from the good or service. The point in time measurement basis is the main method of recognizing revenue relating to electrolyzers, balance of plant equipment and aftermarket parts.

In circumstances where the cost directly related to a contract is expected to exceed the directly related revenues, the estimated loss on the contract will be recognized in its entirety in the period when this is identified.

The Company periodically enters into arrangements with customers that involve multiple elements. The Company assesses such contracts to evaluate whether there are multiple performance obligations and whether the transaction price under the arrangement is being appropriately allocated to each of the performance obligations.

Service and aftermarket sales

For contracts where the Company has agreed to provide routine maintenance services and warranty services over a period of time as part of the original contract, a portion of the transaction price is allocated to these performance obligations and revenue is recognized evenly over the contract period.

For sales of aftermarket parts, revenue is recognized when the performance obligation is satisfied, generally upon delivery of parts.

The Company accounts for a significant financing component on contracts where timing of cash receipts and revenue recognition differ substantially. The contracts typically require the customer to pay the full contract value by the time the product is ready for use, which is well before the delivery of maintenance and warranty services and therefore a financing component is accounted for separately. The result is that interest expense is accrued during the advance period and the transaction price will be increased by a corresponding amount.

Other revenue

Finance income is recognized as it accrues in income, using the effective interest method.

Deferred Revenue

Deferred revenue is the obligation to transfer goods or services to a customer for which the Company has received consideration from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a deferred revenue liability is recognized when the payment is made. Deferred revenue liabilities are recognized as revenue when the Company performs under the contract. Advances received are included within deferred revenue.

Financial Instruments

Financial instruments are initially recognized at fair value and are subsequently measured at either (i) amortized cost, (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) fair value through profit or loss ("FVTPL"), based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest.

Financial instruments classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset gives rise to cash flows that are solely payments of principal and interest. Financial instruments classified at amortized cost are initially measured at fair value, plus adjustments for transaction costs, and subsequently amortized using the effective interest method. Financial instruments measured at amortized cost include: cash, trade and other receivables (excluding sales taxes), bank indebtedness, trade and other payables, long-term debt and loan payable.

Financial instruments classified and measured at FVTPL are those assets and liabilities that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not solely payments of principal and interest, or are not held within a business model whose objective is achieved through contractual cash flows or through both contractual cash flows and through the selling of the financial instrument. Financial instruments classified at FVTPL are initially measured at fair value and subsequently carried at fair value, with changes in fair value recorded through profit or loss. Transaction costs are expensed as incurred through profit and loss. Financial instruments measured at FVTPL include deferred share unit liability.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The impairment model under IFRS 9 is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. The Company's only financial asset subject to impairment are trade and other receivables (excluding sales taxes), which are measured at amortized cost. The Company uses specific account identification to estimate lifetime expected impairment. Losses are recognized in profit and loss and reflected as an expected credit loss allowance against the financial asset. When a subsequent event causes the amount of the allowance to decrease, the decrease in allowance is reversed through profit and loss.

Inventory

Inventory is made up of parts purchased for the assembly of the Company's electrolyzers and balance of plant equipment and 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 represents the estimated selling price less all estimated costs of completion and selling costs.

Equipment

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes costs that are directly attributable to bringing the asset to a working condition for its intended use. When significant components of an item of equipment have different useful lives, they are accounted for as separate items of equipment. Gains and losses on disposal of equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment and the net is recognized within profit or loss.

Depreciation is recognized in profit or loss on a declining balance basis over the estimated useful lives of equipment, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation methods, useful lives and residual values are reviewed each year and adjusted prospectively, if appropriate. Depreciation is provided for using the following declining rates:

Computer hardware	55%
Equipment	20%

Equipment is assessed for impairment when events or changes in circumstance indicate that the Company may not be able to recover its carrying value. The Company calculates impairment by comparing the carrying value against the higher of the value in use and the fair value less costs to sell. Value in use is calculated based on discounted cash flows expected from its use and disposition, and fair value is the expected price in a binding sale agreement in an arm's length transaction. Any excess is a charge against earnings. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that it does not exceed the amount that would have been determined had the impairment loss not been recognized.

Intangible Assets

Intangible assets are assets that can be identified, are controlled by the Company and provide future economic benefits to the Company. Intangible assets are recognized at cost and, unless determined to have an indefinite life, are amortized over their expected useful life.

Patents have finite lives and are recorded at cost less accumulated amortization and accumulated impairment losses. Patents are amortized on a declining balance basis, using a rate of 4%, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Patents are assessed for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. If there is any indication of impairment, the carrying amount of patents is compared to its recoverable amount and any excess is charged to earnings or loss.

Provisions

Provisions are recognized when the Company has a material obligation, whether existing or potential, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash flows.

Warranties

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products or at the time the obligation was committed to, and is recognized at management's best estimate of the expenditures required to settle the Company's obligation.

Onerous Contracts

If it is more likely than not that the unavoidable costs of meeting the obligations under a firm contract exceed the economic benefits expected to be received under it, a provision for onerous contracts is recorded as an expense, with the interest component being recorded as a financing expense. Unavoidable costs include the costs that relate directly to the contract such as anticipated cost overruns, expected costs associated with late delivery penalties and technological problems, as well as allocations of costs that relate directly to the contract. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract.

Deferred Share Units

The expense associated with the Company's deferred share unit ("DSU") plan is determined based on the market price of the Company's common shares on the grant date. The expense is recognized in the statement of comprehensive loss in the period in which the units are granted with a corresponding liability recorded on the statements of financial position. At each period end date, the DSU liability is adjusted based on the market price of the Company's common shares on the period end date.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares, stock options and warrants are recognized as a deduction from equity, net of any tax effects. When share capital recognized as equity is repurchased, the amount of consideration paid, including direct costs, net of tax effects, is recognized as a deduction from equity.

Share-Based Compensation

The grant date fair value of share-based payment awards granted is recognized as an expense, with a corresponding increase in contributed surplus, over the period that the individual becomes entitled to the awards. The fair value of stock options granted is determined using the Black Scholes option pricing model. The fair value of deferred share units granted is determined using the fair value of the Company's common shares on the date of grant. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service performance conditions at the vesting date.

When stock option awards are exercised, the proceeds, together with the amount originally recorded in contributed surplus, are recorded in share capital.

Government Grants

Government grants are recognized initially as deferred recoveries at fair value when there is reasonable assurance that they will be received, and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognized in profit or loss as other income on a systematic basis in the periods in which the expenses are recognized and/or the related project is agreed to be complete. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

Investment Tax Credits

Investment tax credits ("ITCs") are recognized where there is reasonable assurance that the ITCs will be received, and all attached conditions will be complied with. When the ITCs relates to an expense item, it is netted against the related expense. Where the ITCs relates to an asset, it reduces the carrying amount of the asset. The ITC is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. The Company is actively engaged in research and product development ("R&D") and, accordingly, has previously filed for ITC refunds under both the Canadian federal and Ontario provincial Scientific Research and Experimental Development ("SR&ED") tax incentive programs. The ITCs recorded in the accounts are based on management's interpretation of the Income Tax Act of Canada, provisions which govern the eligibility of R&D costs. The claims are subject to review by the Canada Revenue Agency and the Minister of Revenue for Ontario before the refunds can be released.

Research and Product Development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred.

Development activities that involve a plan or design for the production of new or substantially improved products and processes are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. All of the Company's development expenditures to date have been expensed as incurred.

Finance Costs

Finance costs are comprised of interest expense on bank indebtedness, long-term debt and loan payable. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset or liability are recognized in profit or loss using the effective interest method.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income or loss.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantially enacted tax rates is recognized in profit or loss or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent that future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares using the treasury stock method. The calculation of diluted loss per share excludes the effects of outstanding instruments that would be anti-dilutive.

Foreign Currency Translation

Transactions denominated in a foreign currency have been translated at the rate of exchange in effect on the date of the transaction. Monetary items included in the statement of financial position have been translated at the rate of exchange in effect as at the statement of financial position date. Realized and unrealized gains and losses on translations of foreign currencies are included in profit and loss.

Critical Accounting Estimates and Significant Judgments

The preparation of financial statements in accordance with IFRS, requires management to make judgments that affect the application of accounting policies and the interpretation of accounting standards, and to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Management makes estimates based on specific facts or circumstances as well as past experiences. Management periodically reviews its estimates and underlying assumptions and as adjustments become necessary, they are reported in profit and loss in the period in which they become known. Due to the inherent uncertainty involved with making such estimates, actual results could differ from those reported.

a) *Revenue recognition*: In accounting for revenue, management must review each contract and allocate the transaction price to the various performance obligations based on the expected costs for each performance obligation. The estimated costs are largely based on budgeted costs or quotes for costs and anticipated labour hours to complete the task.

b) *Provisions*: Provisions for warranty and onerous contracts are recognized at management's best estimate of the expenditures required to settle the Company's obligation. The estimated costs are largely based on budgeted costs or quotes for costs and anticipated labour hours to complete the task.

c) *Impairment of patents*: Patents are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. To determine whether patents are impaired, management must estimate the recoverable amount.

d) *Share-based compensation*: The fair value of share-based compensation expense is estimated using the Black-Scholes option pricing model and relies on a number of estimates, such as the expected life of the option, the volatility of the underlying share price of similar companies and the risk free rate of return.

e) *Depreciation and impairment of equipment*: Estimates of useful lives for depreciation is based on management's judgment of the expected productive lives and planned uses for each respective asset. Equipment is assessed for impairment when events or circumstances indicate that the Company may not be able to recover its carrying value.

f) *Impairment of trade and other receivables*: An allowance for lifetime expected credit losses is established based on specific account identification. Management regularly analyzes its approach and exposure to credit loss based on analysis of all relevant current information as well as historical trends.

g) *Taxes*: Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

3. FIRST TIME ADOPTION OF IFRS

The Company's significant accounting policies have been applied in preparing the financial statements for the year ended December 31, 2020, the comparative information for the year ended December 31, 2019 and the opening statement of financial position as at January 1, 2019, the IFRS transition date.

years ended December 31, 2020 and 2019 (in Canadian dollars)

The Company has applied IFRS 1 - First-time Adoption of IFRS in preparing the statement of financial position as at January 1, 2019. In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with its old basis of accounting, CPA Canada Handbook Part II - Accounting Standards for Private Enterprises ("ASPE"). The effects of the changeover to IFRS on the Company's opening statement of financial position was as follows:

	ASPE	Adjs	IFRS
Assets			
Current			
Cash	$ 34,634	-	$ 34,634
Trade and other receivables	134,604	-	134,604
Prepaid expenses and deposits	1,110	-	1,110
Current income tax recoverable	175,764	-	175,764
Inventory	-	1,384,322	1,384,322
	346,112	1,384,322	1,730,434
Equipment	62,708	-	62,708
Patents	699,075	-	699,075
	$ 1,107,895	1,384,322	$ 2,492,217
Liabilities			
Current			
Trade and other payables	103,923	-	103,923
Deferred revenue	135,956	(118,824)	17,132
Provisions	-	12,738	12,738
Long-term debt	56,832	-	56,832
	296,711	(106,086)	190,625
Deferred revenue	-	1,894,957	1,894,957
Provisions	-	106,635	106,635
Long-term debt	366,580	-	366,580
	663,291	1,895,506	2,558,797
Shareholders' Deficit			
Share capital	7,299,258	-	7,299,258
Retained deficit	(6,854,654)	(511,184)	(7,365,838)
	444,604	(511,184)	(66,580)
	$ 1,107,895	1,384,322	$ 2,492,217

years ended December 31, 2020 and 2019 (in Canadian dollars)

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the opening statement of financial position date with all adjustments to assets and liabilities taken to retained deficit unless certain exemptions are applied. The Company has applied the following exemption to its opening statement of financial position dated January 1, 2019:

a) *Share-based payments*: IFRS 1 encourages, but does not require, first time adopters to apply IFRS 2 - Share-based Payments to equity instruments that were granted on or before the date of transition. For cash-settled share-based transactions, the Company has not applied IFRS 2 to liabilities that were settled before January 1, 2019. IFRS 2 will be applied prospectively and only to equity instruments unvested at the transition date.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2019:

a) *Estimates*: In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with previous estimates made for the same date under ASPE, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2019 are consistent with its ASPE estimates for the same date.

b) *Deemed cost*: The Company elected not to use fair value as deemed cost as at January 1, 2019 for equipment.

4. INVENTORY

	Dec 31 2020	Dec 31 2019	Jan 1 2019
Spare parts	$ 153,338	64,094	$ -
Work in progress	2,467,484	1,758,671	1,646,480
Onerous contract provision	(1,081,135)	(417,083)	(262,158)
	$ 1,539,687	1,405,682	$ 1,384,322

years ended December 31, 2020 and 2019 (in Canadian dollars)

5. EQUIPMENT

	Equipment	Computer Hardware	Total
Cost			
Balances, December 31, 2019	$ 243,029	9,661	$ 252,690
Additions	–	1,050	1,050
Balances, December 31, 2020	243,029	10,711	253,740
Accumulated depreciation			
Balances, December 31, 2019	195,985	7,904	203,889
Depreciation	9,409	960	10,369
Balances, December 31, 2020	205,394	8,864	214,258
Net carrying amounts			
At December 31, 2020	$ 37,635	1,847	$ 39,482

	Equipment	Computer Hardware	Total
Cost			
Balances, December 31, 2018	$ 243,029	9,661	$ 252,690
Additions	–	–	–
Balances, December 31, 2019	243,029	9,661	252,690
Accumulated depreciation			
Balances, December 31, 2018	184,224	5,758	189,982
Depreciation	11,761	2,146	13,907
Balances, December 31, 2019	195,985	7,904	203,889
Net carrying amounts			
At December 31, 2019	$ 47,044	1,757	$ 48,801

years ended December 31, 2020 and 2019 (in Canadian dollars)

6. PATENTS

	Cost	Accumulated Amortization	Net
Balances, December 31, 2018	$ 821,232	122,157	$ 699,075
Additions	92,096	-	92,096
Amortization	-	37,675	(37,675)
Balances, December 31, 2019	913,328	159,832	753,496
Additions	87,023	-	87,023
Amortization	-	30,144	(30,144)
Balances, December 31, 2020	$ 1,000,351	189,976	$ 810,375

7. DEFERRED REVENUE

	Maintenance and warranty obligations in process	Advances on contracts with no satisfied obligations	Total
December 31, 2018	$ 112,083	1,800,006	$ 1,912,089
Payments received	-	342,511	342,511
Revenue recognized	(21,303)	-	(21,303)
Interest	4,172	-	4,172
Balances, December 31, 2019	94,952	2,142,517	2,237,469
Payments received	-	535,631	535,631
Revenue recognized	(1,775)	-	(1,775)
Interest	316	-	316
Balances, December 31, 2020	$ 93,493	2,678,148	2,771,641
Current portion			1,611,807
			$ 1,159,834

years ended December 31, 2020 and 2019 (in Canadian dollars)

8. PROVISIONS

	Onerous contracts	Warranty	Total
December 31, 2018	$ 119,373	-	$ 119,373
Additions	-	-	-
Utilized	(12,738)	-	(12,738)
Balances, December 31, 2019	106,635	-	106,635
Additions	-	585,141	585,141
Utilized	(1,061)	-	(1,061)
Balances, December 31, 2020	$ 105,574	585,141	690,715
Current portion			557,968
			$ 132,747

9. DEFERRED SHARE UNIT LIABILITY

The Company has a deferred share unit ("DSU") plan for certain employees, directors and consultants that is administered by the Board of Directors and may be settled in cash or equity. During 2020, 761,657 DSUs were issued in lieu of cash based compensation at a value of $0.29 - $0.60 per unit. Of the DSUs issued, 549,324 were issued to key management. On December 31, 2020, the DSUs were revalued at a fair value price of $2, which reflects the price at which the Company was raising capital. Subsequent to the reporting period, these DSUs were converted into class A common shares and the plan was discontinued.

10. LONG-TERM DEBT

Long-term debt pertains to grant loans that accrue interest at a blended rate of 3.72%, with interest only payable until September 2021 and blended monthly installments of $12,185 payable starting October 2021. The long-term debt is secured by a second-ranking general security agreement over all assets of the Company.

	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
Principal repayments	$ 33,560	300,909	-	$ 334,469

years ended December 31, 2020 and 2019 (in Canadian dollars)

11. LOAN PAYABLE

	2020	2019
Opening balance	$ 2,145,295	$ -
Issuance	2,022,162	2,000,000
Transaction costs	(37,772)	(41,283)
Accrued interest	557,893	180,000
Accretion expense	128,283	6,578
Loss on extinguishment	69,561	-
	$ 4,885,422	$ 2,145,295

Loan payable pertains to a debt financing that the Company completed in July 2019 for $2,000,000 and for an additional $2,022,162 in May 2020. As part of the debt financing, investors that participated were also awarded 1.7 class B preferred shares for each dollar of debt (see note 12). As a result, debtholders hold 53% of shares outstanding as of December 31, 2020.

The loan accrued interest of 20% until September 2020 and accrued interest of 4% October 2020 and onwards. The amount is secured by a first-ranking general security agreement over all assets of the Company and is repayable on the earlier of July 2024 and the Company completing an equity financing for at least $30 million. On maturity, a deferred setup fee of $250,000 will also become payable.

Interest of $557,893 accrued during 2020 and $180,000 during 2019. Interest may be paid in cash or added to the principal amount of debt on an annual basis. The Company elected to add the amount of accrued interest to the principal amount of debt for both years. The adjustment in interest rate resulted in a loss on extinguishment of $69,561 on September 30, 2020. Accretion expense was recorded using an effective interest rate of 19.38% to September 30, 2020 and an effective interest rate of 13.17% thereafter.

years ended December 31, 2020 and 2019 (in Canadian dollars)

12. SHARE CAPITAL

Authorized

Unlimited number of class A common shares and class B preferred shares with no par value. As both classes of shares have identical attributes, they have been presented together as common shares.

	Common Shares #	Share Capital $
Issued		
Balances, December 31, 2018	2,691,765	7,299,258
Shares issued as part of debt financing	3,400,000	-
Balances, December 31, 2019	6,091,765	7,299,258
Shares issued as part of debt financing	3,437,675	-
Shares issued as part of equity financing	3,000,000	2,806,560
Repurchase of shares	(75,739)	(22,722)
Exercise of warrants	290,250	2,903
Balances, December 31, 2020	12,743,951	10,085,999

On July 16, 2019, the Company completed a debt financing for $2,000,000. As part of the financing, investors received 1.7 class B preferred shares for each dollar of debt.

On May 29, 2020, the Company completed a debt financing for $2,022,162. As part of the financing, investors received 1.7 class B preferred shares for each dollar of debt.

On June 29, 2020, the Company repurchased 75,739 class A common shares from a deceased shareholder at $0.30 per share.

On September 30, 2020, the Company issued 3,000,000 common shares at a price of $1 per share. Transaction costs of $193,440 were deducted from equity.

During 2020, 290,250 warrants were exercised for gross proceeds of $2,903.

The weighted average number of common shares outstanding has been calculated as follows:

	2020	2019
Issued common shares	12,743,951	6,091,765
Effect of issued common shares	(3,842,880)	(1,841,667)
Weighted average number of common shares	8,901,071	4,250,098

years ended December 31, 2020 and 2019 (in Canadian dollars)

No adjustments to loss or the weighted average number of shares for the effects of dilutive potential ordinary shares were necessary. Dilutive potential ordinary shares are financial instruments or contracts that may entitle its holder to ordinary shares, where the conversion, exercise or issuance of the financial instrument or warrant would result in a reduction in earnings per share or an increase in loss per share.

13. CONTRIBUTED SURPLUS

The Company offers a stock option plan for the benefit of certain directors, employees and consultants. The plan is administered by the Board of Directors and the maximum number of shares which may be issued under this plan may not exceed 20% of the number of issued and outstanding shares of the Company. Each stock option entitles its holder to receive one common share upon exercise.

During the year ended December 31, 2020, 875,000 stock options were granted with an exercise price of $0.60 and 150,000 stock options were granted with an exercise price of $1.00, all of which vest equally over three years. Of the total stock options issued, 925,000 were issued to key management. There were no stock options outstanding prior to 2020. Subsequent to the reporting period, 900,000 stock options were issued to key management.

The following table summarizes information about stock options outstanding as at December 31, 2020:

Exercise Price $	Options Outstanding #	Weighted Avg Remaining Life #	Options Exercisable #
$ 0.60	875,000	4.6	50,000
$ 1.00	150,000	4.8	-
$ 0.66	1,025,000	4.6	50,000

The estimated fair value of stock options issued during fiscal 2020 was calculated using the Black-Scholes option pricing model with the following assumptions: i) the expected life of each stock option is 3 years; ii) the risk free rate is between 0.28% and 0.34%; iii) the dividend yield will be $NIL; and iv) expected volatility is between 64.82% and 67.69%. Volatility was determined using an average of comparable companies' historical trading data over a period equal to the expected life of the options. Variables used in the Black-Scholes option pricing model are based on highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate. Included in general and administrative expenses is a share-based compensation expense of $71,196 (2019 - $NIL).

years ended December 31, 2020 and 2019 (in Canadian dollars)

14. RELATED PARTY TRANSACTIONS

During the year, the Company paid $1,855,792 (2019 - $905,793) for production and product development work to Carlsun Energy Solutions Inc., which is owned by a director of the Company. In addition, included in prepaid expenses and deposits as at December 31, 2020 is $75,000 (2019 - $NIL) prepaid to this company.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in general and administrative expenses are the following wages and consulting fees paid to key management:

	2020	2019
Salaries and benefits	$ 739,166	$ 611,758
Share-based compensation expense	$ 64,718	$ -

Board of directors and executive officers are deemed to be key management.

15. INCOME TAXES

The Company's current income tax recoverable balance pertains to a refundable SR&ED credit balance, which has been applied against research and development expenses.

The Company's income tax expense as presented differs from the amount that would be computed by applying the combined Canadian federal and provincial statutory income tax rate as a result of the following:

	2020	2019
Net loss before income taxes	$ (6,850,616)	$ (2,651,412)
Statutory income tax rate	26.50%	26.50%
Expected income tax recovery	(1,815,413)	(702,624)
Non-deductible items	19,619	(1,580)
Share issuance costs booked to equity and debt	(51,262)	-
Tax benefit not recognized	1,847,056	704,204
	$ -	$ -

years ended December 31, 2020 and 2019 (in Canadian dollars)

Deferred tax assets and liabilities are attributable to the following:

	2020	2019
Operating tax losses carried forward	$ 10,759,772	$ 6,952,861
Reserves	3,647,074	879,340
Scientific research expenditures	2,289,961	2,284,880
Share issuance costs	209,740	33,030
Equipment	130,008	119,640
Loan payable	125,367	-
Tax credits	39,182	39,180
Patents	20,618	-
Bank indebtedness	10,000	-
	$ 17,231,722	$ 10,308,931

Income tax losses may be carried forward for up to 20 years. The Company's tax losses will expire as indicated below:

2027	$ 34,751
2028	128,583
2029	78,021
2030	183,976
2031	325,086
2032	65,069
2033	671,963
2034	640,027
2035	183,953
2036	719,857
2037	968,820
2038	704,240
2039	2,248,515
2040	3,806,911
	$ 10,759,772

16. SEGMENTED INFORMATION AND MAJOR CUSTOMERS

The Company operates in one segment being the development and sale of electrolyzers and balance of plant equipment. All of the Company's assets are located in Canada. During the year ended December 31, 2020 and 2019, one customer provided 100% of the Company's revenues.

17. FINANCIAL INSTRUMENTS

Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework but has delegated to management the responsibility for monitoring and managing the risks that the Company faces. Financial instruments present a number of specific risks as identified below:

Fair Value

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Valuation techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. The carrying value of cash, trade and other receivables, bank indebtedness, and trade and other payables approximate their fair values due to their nature or capacity for prompt liquidation. The carrying value of long-term debt and loan payable approximates fair value given the difference between the discount rates used to recognize the liabilities in the statement of financial position and the market rates of interest is insignificant.

Valuation techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. Level 2 valuation methods have been used to determine fair values. Level 1 uses quoted prices in active markets for identical assets or liabilities. Level 2 uses inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Credit Risk

Credit risk arises from the potential that debtors will fail to satisfy their obligations as they come due. Credit risk with respect to trade and another receivables is considered low as the balance is made up of amounts due for grant applications and sales taxes. Credit risk with respect to cash is considered low as it is held by a major Canadian financial institution. As such, no provision for lifetime expected credit losses has been made.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing, on an ongoing basis, its financial requirements for operations and capital expenditures and ensuring financing is available when necessary. As at December 31, 2020, the Company had $1,092,067 (2019 - $254,783) in cash and was in the process of completing a financing for $6,000,000 that closed subsequent to the reporting period (see note 19).

Market Risk

Market risk refers to the risk that a change in one or more general market conditions will result in losses to the Company. The Company is exposed to interest rate risk and manages this risk through regular monitoring of its financial instruments. The Company is not exposed to other price risk or foreign exchange risk.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will have a negative effect on the value of financial instruments. The Company is exposed to interest rate cash flow risk on its cash balances, which earn interest at a floating rate, and is exposed to interest rate price risk on its long-term debt and loan payable balances, which bear interest at a fixed rate. As all of the Company's financial instruments bear interest at a fixed rate and are measured at amortized cost, a change in interest rates would not affect the Company's earnings.

18. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company may issue new shares or new debt, acquire or dispose of assets, or repay long-term debt. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as annual capital and operating budgets. The Company is not subject to externally imposed capital requirements and there was no change to the Company's approach to capital management during the year.

19. SUBSEQUENT EVENTS

On January 21, 2021, the Company completed a non-brokered private placement for 3,000,000 class A common shares at a price of $2 per share. In addition, the Company signed a definitive agreement with BioHEP Technologies Ltd. ("BioHEP") on March 3, 2021 to complete a reverse take-over of BioHEP by way of a three-cornered amalgamation ("RTO") as part of its plans to become a publicly-listed issuer and trade on the TSX-V. On April 28, 2021, the Company completed a non-brokered private placement of subscription receipts for total gross proceeds of $27,000,000 and a brokered private placement of subscription receipts for gross proceeds of $28,545,000. Each subscription receipt was sold at a price of $10 and shall be exchanged, for no additional consideration, for one common share of BioHEP upon successful completion of the RTO.

20. COVID-19 INFORMATION

As the duration and impact of the COVID-19 pandemic to the global economy is indeterminable, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. The Company will continue to closely monitor the situation as it develops day-to-day and will take further actions, if necessary, to ensure the wellbeing of our workforce, customers, suppliers and other stakeholders, as well as minimize disruption to the Company's progress.

In March 2020, the Government of Canada introduced the Temporary Wage Subsidy ("TWS") to support employers affected by COVID-19. The subsidy covered 10% of remuneration paid from March 18 to June 19, 2020, up to $1,375 per employee. During the year, the Company qualified for the TWS program and recognized $4,840 as a reduction to general and administrative expenses.

The Company also applied for the Canada Emergency Business Account ("CEBA"), which provides an interest-free and partially forgivable loan of up to $40,000 to small businesses. This has been classified as bank indebtedness, was subsequently increased to $60,000 of which $20,000 is forgivable if the balance is repaid by December 31, 2022.

The Company will continue to review all programs offered by the Government and ensure that it applies for all appropriate support. The Company's exposure to supply chain risk and hiring risk was heightened during the pandemic, which the Company continues to monitor regularly in order to mitigate these risks. The Company does not expect any material changes to other risk factors, although a prolonged period of precautionary measures may delay the Company's ability to execute on its goals in a timely manner.