



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

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2022



Condensed Interim Consolidated Statements of Financial Position

As at March 31, 2022 and December 31, 2021

(in Canadian dollars)

(unaudited)

	Mar 31 2022	Dec 31 2021
Assets		
Current		
Cash and cash equivalents	\$ 34,970,532	\$ 39,197,357
Trade and other receivables	496,321	893,894
Prepaid expenses and deposits	1,195,806	1,225,706
Current income tax recoverable	-	119,763
Inventory (note 3)	2,545,136	2,371,276
	39,207,795	43,807,996
Prepaid expenses and deposits	94,578	97,528
Equipment (note 4)	2,181,787	1,109,184
Right of use asset (note 5)	1,854,014	1,903,235
Patents (note 6)	751,297	772,357
Intangible assets and goodwill (note 7)	343,220	366,694
	\$ 44,432,691	\$ 48,056,994
Liabilities		
Current		
Bank indebtedness (note 16)	\$ 60,000	\$ 60,000
Trade and other payables	1,528,262	2,321,220
Deferred revenue (note 8)	2,715,708	2,704,792
Provisions (note 9)	1,096,160	1,067,795
Finance lease liability	59,034	54,847
Long-term debt	135,607	137,409
	5,594,771	6,346,063
Contingent liability	63,184	63,184
Deferred revenue (note 8)	324,948	323,149
Provisions (note 9)	1,548,710	1,548,344
Finance lease liability	1,795,800	1,819,890
Long-term debt	130,570	163,678
	9,457,983	10,264,308
Shareholders' Equity		
Share capital (note 10)	76,393,695	76,393,695
Contributed surplus (note 11)	4,129,203	3,274,503
Retained deficit	(45,548,190)	(41,875,512)
	34,974,708	37,792,686
	\$ 44,432,691	\$ 48,056,994

On behalf of the Board

"Raveel Afzaal"

"Allan Mackenzie"



Condensed Interim Consolidated Statements of Comprehensive Loss
 three months ended March 31, 2022 and 2021 (in Canadian dollars)
 (unaudited)

	2022	(note 17) 2021
Revenue (note 15)	\$ 40,795	\$ -
Direct costs	23,810	-
Gross margin	16,985	-
Expenses		
Research and development	1,743,064	872,502
General and administrative (note 12)	1,495,370	833,580
Marketing and sales	390,927	201,484
Provisions (note 9)	42,909	-
	3,672,270	1,907,566
Loss before the following	(3,655,285)	(1,907,566)
Finance costs, net (note 13)	17,393	161,373
Transaction costs	-	143,654
	17,393	305,027
Net loss and comprehensive loss	\$ (3,672,678)	\$ (2,212,593)
Loss per share:		
Basic	\$ (0.16)	\$ (0.14)
Diluted	\$ (0.16)	\$ (0.14)
Weighted average number of shares outstanding: (note 10)		
Basic	22,888,436	15,301,722
Diluted	22,888,436	15,301,722



Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficit)
 three months ended March 31, 2022 and 2021 (in Canadian dollars)
 (unaudited)

	Share Capital	Contributed Surplus	Retained Deficit	Total
Balances, December 31, 2021	\$ 76,393,695	3,274,503	(41,875,512)	\$ 37,792,686
Share-based compensation expense (note 11)	-	854,700	-	854,700
Net loss and comprehensive loss	-	-	(3,672,678)	(3,672,678)
Balances, March 31, 2022	\$ 76,393,695	4,129,203	(45,548,190)	\$ 34,974,708
Balances, December 31, 2020	\$ 10,085,999	71,196	(16,867,866)	\$ (6,710,671)
Share issuance	5,602,337	-	-	5,602,337
Option exercise	67,966	(22,966)	-	45,000
DSU settlement	1,523,314	-	-	1,523,314
Share-based compensation expense	-	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)

Condensed Interim Consolidated Statements of Cash Flows

three months ended March 31, 2022 and 2021

(in Canadian dollars)

(unaudited)

	2022	2021
Cash flows used in operating activities		
Net loss	\$ (3,672,678)	\$ (2,212,593)
Adjustments:		
Finance costs, net (note 13)	17,393	161,373
Depreciation and amortization	131,764	27,030
Provisions	42,909	-
Share-based compensation	854,700	222,275
	<u>(2,625,912)</u>	<u>(1,801,915)</u>
Net change in non-cash operating working capital (note 14)	<u>(418,094)</u>	<u>(786,880)</u>
	<u>(3,044,006)</u>	<u>(2,588,795)</u>
Interest paid	-	(3,178)
Interest received	44,101	2,367
	<u>(2,999,905)</u>	<u>(2,589,606)</u>
Cash flows used in investing activities		
Acquisition of equipment (note 4)	(1,103,878)	(46,914)
Patent costs (note 6)	(6,734)	(15,803)
	<u>(1,110,612)</u>	<u>(62,717)</u>
Cash flows from (used in) financing activities		
Issuance of shares, net	-	5,602,337
Exercise of options	-	45,000
Repayment of long-term debt	(36,555)	-
Proceeds from bank indebtedness	-	20,000
Repayment of finance lease liability	(79,753)	-
	<u>(116,308)</u>	<u>5,667,337</u>
Increase (decrease) in cash	(4,226,825)	3,015,014
Cash, beginning	<u>39,197,357</u>	<u>1,092,067</u>
Cash, ending	<u>\$ 34,970,532</u>	<u>\$ 4,107,081</u>

Notes to Condensed Interim Consolidated Financial Statements

three months ended March 31, 2022 and 2021

(in Canadian dollars)

1. CORPORATE INFORMATION

Founded in 2007, Next Hydrogen Solutions Inc. ("Next Hydrogen" or the "Company") is a designer and manufacturer of electrolyzers that use water and electricity as inputs to generate clean hydrogen for use as an energy source. Next Hydrogen's unique cell design architecture supported by 39 patents enables high-current density operations and superior dynamic response to efficiently convert intermittent renewable electricity into green hydrogen on an infrastructure scale. Following successful pilots, Next Hydrogen is scaling up its technology to deliver commercial solutions to decarbonize transportation and industrial sectors.

The Company's registered head office is at 6610 Edwards Blvd, Mississauga, Ontario, L5T 2V6 and was incorporated on February 11, 2014 under the British Columbia Business Corporations Act. The Company changed its name from "BioHEP Technologies Ltd." to "Next Hydrogen Solutions Inc." on June 24, 2021.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and interpreted by the IFRS Interpretations Committee ("IFRIC"). These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent annual consolidated financial statements of the Company, including the notes thereto, for the year ended December 31, 2021.

The accounting policies described in the Company's annual consolidated financial statements have been applied consistently to all periods presented in these condensed interim consolidated financial statements, unless otherwise indicated.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on May 13, 2022.

Basis of Measurement

These condensed interim consolidated financial statements have been prepared on a going concern basis using historical cost, except for financial instruments recorded at fair value.

Notes to Condensed Interim Consolidated Financial Statements

three months ended March 31, 2022 and 2021

(in Canadian dollars)

Functional and Presentation Currency

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

Basis of Consolidation

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

The Company's subsidiaries are wholly-owned, are in product development for the renewable energy industry, and are domiciled in Canada and the United States, respectively.

Critical Accounting Estimates and Significant Judgments

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

- a) *Revenue recognition*: In accounting for revenue, management must review each contract and allocate the transaction price to the various performance obligations based on the expected costs for each performance obligation. The estimated costs are largely based on budgeted costs or quotes for costs and anticipated labour hours to complete the task.
- b) *Provisions*: Provisions for warranty and onerous contracts are recognized at management's best estimate of the expenditures required to settle the Company's obligation. The estimated costs are largely based on budgeted costs or quotes for costs and anticipated labour hours to complete the task.

Notes to Condensed Interim Consolidated Financial Statements

three months ended March 31, 2022 and 2021

(in Canadian dollars)

- c) *Impairment of patents*: Patents are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. To determine whether patents are impaired, management must estimate the recoverable amount.
- d) *Share-based compensation*: The fair value of share-based compensation expense is estimated using the Black-Scholes option pricing model and relies on a number of estimates, such as the expected life of the option, the volatility of the underlying share price of similar companies and the risk-free rate of return.
- e) *Depreciation and impairment of equipment*: Estimates of useful lives for depreciation is based on management's judgment of the expected productive lives and planned uses for each respective asset. Equipment is assessed for impairment when events or circumstances indicate that the Company may not be able to recover its carrying value.
- f) *Impairment of trade and other receivables*: An allowance for lifetime expected credit losses is established based on specific account identification. Management regularly analyzes its approach and exposure to credit loss based on analysis of all relevant current information as well as historical trends.
- g) *Taxes*: Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.
- h) *Going Concern*: The condensed interim consolidated financial statements were prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The assessment of going concern involves significant judgement based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

3. INVENTORY

	Mar 31 2022	Dec 31 2021
Spare parts	\$ 1,021,425	\$ 1,048,328
Work in progress	326,603	140,937
Finished inventory	2,671,197	2,671,197
Onerous contract provision	(1,474,089)	(1,489,186)
	<u>\$ 2,545,136</u>	<u>\$ 2,371,276</u>

Notes to Condensed Interim Consolidated Financial Statements

three months ended March 31, 2022 and 2021

(in Canadian dollars)

4. EQUIPMENT

	Equipment	Equipment under Constr'n	Computer Hardware	Furniture and Fixtures	Leasehold Improv'ts	Total
Cost						
Balances, December 31, 2021	\$ 666,430	330,692	139,157	64,062	172,452	\$1,372,793
Additions	5,993	1,037,520	22,323	2,500	35,542	1,103,878
Balances, March 31, 2022	672,423	1,368,212	161,480	66,562	207,994	2,476,671
Accumulated depreciation						
Balances, December 31, 2021	233,295	-	26,490	1,549	2,275	263,609
Depreciation	13,090	-	12,104	1,622	4,459	31,275
Balances, March 31, 2022	\$ 246,385	-	38,594	3,171	6,734	\$ 294,884
Net carrying amounts						
At March 31, 2022	\$ 426,038	1,368,212	122,886	63,391	201,260	\$2,181,787

Depreciation on equipment under construction will commence once the respective assets are ready for use.

5. RIGHT OF USE ASSET

The right of use asset relates to a lease of the Company's head office and assembly facility, which started on September 1, 2021.

	Cost	Accumulated Amortization	Net
Balances, December 31, 2021	\$ 1,968,864	65,629	\$ 1,903,235
Amortization	-	49,221	(49,221)
Balances, March 31, 2022	\$ 1,968,864	114,850	\$ 1,854,014

6. PATENTS

	Cost	Accumulated Amortization	Net
Balances, December 31, 2021	\$ 1,047,197	274,840	\$ 772,357
Additions	6,734	-	6,734
Amortization	-	27,794	(27,794)
Balances, March 31, 2022	1,053,931	302,634	751,297

Notes to Condensed Interim Consolidated Financial Statements

three months ended March 31, 2022 and 2021

(in Canadian dollars)

7. INTANGIBLE ASSETS AND GOODWILL

	Intangible Assets	Goodwill	Net
Balances, December 31, 2021	\$ 284,490	82,204	\$ 366,694
Amortization	(23,474)	-	(23,474)
Balances, March 31, 2022	<u>\$ 261,016</u>	<u>82,204</u>	<u>\$ 343,220</u>

8. DEFERRED REVENUE

	Maintenance and warranty obligations in process	Service obligations in place	Advances on contracts with no satisfied obligations	Total
Balances, December 31, 2021	93,493	256,300	2,678,148	3,027,941
Payments received	-	12,715	-	12,715
Balances, March 31, 2022	<u>\$ 93,493</u>	<u>269,015</u>	<u>2,678,148</u>	3,040,656
Current portion				<u>2,715,708</u>
				<u>\$ 324,948</u>

9. PROVISIONS

	Onerous contracts	Warranty	Total
Balances, December 31, 2021	2,228,493	387,646	2,616,139
Additions	42,909	-	42,909
Utilized	(14,178)	-	(14,178)
Balances, March 31, 2022	<u>\$ 2,257,224</u>	<u>387,646</u>	2,644,870
Current portion			<u>1,096,160</u>
			<u>\$ 1,548,710</u>

10. SHARE CAPITAL

Authorized

Unlimited number of common shares with no par value.

Notes to Condensed Interim Consolidated Financial Statements

three months ended March 31, 2022 and 2021

(in Canadian dollars)

The Company has 22,888,436 common shares issued and outstanding and there were no shares issued or canceled during the period. The weighted average number of common shares outstanding has been calculated as follows:

	<u>2022</u>	<u>2021</u>
Issued common shares	22,888,436	16,580,608
Effect of issued common shares	-	(1,278,886)
Weighted average number of common shares	<u>22,888,436</u>	<u>15,301,722</u>

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.

11. 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. The following table summarizes the changes in outstanding stock options during the period ended March 31, 2022:

	Weighted Average Exercise Price \$	Options #
Balances, December 31, 2021	3.24	3,001,626
Issued	3.17	360,000
Forfeited	4.66	(88,334)
Balances, March 31, 2022	<u>3.19</u>	<u>3,273,292</u>

The majority of stock options vest over three or four years. Of the total stock options issued during the period ended March 31, 2022, 250,000 were issued to key management. Of the total stock options outstanding as of March 31, 2022, 2,321,626 were held by key management.

Subsequent to the reporting period, 15,000 stock options were granted at an average exercise price of \$2.10.

Notes to Condensed Interim Consolidated Financial Statements

three months ended March 31, 2022 and 2021

(in Canadian dollars)

The following table summarizes information about stock options outstanding as at March 31, 2022:

Exercise Price \$	Options Outstanding #	Weighted Avg Remaining Life #	Options Exercisable #
0.60	575,000	3.3	358,333
1.00	150,000	3.5	150,000
1.01-2.00	1,366,666	3.5	570,355
2.01-5.00	365,000	4.8	-
5.01-7.41	816,626	4.3	-
3.19	3,273,292	3.8	1,078,688

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 4 years; ii) the risk free rate is between 1.24% and 2.42%; iii) the dividend yield will be NIL; and iv) expected volatility is 75.52%. Included in expenses is a share-based compensation expense of \$854,700.

12. RELATED PARTY TRANSACTIONS

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

	2022	2021
Salaries and benefits	\$ 216,750	\$ 252,654
Share-based compensation expense	\$ 473,260	\$ 186,057

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

13. FINANCE COSTS

	2022	2021
Interest income	\$ (44,101)	\$ (2,367)
Interest expense	61,494	71,138
Accretion expense	-	92,602
	\$ 17,393	\$ 161,373

Notes to Condensed Interim Consolidated Financial Statements

three months ended March 31, 2022 and 2021

(in Canadian dollars)

14. CHANGE IN NON-CASH WORKING CAPITAL

	2022	2021
Trade and other receivables	\$ 517,336	\$ (288,559)
Prepaid expenses and deposits	32,850	(781,696)
Inventory	(173,859)	(20,356)
Trade and other payables	(792,958)	303,731
Deferred revenue	12,715	-
Provisions	(14,178)	-
	<u>\$ (418,094)</u>	<u>\$ (786,880)</u>

15. SEGMENTED INFORMATION AND MAJOR CUSTOMERS

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

All of the Company's assets are located in Canada. During the period, one customer provided 100% of the Company's revenues.

16. 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, of which \$20,000 is forgivable if the balance is repaid by December 31, 2022.

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

Notes to Condensed Interim Consolidated Financial Statements

three months ended March 31, 2022 and 2021

(in Canadian dollars)

17. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the presentation adopted for the current year. Comparative figures have been adjusted to reflect the reclassification of depreciation as an operating expense in order to be consistent with the classification adopted for the current period. This classification was adopted in order to provide for better comparability of operating results.