Condensed Interim Financial Statements

For the three months ended March 31, 2021

NextHydrogen

Condensed Interim Statements of Financial Position

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

(unaudited)

	Mar 31 2021	Dec 31 2020
Assets		
Current		
Cash	$ 4,107,081	$ 1,092,067
Trade and other receivables	485,836	212,591
Prepaid expenses and deposits (notes 10, 12)	856,696	75,000
Current income tax recoverable	68,632	53,318
Inventory (note 3)	1,560,043	1,539,687
	7,078,288	2,972,663
Equipment (note 4)	79,892	39,482
Patents (note 5)	805,652	810,375
	$ 7,963,832	$ 3,822,520
Liabilities		
Current		
Bank indebtedness (note 13)	$ 60,000	$ 40,000
Trade and other payables	591,361	287,630
Deferred revenue	2,402,597	1,611,807
Provisions	560,785	557,968
Long-term debt	67,434	33,560
Loan payable (note 7)	5,045,846	4,885,422
Deferred share unit liability (note 6)	-	1,523,314
	8,728,023	8,939,701
Deferred revenue	369,044	1,159,834
Provisions	129,930	132,747
Long-term debt	267,173	300,909
	9,494,170	10,533,191
Subsequent events (note 12)		
Shareholders' Deficit		
Share capital (note 8)	17,279,616	10,085,999
Contributed surplus (note 9)	270,505	71,196
Retained deficit	(19,080,459)	(16,867,866)
	(1,530,338)	(6,710,671)
	$ 7,963,832	$ 3,822,520

On behalf of the Board

"Raveel Afzaal" *"Allan Mackenzie"*

Condensed Interim Statements of Comprehensive Loss

three months ended March 31, 2021 and 2020 (in Canadian dollars)

(unaudited)

	2021	2020
Revenue (note 11)	$ -	$ 1,775
Direct costs	-	-
Gross margin	-	1,775
Expenses		
Research and development (note 10)	845,950	626,182
General and administrative (note 10)	833,102	281,416
Marketing and sales	201,484	20,984
Provisions	-	492,478
	1,880,536	1,421,060
Loss before the following	(1,880,536)	(1,419,285)
Finance costs, net (note 7)	161,373	117,309
Depreciation and amortization (notes 4, 5)	27,030	10,128
Change in fair value of deferred share units (note 6)	-	3,423
Transaction costs	143,654	-
	332,057	130,860
Net loss and comprehensive loss	$ (2,212,593)	$ (1,550,145)
Loss per share:		
Basic	$ (0.14)	$ (0.25)
Diluted	$ (0.14)	$ (0.25)
Weighted average number of shares outstanding: (note 8)		
Basic	15,301,722	6,091,765
Diluted	15,301,722	6,091,765

Condensed Interim Statements of Changes in Shareholders' Deficit

three months ended March 31, 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 8)	5,602,337	–	–	5,602,337
Option exercise (note 8)	67,966	(22,966)	–	45,000
DSU settlement (notes 6, 8)	1,523,314	–	–	1,523,314
Share-based compensation expense (note 9)	–	222,275	–	222,275
Net loss and comprehensive loss	–	–	(2,212,593)	(2,212,593)
Balances, March 31, 2021	$ 17,279,616	270,505	(19,080,459)	$ (1,530,338)
Balances, December 31, 2019	$ 7,299,258	–	(10,017,250)	$ (2,717,992)
Net loss and comprehensive loss	–	–	(1,550,145)	(1,550,145)
Balances, March 31, 2020	$ 7,299,258	–	(11,567,395)	$ (4,268,137)

Condensed Interim Statements of Cash Flows

three months ended March 31, 2021 and 2020 (in Canadian dollars)

(unaudited)

	2021	2020
Cash flows used in operating activities		
Net loss	$ (2,212,593)	$ (1,550,145)
Adjustments:		
Finance costs, net	161,373	117,309
Depreciation and amortization	27,030	10,128
Change in fair value of deferred share units	-	3,423
Provisions	-	492,478
Stock option expense	222,275	-
Deferred share unit expense	-	12,500
	(1,801,915)	(914,307)
Net change in non-cash operating working capital	(785,949)	1,322
	(2,587,864)	(912,985)
Interest paid	(2,367)	(2,294)
Interest received	625	-
	(2,589,606)	(915,279)
Cash flows used in investing activities		
Acquisition of equipment (note 4)	(46,914)	-
Patent costs (note 5)	(15,803)	(6,685)
	(62,717)	(6,685)
Cash flows from financing activities		
Issuance of shares, net (note 8)	5,602,337	-
Exercise of options	45,000	-
Proceeds from loan payable	-	1,000,000
Repayment of long-term debt	-	(35,777)
Proceeds from bank indebtedness (note 13)	20,000	-
	5,667,337	964,223
Increase in cash	3,015,014	42,259
Cash, beginning	1,092,067	254,783
Cash, ending	$ 4,107,081	$ 297,042

1. CORPORATE INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Measurement

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

Functional and Presentation Currency

These condensed interim 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.

Change in Accounting Estimates

three months ended March 31, 2021 and 2020 (in Canadian dollars)

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 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.

three months ended March 31, 2021 and 2020 (in Canadian dollars)

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. INVENTORY

	Mar 31 2021	Dec 31 2020
Spare parts	$ 173,694	153,338
Work in progress	2,467,484	2,467,484
Onerous contract provision	(1,081,135)	(1,081,135)
	$ 1,560,043	1,539,687

three months ended March 31, 2021 and 2020 (in Canadian dollars)

4. EQUIPMENT

	Equipment	Computer Hardware	Total
Cost			
Balances, December 31, 2020	$ 243,029	10,711	$ 253,740
Additions	-	46,914	46,914
Disposals	(2,000)	(6,314)	(8,314)
Balances, March 31, 2021	241,029	51,311	292,340
Accumulated depreciation			
Balances, December 31, 2020	205,394	8,864	214,258
Depreciation	6,026	478	6,504
Disposals	(2,000)	(6,314)	(8,314)
Balances, March 31, 2021	209,420	3,028	212,448
Net carrying amounts			
At December 31, 2020	$ 37,635	1,847	$ 39,482
At March 31, 2021	$ 31,609	48,283	$ 79,892

5. PATENTS

	Cost	Accumulated Amortization	Net
Balances, December 31, 2020	$ 1,000,351	189,976	$ 810,375
Additions	15,803	-	15,803
Amortization	-	20,526	(20,526)
Balances, March 31, 2021	1,016,154	210,502	805,652

6. DEFERRED SHARE UNIT LIABILITY

During the reporting period, 761,657 deferred share units ("DSUs") valued at $2 per unit were converted into class A common shares and the plan was discontinued.

7. LOAN PAYABLE

Balance, December 31, 2020	$ 4,885,422
Accrued interest	67,822
Accretion expense	92,602
Balance, March 31, 2021	$ 5,045,846

three months ended March 31, 2021 and 2020 (in Canadian dollars)

The loan accrued interest of 4% and accretion expense was recorded using an effective interest rate of 13.17%. The loan was repaid subsequent to the reporting period as the Company completing an equity financing for at least $30 million, which triggered a maturity event.

8. SHARE CAPITAL

Authorized

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

	Common Shares #	Share Capital $
Issued		
Balances, December 31, 2020	12,743,951	10,085,999
Shares issued as part of equity financing	3,000,000	5,602,337
Settlement of DSUs	761,657	1,523,314
Exercise of stock options	75,000	67,966
Balances, March 31, 2021	16,580,608	17,279,616

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.

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

	Mar 2021	Mar 2020
Issued common shares	16,580,608	6,091,765
Effect of issued common shares	(1,278,886)	-
Weighted average number of common shares	15,301,722	6,091,765

three months ended March 31, 2021 and 2020 (in Canadian dollars)

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

9. 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 March 31, 2021, 1,390,000 stock options were granted with an exercise price of $2, with 690,000 vesting over three years and 700,000 tied to specific performance criteria. Of the total stock options issued, 925,000 were issued to key management. Subsequent to the reporting period, an additional 35,000 stock options were issued.

The following table summarizes information about stock options outstanding as at March 31, 2021:

Exercise Price $	Options Outstanding #	Weighted Avg Remaining Life #	Options Exercisable #
$ 0.60	575,000	4.4	250,000
$ 1.00	150,000	4.5	75,000
$ 2.00	1,390,000	4.9	-
$ 1.55	2,115,000	4.7	325,000

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%. Volatility was determined using an average of comparable companies' historical trading data over a period equal to the expected life of the options. Variables used in the Black-Scholes option pricing model are based on highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate. Included in expenses is a share-based compensation expense of $222,275 (2020 - $NIL).

three months ended March 31, 2021 and 2020 (in Canadian dollars)

10. RELATED PARTY TRANSACTIONS

During the period, the Company paid $508,789 (2020 - $400,049) for research and product development work to Carlsun Energy Solutions Inc., which is owned by a director of the Company. In addition, included in prepaid expenses and deposits as at March 31, 2021 is $75,000 prepaid to this company.

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

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

	2021	2020
Salaries and benefits	$ 252,654	$ 123,929
Share-based compensation expense	$ 176,663	$ -

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

11. SEGMENTED INFORMATION AND MAJOR CUSTOMERS

The Company operates in one segment being the development and sale of electrolyzers and balance of plant equipment. All of the Company's assets are located in Canada. During the period ended March 31, 2021 and 2020, one customer provided 100% of the Company's revenues.

three months ended March 31, 2021 and 2020 (in Canadian dollars)

12. SUBSEQUENT EVENTS

On April 28, 2021, the Company completed a non-brokered private placement of subscription receipts for total gross proceeds of $27,000,000 and a brokered private placement of subscription receipts for gross proceeds of $28,545,000. Each subscription receipt was sold at a price of $10 and shall be exchanged, for no additional consideration, for one common share of BioHEP upon successful completion of the RTO.

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. Although the Company has not completed the purchase price allocation over the identifiable net assets and goodwill of CFS, the following table presents the purchase price allocation based on the best available information to the Company to date:

Equipment	$ 58,640
Goodwill	373,930
Cash consideration	$ 432,570

Cash consideration was paid on March 31, 2021 and is included in prepaid expenses and deposits.

13. 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 period. 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.