DYNACERT INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

(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 statement of financial position as at December 31, 2019 and the consolidated statements of income (loss) and other comprehensive income (loss), cash flows and changes in shareholders' equity for the year 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, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 $12,666,123 and had negative operating cash flows of $9,229,237. 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.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on April 30, 2019.

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, 2019.

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, 2019 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 IFRSs, 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.

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
April 29, 2020

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

	As at December 31, 2019	As at December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	**$ 16,319,235**	$ 109,327
Accounts receivable	**287,731**	198,803
Sales tax receivable	**346,705**	191,518
Inventory (note 6)	**1,487,409**	2,260,525
Prepaid expenses	**762,634**	529,821
Total current assets	**19,203,714**	3,289,994
Non-current assets		
Property and equipment (note 7)	**812,667**	543,010
Intangible assets (note 8)	**437,751**	321,976
Right-of-use asset (note 9)	**110,572**	-
Total assets	**$ 20,564,704**	$ 4,154,980
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 947,958**	$ 3,129,535
Deferred revenue	**272,575**	493,672
Lease obligation (note 10)	**112,956**	-
Promissory note (note 11)	**214,092**	-
Total current liabilities	**1,547,581**	3,623,207
Non-current liabilities		
Lease obligation (note 10)	**3,467**	-
Promissory note (note 11)	**83,972**	-
Total liabilities	**1,635,020**	3,623,207
Shareholders' equity		
Share capital (note 12)	**69,902,351**	43,071,876
Warrant reserve (note 14)	**1,721,713**	1,364,853
Share-based payments reserve (note 13)	**10,171,798**	6,308,174
Deficit	**(62,866,178)**	(50,213,130)
Total shareholder's equity	**18,929,684**	531,773
Total shareholders' equity and liabilities	**$ 20,564,704**	$ 4,154,980

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 19)
Subsequent events (note 20)

Approved on behalf of the Board:

"Jim Payne" *Director* *"Richard Lu"* *Director*

DynaCERT INC.

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Revenue	**$ 1,064,627**	$ 91,620
Operating expenses		
Cost of goods sold	**304,800**	85,009
Accretion on promissory note	**58,335**	-
Business development and marketing	**1,907,932**	362,739
General and administrative	**1,571,721**	1,266,195
Interest expense (income)	**(5,838)**	85,769
Legal and audit	**154,439**	185,319
Research and development	**2,616,360**	3,086,509
Wages, benefits, and third-party consultants (note 17)	**2,182,534**	2,619,215
	8,790,283	7,690,755
Foreign exchange loss (gain)	**(85,767)**	156,980
Share based compensation	**4,602,845**	1,907,177
Loss on debt settlement (note 11)	**423,389**	-
Inventory adjustment	**-**	1,750,109
Total comprehensive loss for the year	**$ 12,666,123**	$ 11,413,401
Basic and diluted net loss per share	**$ 0.043**	$ 0.045
Weighted average number of common shares outstanding	**291,776,226**	250,909,819

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, 2019	Year Ended December 31, 2018
Operating activities		
Net loss for the year	**$ (12,666,123)**	$ (11,413,401)
Adjustments for:		
Loss on disposal of property and equipment	**63,597**	-
Depreciation of property and equipment	**165,264**	116,743
Amortization of intangible assets	**86,544**	94,727
Share based compensation	**4,602,845**	1,907,177
Accretion of lease obligations	**19,449**	-
Amortization of right-of-use asset	**129,180**	-
Accretion on promissory note	**58,335**	-
Loss on debt settlement	**423,389**	-
Foreign exchange on debt settlement	**(5,231)**	-
Changes in non-cash working capital items:		
Amounts receivable and sales tax receivable	**(244,115)**	150,104
Inventory	**773,116**	1,762,460
Prepaid expenses	**(232,813)**	(339,073)
Amounts payable and other liabilities	**(2,181,577)**	1,177,273
Deferred revenue	**(221,097)**	-
Net cash used in operating activities	**(9,229,237)**	(6,543,990)
Investing activities		
Acquisition of property and equipment	**(498,520)**	(340,514)
Acquisition of intangible assets	**(202,319)**	(74,169)
Net cash used in investing activities	**(700,839)**	(414,683)
Financing activities		
Proceeds from issuance of units in private placement	**21,600,000**	6,593,080
Finance costs	**(29,447)**	(29,032)
Proceeds from exercise of options	**1,005,850**	468,750
Redemption of convertible notes	**-**	26,028
Warrants exercised	**3,884,786**	-
Repayment of promissory note	**(178,427)**	-
Lease obligation expense	**(142,778)**	-
Net cash provided by financing activities	**26,139,984**	7,058,826
Net change in cash and cash equivalents	**16,209,908**	100,153
Cash and cash equivalents, beginning of year	**109,327**	9,174
Cash and cash equivalents, end of year	**$ 16,319,235**	$ 109,327

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	Equity component of debt	Warrants reserve	Share-based reserve	Deficit	Total
Balance, December 31, 2017	**$ 35,386,103**	**$ 341,597**	**$ 434,346**	**$ 4,703,192**	**$ (38,799,729)**	**$ 2,065,509**
Units issued in private placement	5,699,181	-	893,899	-	-	6,593,080
Finance costs	(29,032)	-	-	-	-	(29,032)
Units issued on redemption of convertible notes	1,244,679	(341,597)	36,608	-	-	939,690
Exercise of stock options	770,945	-	-	(302,195)	-	468,750
Share based compensation	-	-	-	1,907,177	-	1,907,177
Net loss for the year	-	-	-	-	(11,413,401)	(11,413,401)
Balance, December 31, 2018	**$ 43,071,876**	**$ -**	**$ 1,364,853**	**$ 6,308,174**	**$ (50,213,130)**	**$ 531,773**
Units issued in private placement	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**

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 are listed on the TSX-V under the trading symbol DYA. These consolidated financial statements include the results of DynaCERT and its wholly owned subsidiary, Dynamic Fuel Systems USA Inc. ("Dynamic") and DynaCERT GmbH Inc, its wholly owned German subsidiary.

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, 2019, the Company incurred a net loss of $12,666,123 (December 31, 2018 - $11,413,401) and had negative operating cash flows of $9,229,237 (December 31, 2018 - $6,543,990). 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 $62,866,178 since inception (December 31, 2018 - $50,213,130). 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. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

The Company may need to raise additional capital to fund operations. This need may be adversely impacted by uncertain market conditions, approval by regulatory bodies, and adverse results from operations. The Company believes it will be able to acquire sufficient funds to cover planned operations through the next twelve months from anticipated revenue growth during fiscal 2020 and by securing additional financing through additional private placements if required. The outcome of these matters cannot be predicted at this time.

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 IFRSs issued and outstanding as of April 28, 2020, the date the Board of Directors approved the statements.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiary. All financial information is expressed in Canadian dollars unless otherwise stated and has been rounded to the nearest dollar.

Basis of consolidation

These consolidated financial statements include the results of DynaCERT and its wholly owned subsidiary, Dynamic Fuel Systems USA Inc. (“Dynamic”) and DynaCERT GmbH Inc, its wholly owned German subsidiary.

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, and the determination of impairment of indefinite-life intangible assets.

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:

Share-Based Payments

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.

2. Basis of preparation (continued)

Inventory Valuation

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.

Provisions

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.

New standards adopted

(a) Leases and right-of-use assets

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), replacing IAS 17 - Leases. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity’s lease obligations.

At January 1, 2019, the Company adopted the following and the impact on the Company's financial statements disclosed in note 9 and 10. The Company adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (January 1, 2019), without restatement of comparative figures and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

(Expressed in Canadian Dollars)

2. Basis of preparation (continued)

New standards adopted (continued)

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonably certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

The Company adopted this standard and the impact on the Company's consolidated financial statements are disclosed below and in notes 9 and 10.

The following table presents the impact of adopting IFRS 16 on the consolidated statement of financial position at January 1, 2019:

	December 31, 2018	IFRS 16	January 1, 2019
Assets			
Right-of-use assets (i)	$ -	$ 239,752	**$ 239,752**
Liabilities			
Lease obligation (ii)	$ -	$ 239,752	**$ 239,752**

(i) The adjustment to right-of-use assets were operating type leases.

(Expressed in Canadian Dollars)

2. Basis of preparation (continued)

New standards adopted (continued)

(ii) The following reconciles the minimum lease commitments disclosed in the Company's 2018 annual audited financial statements to the amount of lease liabilities recognized on January 1, 2019

Undiscounted lease payments as of December 31, 2018	$	267,083
Less: effect of discounting using the incremental borrowing rate		(27,331)
Lease liability, January 1, 2019	**$**	**239,752**

(b) Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. The Company adopted this standard at January 1, 2019 and there was no material impact on the Company's consolidated financial statements.

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 IFRSs issued and outstanding as of April 28, 2020, the date the Board of Directors approved the statements.

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 receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Promissory note	Amortized cost

3. Significant accounting policies (continued)

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.

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.

3. Significant accounting policies (continued)

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.

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) 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.

(e) 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.

3. Significant accounting policies (continued)

(e) Share based compensation (continued)

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.

(f) 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

(g) 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.

(h) 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.

3. Significant accounting policies (continued)

(h) Income taxes (continued)

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.

(i) 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 where there are indications that the carrying value may not be recoverable.

(j) 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.

3. Significant accounting policies (continued)

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

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.

(k) 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.

(l) 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.

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.

4. Capital risk management (continued)

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, 2019 totaled $18,929,684 (December 31, 2018 - $531,773). 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, 2019. The Company is not subject to any externally imposed capital requirements.

5. Financial instruments

Fair value

The Company classifies its cash, receivables and deposits as loans and receivables; and accounts payable and accrued liabilities and promissory note payable as other financial liabilities.

The carrying values of cash, prepaid expenses and receivables approximate their fair values due to the short-term maturity of these financial instruments and are classified as level 1. The fair value of the accounts payable and accrued liabilities approximate their carrying value as they are due on demand. The Company’s risk exposure and the impact on the Company’s consolidated financial instruments are summarized below.

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. 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, 2019, the Company had current liabilities of $1,547,581 (December 31, 2018 - $3,623,207) and cash and receivables of $16,953,671 (December 31, 2018 – $499,648).

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 or exchange rate risk volatility.

(Expressed in Canadian Dollars)

6. Inventory

	As at December 31, 2019	As at December 31, 2018
Raw materials	**$ 1,114,312**	$ 1,789,364
Work in process	**255,046**	415,777
Finished goods	**118,051**	55,384
	$ 1,487,409	$ 2,260,525

During the year ended December 31, 2019, $304,800 (December 31, 2018 - $85,009) of inventory has been included in cost of goods sold.

7. Property and equipment

	December 31, 2019			December 31, 2018		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Plant equipment	$ 1,394,917	$ 936,830	$ 458,087	$ 1,203,245	$ 846,345	$ 356,900
Tooling equipment	231,001	31,238	199,763	159,265	60,742	98,523
Office equipment	243,760	234,125	9,635	243,760	230,907	12,853
Furniture and fixtures	517,179	501,515	15,664	513,729	498,431	15,698
Leasehold improvements	276,302	246,784	29,518	276,302	217,266	59,036
Construction in progress	100,000	-	100,000	-	-	-
	$ 2,763,159	$ 1,950,492	$ 812,667	$ 2,396,301	$ 1,853,691	$ 543,010

During the year ended December 31, 2019, the Company disposed of $131,662 worth of tooling equipment. As a result of this disposal the Company recorded a loss on disposal of property and equipment of $63,597.

8. Intangible assets

	December 31, 2019			December 31, 2018		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents	$ 500,428	$ 223,484	$ 276,944	$ 323,473	$ 199,166	$ 124,307
Trademarks	15,321	3,949	11,372	6,032	2,323	3,709
Software	331,153	181,718	149,435	315,078	121,118	193,960
	$ 846,902	$ 409,151	$ 437,751	$ 644,583	$ 322,607	$ 321,976

(Expressed in Canadian Dollars)

9. Rights-of-use assets

IFRS 16 - right-of-use asset recognition	$ 239,752
Right-of-use assets at January 1, 2019	**239,752**
Amortization	(129,180)
Balance, December 31, 2019	$ 110,572

Right-of-use assets consist of office space amortized over 24 months and office equipment amortized over 48 months.

Maturity analysis - contractual undiscounted cash flows	
As at December 31, 2019	
Less than one year	$ 119,382
Greater than one year	5,000
Total undiscounted lease obligation	$ 124,382

10. 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 are 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

As at December 31, 2019	
Less than one year	$ 109,489
Greater than one year	3,467
Total lease obligation	$ 112,956

11. 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 CDN $427,837 using the effective interest rate method with an effective interest rate of 25% per annum and a term of 24 months.

As a result of this transaction a loss on settlement of debt of $423,389 was recorded in the statement of loss and comprehensive loss. This inventory was to be used specifically for the ECU1 (electronic control unit 1) and its value is included in the Statement of Claim mentioned above. As this is a non-monetary transaction, it had no effect on the statement of cash flows for the year ended December 31, 2019.

12. 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.

b) Common shares issued

(i) During the year ended December 31, 2018, the Company closed a non-brokered private placement of 7,472,856 units at a price of $0.42 per unit, for total proceeds of $3,138,600. Each unit consists of one common share and one-half of one common share purchase warrant; with each whole warrant entitling the holder to purchase one common share at a price of $0.50 for a period of two years from the date of issue.

(ii) During the year ended December 31, 2018, the Company also closed an additional non-brokered private placement of 4,000,000 units at a price of $0.25 per unit, for total proceeds of $1,000,000; Each unit consists of one common share and one-half of one common share purchase warrant; with each whole warrant entitling the holder to purchase one common share at a price of $0.50 for a period of two years from the date of issue.

(iii) The Company also completed a debt settlement during the year ended December 31, 2018 whereby the holders of the existing convertible notes redeemed their notes for a total amount of $1,281,288 representing principal and interest accrued, with the redemption being settled through the issuance of 3,050,686 units, with each unit having the same terms as those issued in the placement described above, resulting in the issuance of 3,050,686 shares and 1,525,343 warrants.

(iv) During the year ended December 31, 2018, the Company announced that it closed the final tranche of its oversubscribed private placement equity offering by the issuance of an aggregate of 9,817,920 units (each a "Unit") at a price of $0.25 per Unit, for aggregate gross proceeds $3,454,480. PI Financial Corp. ("PI Financial") acted as a financial advisor to the Company in connection with the financing and were issued 400,000 broker warrants. Each Unit consists of one common share of the Company and one common share purchase warrant, and each such whole warrant entitling the holder to purchase one common share of the Company at a price of $0.35 on or before December 1, 2020, subject to 30-day acceleration if, for any ten consecutive trading days during the unexpired term of such warrants, the closing price of the Company's common shares is greater than $0.50 on the TSX Venture Exchange. These warrants were accelerated during the year ended December 31, 2019 (See note 14)

(v) 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.

12. Share capital (continued)

(vi) 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.

(vii) During 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.

(viii) 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)

12. Share capital (continued)

	Number of common shares	Amount
Balance, December 31, 2017	239,128,474	$ 35,386,103
Units issued on private placement (i, ii, iv)	21,290,776	6,593,080
Value of warrants (i, ii, iv)	-	(893,899)
Finance costs	-	(29,032)
Units issued on redemption of convertible notes (iii)	3,050,686	1,281,287
Value of warrants (iii)	-	(36,608)
Share issued on exercise of options	3,335,000	770,945
Balance, December 31, 2018	266,804,936	$ 43,071,876
Private placement (v, vi, vii, viii)	53,700,000	21,600,000
Value of warrants issued on private placement (v, vi, vii, viii)	-	(1,119,999)
Finance costs (v, vii)	-	(29,447)
Exercise of stock options (note 13)	5,181,790	1,745,071
Exercise of warrants (note 14)	11,206,534	4,634,850
Balance, December 31, 2019	336,893,260	$ 69,902,351

13. Stock options

(i) During the year ended December 31, 2018, the Company granted 7,659,096 stock options to its employees, consultants, directors and officers, with a weighted average exercise price $0.40. The options vested immediately, except for options granted to persons performing investor relations which vest 25% per quarter over one year and are exercisable for a period of five years from the date of grant. The options expire 5 years from the date of issue and have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 2.03% to 2.46%; expected life in years – 5; expected volatility 92% to 131%; and expected forfeiture rate – 0%.

(ii) 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%.

(iii) 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%.

(iv) 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 116.88%; and expected forfeiture rate – 0%.

(Expressed in Canadian Dollars)

13. Stock options (continued)

(v) 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%.

(vi) 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%.

(vii) 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%.

(viii) 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%.

(ix) 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%.

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

	Number of stock options	Weighted average exercise price
Balance, December 31, 2018	18,699,000	$ 0.34
Issued (i)	7,659,096	0.40
Exercised	(3,335,000)	0.14
Balance, December 31, 2018	23,023,096	$ 0.39
Issued (ii, iii, iv, v, vi, vii, viii, ix)	11,974,000	0.45
Exercised (x)	(5,181,790)	0.19
Balance, December 31, 2019	29,815,306	$ 0.45

(Expressed in Canadian Dollars)

13. Stock options (continued)

The following table reflects the actual stock options issued and outstanding as of December 31, 2019:

Expiry date	Exercise price ($)	Weighted average Remaining contractual life (years)	Number of options outstanding
February 26, 2020	0.15	0.16	1,875,000
December 11, 2020	0.10	0.95	3,830,000
July 13, 2021	0.10	1.53	350,000
November 30, 2021	0.40	1.92	500,000
December 16, 2021	0.80	1.96	3,550,000
March 13, 2022	0.71	2.20	450,000
March 13, 2022	0.94	2.20	300,000
September 19, 2022	0.58	2.72	1,000,000
October 23, 2022	0.58	2.81	1,218,000
January 31, 2023	0.50	3.09	4,210,000
April 5, 2023	0.50	3.26	238,096
August 17, 2023	0.25	3.63	100,000
October 4, 2023	0.25	3.76	686,000
November 9, 2023	0.22	3.86	150,000
March 1, 2024	0.38	4.17	4,384,210
May 15, 2024	0.35	4.38	550,000
July 30, 2024	0.50	4.58	600,000
September 11, 2024	0.50	4.70	700,000
October 11, 2024	0.50	4.78	50,000
November 12, 2024	0.50	4.87	1,024,000
December 9, 2024	0.52	4.95	3,650,000
December 17, 2024	0.55	4.97	400,000
		3.00	29,815,306

14. Warrants

On February 4, 2019, the Company received approval from the TSX Venture Exchange to extend and reprice non-dealer outstanding share purchase warrants with expiry dates ranging from February 2019 to August 2020 to December 1, 2020 and exercise prices of $0.50 and $1.00 to $0.35.

During the year ended December 31, 2019, 2,000,000 warrants issued in the year ended December 31, 2018 were approved. The warrants expire on December 1, 2020.

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$0.50 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.

The Company also has 25,000 dealer warrants outstanding to purchase common shares at an exercise price of $0.25 until December 1, 2020 and 16,350 dealer warrants outstanding to purchase common shares at an exercise price of $1.00 until December 1, 2020.

(Expressed in Canadian Dollars)

14. Warrants (continued)

	Number of warrants	Weighted average exercise price
Balance, December, 31 2017	2,159,205	$ 1.00
Issued (note 12b((i, ii, iii, iv))	17,479,692	0.39
Balance, December 31, 2018	19,638,897	$ 0.46
Issued (note 12b(v, vi, vii, viii))	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

The following table reflects the actual share purchase warrants issued and outstanding as of December 31, 2019:

Expiry date	Remaining contractual life (years)	Number of warrants outstanding	Exercise price ($)
December 1, 2020 (1)	0.92	20,622,918	0.35
December 1, 2020 (2)	0.92	25,000	0.25
December 1, 2020 (2)	0.92	16,350	1.00
November 15, 2021 (3)	1.88	1,350,000	0.65
November 28, 2021 (3)	1.91	14,000,000	0.65
December 13 2021 (3)	1.95	1,000,000	0.65
		37,014,268	

(1) 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 $0.50 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.

(2) Broker warrants

(3) 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.

15. Loss per share

For the year ended December 31, 2019, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $12,666,123 (December 31, 2018 - $11,413,401) and the weighted average number of common shares outstanding of 291,776,226 (December 31, 2018 - 250,909,819). Diluted loss per share did not include the effect of stock options as they are anti-dilutive.

(Expressed in Canadian Dollars)

16. 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, 2019	Year Ended December 31, 2018
Loss before income taxes	**$ (12,666,123)**	$ (11,413,401)
Statutory tax rate	**26.50%**	26.50%
Expected income tax recovery	**(3,356,523)**	(3,024,551)
Permanent differences	**1,226,467**	510,402
Impact of foreign income tax rate differential	**(19,285)**	(52,607)
Taxable benefits not recognized	**2,149,341**	2,566,756
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, 2019 Canada	December 31, 2019 Germany	December 31, 2018 Canada	December 31, 2018 Germany
Non-capital losses	**$ 11,145,249**	**$ 170,791**	$ 9,222,276	$ 69,397
Reserves	**21,200**	**-**	2,650	-
Financing costs	**19,328**	**-**	25,665	-
Promissory note	**(12,795)**	**-**	-	-
Capital losses	**5,605**	**-**	5,605	-
Intangible assets	**91,116**	**-**	48,529	-
Right-of-use assets	**1,551**	**-**	**-**	-
Property, plant, and equipment	**341,305**	**-**	301,501	-
	$ 11,612,559	**$ 170,791**	$ 9,606,226	$ 69,397

(Expressed in Canadian Dollars)

16. Income taxes (continued)

The Company's non-capital income tax losses expire 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	7,368,442
		$ 42,057,542

The Company also has $533,721 (2018 - $216,865) of tax loss carry-forwards in Germany that do not expire.

17. 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, 2019 and December 31, 2018:

	Year Ended December 31, 2019	**Year Ended December 31, 2018**
Rent	**$ 240,702**	$ 212,987
Consulting fees paid to directors	**729,706**	574,662
	$ 970,408	$ 787,649

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, 2019 is $47,670 (December 31, 2018 is $395,685) owed to directors, companies controlled by former directors or companies having certain directors in common.

(Expressed in Canadian Dollars)

17. Related party transactions (continued)

The compensation paid to these key management personnel for the year ended December 31, 2019 and December 31, 2018 is:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Short-term benefits	**$ 751,400**	$ 697,062
Share based compensation	**3,044,092**	994,500
	$ 3,795,492	$ 1,691,562

The Chief Financial Officer ("CFO") of the Company is a senior employee of Marrelli Support Services Inc. ("MSSI"). During the year ended December 31, 2019, the Company paid or accrued professional fees of $58,882 (year ended December 31, 2018 - $nil) to MSSI. These services were incurred in the normal course of operations for general accounting and financial reporting matters. MSSI also provides bookkeeping services to the Company. As at December 31, 2019, MSSI was owed $5,700 (December 31, 2018 - $nil) with respect to services provided.

Subsequent to December 31, 2019, dynaCERT invested in a one million three hundred thousand dollar loan bearing interest at six percent per annum secured by a promissory note which has been repaid by a company owned by a Director.

18. Segmented information

The Company currently has one business segment, being the development, production and sale of hydrogen generating systems. During the period December 31, 2019, the Company held $6,769 of cash (December 31, 2018 - $19,391) and during the year ended December 31, 2019 incurred $326,319 (December 31, 2018 - $216,682) of expenses in Germany through its German subsidiary.

19. 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.

20. Subsequent events

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. Other than the impact described in note 1, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods. The Company is closely monitoring the business environment as a result to ensure minimal distribution to business operations.

21. Comparative figures

Certain comparative figures have been reclassified to conform with the financial presentation adopted for the current year.