Next Hydrogen Solutions Inc.
(previously BioHEP Technologies Ltd.)

Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2021

NextHydrogen

Condensed Interim Consolidated Statements of Financial Position

As at June 30, 2021 and December 31, 2020 (in Canadian dollars)

(unaudited)

	Jun 30 2021	Dec 31 2020
Assets		
Current		
Cash and cash equivalents	$ 52,833,069	$ 1,092,067
Trade and other receivables	913,423	212,591
Prepaid expenses and deposits	1,057,097	75,000
Current income tax recoverable	-	53,318
Inventory (note 5)	265,906	1,539,687
	55,069,495	2,972,663
Equipment (note 4, 6)	346,415	39,482
Patents (note 7)	796,051	810,375
Intangible assets and goodwill (note 4, 8)	413,641	-
	$ 56,625,602	$ 3,822,520
Liabilities		
Current		
Bank indebtedness (note 18)	$ 60,000	$ 40,000
Trade and other payables	1,015,783	287,630
Contingent liability (note 4)	14,968	-
Deferred revenue (note 9)	2,443,982	1,611,807
Provisions (note 10)	1,453,439	557,968
Long-term debt	101,625	33,560
Loan payable (note 12)	5,105,256	4,885,422
Deferred share unit liability (note 11)	-	1,523,314
	10,195,053	8,939,701
Contingent liability (note 4)	48,216	-
Deferred revenue (note 9)	331,354	1,159,834
Provisions (note 10)	1,300,948	132,747
Long-term debt	233,084	300,909
	12,108,655	10,533,191
Commitments (note 16)		
Shareholders' Equity		
Share capital (note 13)	76,442,081	10,085,999
Contributed surplus (note 14)	1,562,087	71,196
Retained deficit	(33,487,221)	(16,867,866)
	44,516,947	(6,710,671)
	$ 56,625,602	$ 3,822,520

On behalf of the Board

"Raveel Afzaal" *"Allan Mackenzie"*

Condensed Interim Consolidated Statements of Comprehensive Loss

three and six months ended June 30, 2021 and 2020 (in Canadian dollars)

(unaudited)

	3 months ended June 30 2021	3 months ended June 30 2020	6 months ended June 30 2021	6 months ended June 30 2020
Revenue (note 17)	$ 59,123	-	59,123	$ 1,775
Direct costs	28,067	-	28,067	-
Gross margin	31,056	-	31,056	1,775
Expenses				
Research and development (note 15)	1,386,139	554,109	2,232,089	1,180,291
General and administrative (note 15)	1,012,996	351,857	1,846,098	633,273
Marketing and sales	555,412	10,734	756,896	31,718
Provisions (note 5, 10)	3,560,595	-	3,560,595	492,478
	6,515,142	916,700	8,395,678	2,337,760
Loss before the following	(6,484,086)	(916,700)	(8,364,622)	(2,335,985)
Finance costs, net (note 12)	51,368	179,100	212,741	296,409
Depreciation and amortization (notes 6, 7, 8)	51,554	10,128	78,584	20,257
Change in fair value of deferred share units	-	-	-	3,423
Transaction costs (notes 3, 4, 14)	7,819,754	-	7,963,408	-
	7,922,676	189,228	8,254,733	320,089
Net loss and comprehensive loss	$(14,406,762)	$ (1,105,928)	(16,619,355)	$ (2,656,074)
Loss per share:				
Basic	$ (0.85)	$ (0.15)	$ (1.02)	$ (0.40)
Diluted	$ (0.85)	$ (0.15)	$ (1.02)	$ (0.40)
Weighted average number of shares outstanding: (note 13)				
Basic	16,996,179	7,299,785	16,235,382	6,695,775
Diluted	16,996,179	7,299,785	16,235,382	6,695,775

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

three and six months ended June 30, 2021 and 2020 (in Canadian dollars)

(unaudited)

	Share Capital	Contributed Surplus	Retained Deficit	Total
Balances, December 31, 2020	$ 10,085,999	71,196	(16,867,866)$	(6,710,671)
Share issuance (note 13)	64,764,802	-	-	64,764,802
Warrant issuance (note 14)	-	614,700	-	614,700
Option exercise (note 13)	67,966	(22,966)	-	45,000
DSU settlement (notes 11, 13)	1,523,314	-	-	1,523,314
Share-based compensation expense (note 14)	-	899,157	-	899,157
Net loss and comprehensive loss	-	-	(16,619,355)	(16,619,355)
Balances, June 30, 2021	$ 76,442,081	1,562,087	(33,487,221)$	44,516,947
Balances, December 31, 2019	$ 7,299,258	-	(10,017,250)$	(2,717,992)
Share repurchase	(22,722)	-	-	(22,722)
Net loss and comprehensive loss	-	-	(2,656,074)	(2,656,074)
Balances, June 30, 2020	$ 7,276,536	-	(12,673,324)$	(5,396,788)

Condensed Interim Consolidated Statements of Cash Flows

three and six months ended June 30, 2021 and 2020 (in Canadian dollars)

(unaudited)

	3 months ended June 30 2021	3 months ended June 30 2020	6 months ended June 30 2021	6 months ended June 30 2020
Cash flows used in operating activities				
Net loss	$ (14,406,762)	(1,105,928)	(16,619,355)	$ (2,656,074)
Adjustments:				
Finance costs, net	51,368	179,100	212,741	296,409
Depreciation and amortization	51,554	10,128	78,584	20,256
Change in fair value of deferred share units	-	-	-	3,423
Provisions	3,560,595	-	3,560,595	492,478
Stock option expense	676,882	-	899,157	-
Deferred share unit expense	-	-	-	12,500
Warrant issuance	614,700	-	614,700	-
Transaction costs	7,323,251	-	7,323,251	-
	(2,128,412)	(916,700)	(3,930,327)	(1,831,008)
Net change in non-cash operating working capital	(334,025)	229,760	(1,120,905)	231,083
	(2,462,437)	(686,940)	(5,051,232)	(1,599,925)
Interest paid	(3,075)	-	(6,253)	(2,294)
Interest received	11,219	168	13,586	168
	(2,454,293)	(686,772)	(5,043,899)	(1,602,051)
Cash flows used in investing activities				
Acquisition of equipment (note 6)	(216,981)	-	(263,895)	-
Patent costs (note 7)	(9,382)	(11,827)	(25,185)	(18,512)
Acquisition of CFS (note 4)	(432,570)	-	(432,570)	-
	(658,933)	(11,827)	(721,650)	(18,512)
Cash flows from financing activities				
Issuance of shares, net (note 13)	51,679,225	-	57,281,562	-
Reverse takeover costs (note 3)	(340,011)	-	(340,011)	-
Cash acquired on acquisition of BioHEP	500,000	-	500,000	-
Repurchase of shares (note 13)	-	(22,722)	-	(22,722)
Exercise of options	-	-	45,000	-
Proceeds from loan payable	-	984,390	-	1,984,390
Repayment of long-term debt	-	-	-	(35,777)
Proceeds from bank indebtedness (note 18)	-	40,000	20,000	40,000
	51,839,214	1,001,668	57,506,551	1,965,891
Increase in cash	48,725,988	303,069	51,741,002	345,328
Cash, beginning	4,107,081	297,042	1,092,067	254,783
Cash, ending	$ 52,833,069	$ 600,111	52,833,069	$ 600,111

1. CORPORATE INFORMATION

Founded in 2007, Next Hydrogen Solutions Inc. ("Next Hydrogen" or the "Company") is a designer and manufacturer of electrolyzers that use water and electricity as inputs to generate clean hydrogen for use as an energy source. Next Hydrogen's unique cell design architecture supported by 38 patents enables high current density operations and superior dynamic response to efficiently convert intermittent renewable electricity into green hydrogen on an infrastructure scale. Following successful pilots with Atomic Energy Canada Limited and Canadian Tire Corporation, Next Hydrogen is scaling up its technology to deliver commercial solutions to decarbonize transportation and industrial sectors.

The Company's registered head office is at 102-2680 Matheson Blvd E, Mississauga, Ontario, L4W 0A5 and was incorporated on February 11, 2014 under the British Columbia Business Corporations Act. The Company changed its name from "BioHEP Technologies Ltd." to "Next Hydrogen Solutions Inc." on June 24, 2021.

The common shares of the Company trade on the TSX Venture Exchange under the symbol "NXH".

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and interpreted by the IFRS Interpretations Committee ("IFRIC"). These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent annual financial statements of the Company, including the notes thereto, for the year ended December 31, 2020.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 17, 2021.

Basis of Measurement

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

Functional and Presentation Currency

These condensed interim consolidated 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.

Basis of Consolidation

The condensed interim consolidated financial statements consolidate the accounts of the Company and its subsidiary, Next Hydrogen Corporation. Subsidiary is an entity over which the Company has the power to govern financial and operating policies. Subsidiary is fully consolidated from the date on which control is obtained by the Company, and are de-consolidated from the date control ceases. Fully consolidated means that all transactions with the subsidiary and any intercompany balances, gains or losses with the subsidiary has been eliminated on consolidation. The accounting policies have been applied consistently by the subsidiary.

The Company's subsidiary is wholly-owned, is domiciled in Canada and is in the renewable energy and product development industries.

Business combinations

The acquisition method of accounting is used to account for business combinations. The cost of an acquisition is measured at the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed as incurred. The excess of the cost of the acquisition over the fair value of the acquisition's identifiable assets and liabilities is recorded as goodwill. If the acquisition cost is less than the fair value of the assets and liabilities acquired, the difference is recognized directly in the consolidated statements of comprehensive loss. Contingent liability is included in total consideration and is recognized at its fair value as at the acquisition date. Subsequent changes in fair values are adjusted against the cost of the acquisition where they qualify as measurement period adjustments.

Intangible assets

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. If intangible assets are acquired through a business combination, costs are measured fair value. Costs include costs that are directly attributable to bringing the asset to a working condition for its intended use. Intangible assets with finite useful lives are amortized on a straight-line basis over its estimated useful life beginning when the asset is ready for its intended use and recorded on the consolidated statements of comprehensive loss. The Company assesses the useful lives, residual values and amortization methods annually and recognize the effects of changes in estimates in the consolidated statements of comprehensive loss prospectively.

Amortization of intangible assets is provided for using the following useful lives:

Licensing agreement	2 years
Non-competition agreement	2 years
Customer list	11 years

three and six months ended June 30, 2021 and 2020 (in Canadian dollars)

Change in Accounting Estimates

On January 1, 2021, the Company changed its method of depreciation and amortization for equipment and patents from a declining balance basis to a straight-line basis over the estimated useful lives of the assets. This change in accounting estimate better reflects the expected pattern of consumption of future economic benefits embodied in these assets. Depreciation of equipment and amortization of patents is now provided for using the following useful lives:

Computer hardware	3 years
Equipment	10 years
Patents	8 - 22 years

The effect of this change on current and future depreciation and amortization expense is as follows:

	2021	2022	2023	2024	Later
Increase (decrease) in:					
Depreciation	$ 6,165	7,374	4,196	(3,579)	$ (14,156)
Amortization	$ 49,386	50,683	51,928	53,123	$ (205,120)

Critical Accounting Estimates and Significant Judgments

The preparation of condensed interim consolidated 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. REVERSE TAKEOVER TRANSACTION

On June 24, 2021, the Company acquired all of the common shares of BioHEP Technologies Ltd. ("BioHEP") by way of a three-cornered amalgamation between Next Hydrogen Corporation and a wholly-owned subsidiary of BioHEP ("FinCo"), forming a subsidiary of BioHEP (the "RTO"). Pursuant to the amalgamation, all of the outstanding common shares of Next Hydrogen Corporation and the wholly-owned subsidiary were canceled and the holders received an equal amount of common shares of BioHEP. Prior to the RTO, BioHEP spun-out all assets and liabilities less $500,000 in cash, consolidated its common shares on the basis of one post-consolidation share for every 13.3 pre-consolidation shares, and changed its name to "Next Hydrogen Solutions Inc.".

In connection with the RTO, FinCo completed a non-brokered private placement of subscription receipts for 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 was exchanged for one common share of the Company upon completion of the RTO. Share issuance costs of $3,865,774 were deducted from gross proceeds.

In accordance with IFRS 2, Share-Based Payment, the RTO has been accounted for as a reverse acquisition that does not constitute a business, in which Next Hydrogen Corporation is being identified as the acquirer of BioHEP. All of the outstanding common shares of BioHEP were acquired by Next Hydrogen Corporation in exchange for 748,324 common shares valued at $10 per share. The excess of the fair value of identifiable net assets acquired over the share consideration issued is considered as payment for listing and has been included in transaction costs on the condensed interim consolidated statements of comprehensive loss. The Company has completed the purchase price allocation over the identifiable net assets of BioHEP and has determined that the fair value of net assets acquired and the resulting reverse takeover cost is as follows:

Total identifiable net assets acquired	500,000
Total share consideration	7,483,240
Reverse takeover cost	6,983,240

As market prices for shares issued as part of the RTO were not available at the time of acquisition, the fair value of the equity instruments issued was based on an arm's length transaction between knowledgeable, willing parties. The valuation was consistent with the price of subscription receipts that FinCo issued as part of a non-brokered and brokered private placement that were completed on April 28, 2021. All relevant factors and knowledge of the Company and its industry were considered at the time of acquisition, when making assumptions as part of the valuation of these shares.

In addition to the reverse takeover cost above, transaction costs of $340,011 were incurred in connection with the RTO, other than costs associated with the financing, and have been expensed under transaction costs.

three and six months ended June 30, 2021 and 2020 (in Canadian dollars)

4. BUSINESS COMBINATION

In order to expand its service offering, on April 1, 2021 the Company acquired the assets of Cleanfuel Systems Inc. ("CFS"), a hydrogen system integration and service company focused on delivering energy solutions through system design, component integration and development, and engineering solutions. The following table presents the preliminary purchase price allocation over the identifiable net assets and goodwill of CFS:

Equipment	$ 58,640
Licensing agreement	12,000
Non-competition agreement	138,650
Customer list	204,260
Net asset acquired	$ 413,550
Cash	432,570
Contingent consideration	63,184
Total consideration	495,754
Goodwill	$ 82,204

From the date of acquisition, CFS contributed revenue of $59,123 and net income of $31,055. Had Next Hydrogen acquired the company on January 1, 2021, CFS would have contributed revenue of $123,147 and net income of $64,684.

The contingent consideration was recorded at its fair value which represents the probability-weighted determination of the Company's earn-out obligation to pay with a range of $65,955 and $119,020.

Goodwill represents the value of the acquired workforce and related processes and knowledge. It is expected that the entire amount of goodwill will be deductible for tax purposes. Transaction costs of $25,458 were expensed and included in transaction costs on the condensed interim consolidated statements of comprehensive loss.

5. INVENTORY

	Jun 30 2021	Dec 31 2020
Spare parts	$ 376,480	153,338
Work in progress	970,561	2,467,484
Onerous contract provision	(1,081,135)	(1,081,135)
	$ 265,906	1,539,687

During the quarter, $1,496,923 in work in progress was written off to provisions.

three and six months ended June 30, 2021 and 2020 (in Canadian dollars)

6. EQUIPMENT

	Equipment	Equipment under Construction	Computer Hardware	Total
Cost				
Balances, December 31, 2020	$ 243,029	–	10,711	$ 253,740
Additions	122,190	112,139	89,081	323,410
Disposals	(2,000)	–	(7,364)	(9,364)
Balances, June 30, 2021	363,219	112,139	92,428	567,786
Accumulated depreciation				
Balances, December 31, 2020	205,394	–	8,864	214,258
Depreciation	8,922	–	6,680	15,602
Disposals	(2,000)	–	(6,489)	(8,489)
Balances, June 30, 2021	$ 212,316	–	9,055	$ 221,371
Net carrying amounts				
At December 31, 2020	$ 37,635	–	1,847	$ 39,482
At June 30, 2021	$ 150,903	112,139	83,373	$ 346,415

7. PATENTS

	Cost	Accumulated Amortization	Net
Balances, December 31, 2020	$ 1,000,351	189,976	$ 810,375
Additions	25,185	–	25,185
Amortization	–	39,509	(39,509)
Balances, June 30, 2021	1,025,536	229,485	796,051

8. INTANGIBLE ASSETS AND GOODWILL

	Intangible Assets	Goodwill	Net
Balances, December 31, 2020	$ –	–	$ –
Additions	354,910	82,204	437,114
Amortization	(23,473)	–	(23,473)
Balances, June 30, 2021	331,437	82,204	413,641

three and six months ended June 30, 2021 and 2020 (in Canadian dollars)

9. DEFERRED REVENUE

	Maintenance and warranty obligations in process	Service obligations in place	Advances on contracts with no satisfied obligations	Total
Balances, December 31, 2020	93,493	-	2,678,148	2,771,641
Payments received	-	18,475	-	18,475
Revenue recognized	-	(14,780)	-	(14,780)
Balances, June 30, 2021	$ 93,493	3,695	2,678,148	2,775,336
Current portion				2,443,982
				$ 331,354

10. PROVISIONS

	Onerous contracts	Warranty	Total
Balances, December 31, 2020	105,574	585,141	690,715
Additions	2,063,672	-	2,063,672
Utilized	-	-	-
Balances, June 30, 2021	$ 2,169,246	585,141	2,754,387
Current portion			1,453,439
			$ 1,300,948

11. DEFERRED SHARE UNIT LIABILITY

On February 10, 2021, 761,657 deferred share units ("DSUs") valued at $2 per unit were converted into common shares and the plan was discontinued.

12. LOAN PAYABLE

Balance, December 31, 2020	$ 4,885,422
Accrued interest	95,201
Accretion expense	124,633
Balance, June 30, 2021	$ 5,105,256

The loan accrued interest of 4% and accretion expense was recorded using an effective interest rate of 13.17%. The loan balance of $5,105,256 was repaid subsequent to the reporting period as the Company completing an equity financing in excess of $30 million, triggering a maturity event.

three and six months ended June 30, 2021 and 2020 (in Canadian dollars)

13. SHARE CAPITAL

Authorized

Unlimited number of common shares with no par value.

	Common Shares #	Share Capital $
Issued		
Balances, December 31, 2020	12,743,951	10,085,999
Shares issued/assumed on RTO (note 3)	748,324	7,483,240
Shares issued as part of equity financing	8,554,500	57,281,562
Settlement of DSUs	761,657	1,523,314
Exercise of stock options	75,000	67,966
Balances, June 30, 2021	22,883,432	76,442,081

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. Transaction costs of $397,663 were deducted from equity.

On February 10, 2021, the Company settled 761,657 DSUs valued at $2 per unit in exchange for 761,657 class A common shares.

On February 10, 2021, 75,000 stock options were exercised for gross proceeds of $45,000. $22,966 was reallocated from contributed surplus as part of this transaction.

On April 28, 2021, FinCo 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, where each subscription receipt was sold at a price of $10 per unit. Subscription receipts were converted to common shares of the Company on completion of the RTO on June 24, 2021. Transaction costs of $3,865,774 were deducted from equity.

On June 24, 2021, the Company issued 748,324 common shares at a price of $10 per share in connection with its acquisition of BioHEP. In connection with the RTO, both class A and class B common shares of Next Hydrogen Corporation were exchanged for common shares of the Company on a one-to-one basis.

three and six months ended June 30, 2021 and 2020 (in Canadian dollars)

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

	3 months ended June 30 2021	3 months ended June 30 2020	6 months ended June 30 2021	6 months ended June 30 2020
Issued common shares	22,883,432	9,453,701	22,883,432	9,453,701
Effect of issued common shares	(5,887,253)	(2,153,916)	(6,648,050)	(2,757,926)
Weighted average number of common shares	16,996,179	7,299,785	16,235,382	6,695,775

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.

14. 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 and all options expire 5 years from issuance.

During the period ended June 30, 2021, 1,425,000 stock options were granted with an exercise price of $2, with 725,000 vesting over three years and 700,000 tied to specific performance criteria. Of the total stock options outstanding, 1,675,000 were issued to key management.

Subsequent to the reporting period, 811,626 stock options were granted, 496,626 of which was to key management.

The following table summarizes information about stock options outstanding as at June 30, 2021:

Exercise Price $	Options Outstanding #	Weighted Avg Remaining Life #	Options Exercisable #
$ 0.60	575,000	4.1	250,000
$ 1.00	150,000	4.3	150,000
$ 2.00	1,425,000	4.6	275,000
$ 1.56	2,150,000	4.5	675,000

three and six months ended June 30, 2021 and 2020 (in Canadian dollars)

The estimated fair value of stock options issued during the period 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 0.18% and 0.55%; iii) the dividend yield will be $NIL; and iv) expected volatility is between 72.23% and 75.52%. Included in expenses is a share-based compensation expense of $899,157 (2020 - $NIL).

On April 8, 2021, the Company issued 150,000 warrants with an exercise price of $10 in connection with potential future transactions. The estimated fair value of warrants issued during the period was $614,700 and the expense was included in transaction costs. The value was calculated using the Black-Scholes option pricing model with the following assumptions: i) expected life of 2 years; ii) risk free rate of 0.53%; iii) dividend yield of $NIL; and iv) expected volatility of 75.52%.

Volatility was determined using an average of comparable companies' historical trading data over a period equal to the expected life of the warrants. 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.

15. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2021, the Company paid $1,025,045 (2020 - $813,588) for research and product development work to Carlsun Energy Solutions Inc., which is owned by an individual that was director of the Company until RTO. Following, the company ceased to be a related party. In addition, included in prepaid expenses and deposits as at June 30, 2021 is $75,000 prepaid to this company.

Related parties include shareholders with a significant ownership interest in the Company and key management. 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 operating expenses are the following wages and consulting fees paid to key management:

	3 months ended June 30 2021	3 months ended June 30 2020	6 months ended June 30 2021	6 months ended June 30 2020
Salaries and benefits	$ 231,087	93,893	483,741	$ 217,822
Share-based compensation expense	$ 494,837	-	680,895	$ -

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

16. COMMITMENTS

The Company has committed to renting new office space effective September 1, 2021. Future minimum lease payments on this lease are expected to be approximately $2,028,000 over a period of ten years.

17. SEGMENTED INFORMATION AND MAJOR CUSTOMERS

The Company mainly operates in one segment, being the development and sale of electrolyzers and balance of plant equipment. On April 1, 2021, the Company acquired a hydrogen system integration and service company, which contributed to 100% of the Company's revenues. However, as this business has nominal assets, no discrete cost information and is not reviewed internally by decision makers separately from the rest of the business, segmented results have not been presented.

All of the Company's assets are located in Canada. During the period ended June 30, 2021 and 2020, one customer provided 75% (2020 - 100%) of the Company's revenues.

18. 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.

The Company applied for the Canada Emergency Business Account ("CEBA"), which provides an interest-free and partially forgivable loan of up to $60,000 to small businesses. This has been classified as bank indebtedness, and an additional $20,000 was received during the first quarter. Of the total amount, $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.