Next Hydrogen Solutions Inc.

(previously BioHEP Technologies Ltd.)

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023

Condensed Interim Consolidated Statements of Financial Position

As at March 31, 2023 and December 31, 2022 (in Canadian dollars) (unaudited)

	Mar 31 2023	Dec 31 2022
Assets		
Current		
Cash and cash equivalents	$ 19,840,660	$ 22,084,721
Trade and other receivables (notes 3, 18)	851,715	715,635
Prepaid expenses and deposits	654,658	398,110
Inventory (note 4)	3,353,613	2,885,854
	24,700,646	26,084,320
Trade and other receivables (notes 3, 18)	67,682	73,720
Prepaid expenses and deposits	94,578	90,328
Equipment (note 5)	4,704,892	4,831,817
Right of use asset (note 6)	1,657,127	1,706,349
Patents (note 7)	640,485	668,444
Intangible assets and goodwill (note 8)	249,326	272,800
	$ 32,114,736	$ 33,727,778
Liabilities		
Current		
Bank indebtedness (note 11)	$ 60,000	$ 60,000
Trade and other payables (note 9)	1,041,471	1,093,930
Contingent liability	14,968	14,968
Deferred revenue (note 10)	-	45,000
Deferred government grants (note 11)	1,675,048	-
Provisions (note 12)	159,128	97,245
Finance lease liability (note 13)	76,002	67,108
Current portion of long-term debt (note 14)	61,132	77,709
	3,087,749	1,455,960
Contingent liability	48,216	48,216
Deferred revenue (note 10)	2,771,641	2,726,641
Provisions (note 12)	3,690,872	3,752,755
Finance lease liability (note 13)	1,719,799	1,752,782
Long-term debt (note 14)	69,963	85,682
	11,388,240	9,822,036
Shareholders' Equity		
Share capital (note 16)	76,393,695	76,393,695
Contributed surplus (notes 15, 17)	5,487,066	5,270,932
Retained deficit	(61,154,265)	(57,758,885)
	20,726,496	23,905,742
	$ 32,114,736	$ 33,727,778

On behalf of the Board

"Raveel Afzaal" *"Allan Mackenzie"*

Condensed Interim Consolidated Statements of Net Loss and Comprehensive Loss

three months ended March 31, 2023 and 2022 (in Canadian dollars)

(unaudited)

	2023	2022
Revenue (note 21)	$ 44,169	$ 40,795
Expenses		
Cost of sales {includes $89,392 (2022 - $NIL) of inventory impairment reversal} (note 4)	(71,008)	66,719
Research and development	2,349,274	1,743,064
General and administrative (note 18)	1,121,994	1,495,370
Marketing and sales	185,917	390,927
	3,586,177	3,696,080
Loss before the following	(3,542,008)	(3,655,285)
Finance (income) costs, net (note 19)	(146,628)	17,393
Net loss and comprehensive loss	$ (3,395,380)	$ (3,672,678)
Loss per share:		
Basic	$ (0.15)	$ (0.16)
Diluted	$ (0.15)	$ (0.16)
Weighted average number of shares outstanding: (note 16)		
Basic	22,888,436	22,888,436
Diluted	22,888,436	22,888,436

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficit)
three months ended March 31, 2023 and 2022 (in Canadian dollars)
(unaudited)

	Share Capital	Contributed Surplus	Retained Deficit	Total
Balances, December 31, 2022	$ 76,393,695	5,270,932	(57,758,885)	$ 23,905,742
DSU issuance (note 15)	-	56,250	-	56,250
Share-based compensation expense (note 17)	-	159,884	-	159,884
Net loss and comprehensive loss	-	-	(3,395,380)	(3,395,380)
Balances, March 31, 2023	$ 76,393,695	5,487,066	(61,154,265)	$ 20,726,496
Balances, December 31, 2021	$ 76,393,695	3,274,503	(43,480,517)	$ 36,187,681
Share-based compensation expense	-	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	(47,153,195)	$ 33,369,703

Condensed Interim Consolidated Statements of Cash Flows

three months ended March 31, 2023 and 2022 (in Canadian dollars)

(unaudited)

	2023	2022
Cash flows used in operating activities		
Net loss and comprehensive loss	$ (3,395,380)	$ (3,672,678)
Adjustments:		
Finance (income) costs, net (note 19)	(146,628)	17,393
Depreciation and amortization	242,025	131,764
Provisions and inventory impairment	(89,392)	42,909
Share-based compensation (note 17)	159,884	854,700
Deferred share unit expense (note 15)	56,250	-
	(3,173,241)	(2,625,912)
Net change in non-cash operating working capital (note 20)	853,382	(418,094)
	(2,319,859)	(3,044,006)
Interest paid	(437)	-
Interest received	206,366	44,101
	(2,113,930)	(2,999,905)
Cash flows used in investing activities		
Acquisition of equipment	(14,445)	(1,103,878)
Patent costs	-	(6,734)
	(14,445)	(1,110,612)
Cash flows from (used in) financing activities		
Repayment of long-term debt	(33,598)	(36,555)
Repayment of finance lease liability	(82,088)	(79,753)
	(115,686)	(116,308)
Decrease in cash and cash equivalents	(2,244,061)	(4,226,825)
Cash and cash equivalents, beginning	22,084,721	39,197,357
Cash and cash equivalents, ending	$ 19,840,660	$ 34,970,532

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 40 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 IAS 34, Interim Financial Reporting. 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, 2022.

The accounting policies described in Note 2 of the 2022 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 25, 2023.

Newly adopted accounting policy

Government grants

Next Hydrogen participates in various government grant programs. When an unconditional government grant is received, it is recognized as grant income in the consolidated statements of net loss and comprehensive loss. Other government grants related to assets are recognized at fair value if there is reasonable assurance of receiving the grant and meeting the associated conditions. These grants are initially deferred and then recognized in profit or loss over the useful life of the asset on a systematic basis.

Grants that reimburse Next Hydrogen for expenses incurred are recognized in the consolidated statements of net loss and comprehensive loss over time as the related expenses are recognized, unless the conditions for receiving the grant are fulfilled after the expenses have been recognized; in such cases, the grant is recognized when it becomes receivable.

Changes in Accounting Standards

IFRS 17 Insurance Contracts

On May 18, 2017, the IASB issued IFRS 17 Insurance Contracts. On June 25, 2020, the IASB issued amendments to IFRS 17 aimed at helping companies implement the Standard and to defer the effective date. IFRS 17 will replace IFRS 4 Insurance Contracts.

On December 9, 2021, the IASB issued a narrow-scope amendment to the transition requirements in IFRS 17, providing insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17 by presenting comparative information about financial assets, using a classification overlay approach on a basis that is more consistent with how IFRS 9 will be applied in future reporting periods. The new standard and its amendments are effective for annual periods beginning on or after January 1, 2023.

The Company performed an assessment and determined this standard to have no effect on its condensed interim consolidated financial statements.

Definition of Accounting Estimates [Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of "accounting estimates" and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied prospectively.

The Company has adopted the amendment issued with no effect on the interim consolidated financial statements.

Disclosure of Accounting Policies (Amendments to IAS 1)

In February 2021, the IASB issued amendments to IAS 1 requiring an entity to disclose its material accounting policies, rather than its significant accounting policies. Additional amendments were made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

The Company has considered this amendment and determined this standard to have no effect on its condensed interim consolidated financial statements.

Future Accounting Pronouncements

Classification of Liabilities as Current or Non-current [Amendments to IAS 1 Presentation of Financial Statements ("IAS 1"))

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The amendments are to be applied retrospectively.

The Company will perform an assessment of this amendment on its consolidated financial statements prior to the effective date.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases)

On September 22, 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendments are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted.

The Company will perform an assessment of this amendment on its consolidated financial statements prior to the effective date.

Critical Accounting Estimates and Significant Judgments

The significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

three months ended March 31, 2023 and 2022 (in Canadian dollars)

3. TRADE AND OTHER RECEIVABLES

	Mar 31 2023	Dec 31 2022
Trade receivables	$ 54,049	$ 154,094
GST/HST receivable	762,045	527,313
Employee loan receivable	103,303	107,948
	$ 919,397	$ 789,355
Current portion	851,715	715,635
Long-term portion	67,682	73,720

The long-term portion of trade and other receivables is comprised of employee loans expected to be received by 2027.

4. INVENTORY

	Mar 31 2023	Dec 31 2022
Spare parts	$ 2,222,202	$ 1,858,841
Work in progress	1,131,411	1,027,013
	$ 3,353,613	$ 2,885,854

During the three months ended March 31, 2023, the Company reassessed the NH300 unit which had initially been fully impaired in 2021; as a result of the reassessment, some parts were determined to be salvageable. Therefore, $89,392 (2022 - $NIL) worth of inventory impairment was reversed, with a corresponding increase in spare parts inventory.

three months ended March 31, 2023 and 2022 (in Canadian dollars)

5. EQUIPMENT

	Equipment	Equipment under Constr'n	Computer Hardware	Furniture and Fixtures	Leasehold Improv'ts	Total
Cost						
Balances, December 31, 2022	$ 4,244,010	582,941	202,010	75,630	296,230	$5,400,821
Additions	2,233	27,144	4,909	15,295	18,383	67,964
Transfers	487,540	(487,540)	-	-	-	-
Disposals	(53,519)	-	-	-	-	(53,519)
Balances, March 31, 2023	4,680,264	122,545	206,919	90,925	314,613	5,415,266
Accumulated depreciation						
Balances, December 31, 2022	449,987	-	83,900	8,767	26,350	569,004
Depreciation	114,678	-	16,842	2,191	7,659	141,370
Balances, March 31, 2023	$ 564,665	-	100,742	10,958	34,009	$ 710,374
Net carrying amounts						
At March 31, 2023	$ 4,115,599	122,545	106,177	79,967	280,604	$4,704,892

	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	921,508	2,943,259	65,043	11,568	139,046	4,080,424
Transfers	2,691,010	(2,691,010)	-	-	-	-
Disposals	(34,938)	-	(2,190)	-	(15,268)	(52,396)
Balances, December 31, 2022	4,244,010	582,941	202,010	75,630	296,230	5,400,821
Accumulated depreciation						
Balances, December 31, 2021	233,295	-	26,490	1,549	2,275	263,609
Depreciation	216,692	-	57,714	7,218	24,075	305,699
Disposals	-	-	(304)	-	-	(304)
Balances, December 31, 2022	$ 449,987	-	83,900	8,767	26,350	$ 569,004
Net carrying amounts						
At December 31, 2022	$ 3,794,023	582,941	118,110	66,863	269,880	$4,831,817

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

three months ended March 31, 2023 and 2022 (in Canadian dollars)

6. 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	-	(196,886)	(196,886)
Balances, December 31, 2022	$ 1,968,864	(262,515)	$ 1,706,349
Amortization	-	(49,222)	(49,222)
Balances, March 31, 2023	$ 1,968,864	(311,737)	$ 1,657,127

7. PATENTS

	Cost	Accumulated Amortization	Net
Balances, December 31, 2021	$ 1,047,197	(274,840)	$ 772,357
Additions	7,737	-	7,737
Amortization	-	(111,650)	(111,650)
Balances, December 31, 2022	$ 1,054,934	(386,490)	$ 668,444
Amortization	-	(27,959)	(27,959)
Balances, March 31, 2023	1,054,934	(414,449)	640,485

8. INTANGIBLE ASSETS AND GOODWILL

	Intangible Assets	Goodwill	Net
Balances, December 31, 2021	$ 284,490	82,204	$ 366,694
Amortization	(93,894)	-	(93,894)
Balances, December 31, 2022	$ 190,596	82,204	$ 272,800
Amortization	(23,474)	-	(23,474)
Balances, March 31, 2023	$ 167,122	82,204	$ 249,326

three months ended March 31, 2023 and 2022 (in Canadian dollars)

9. TRADE AND OTHER PAYABLES

	Dec 31 2023	Dec 31 2022
Trade payables	$ 232,176	$ 56,699
Accrued payables	781,139	977,647
Other payables	28,156	59,584
	$ 1,041,471	$ 1,093,930

10. DEFERRED REVENUE

	Mar 31 2023	Dec 31 2022
Opening balance	$ 2,771,641	$ 3,027,941
Payments received	-	256,300
Revenue recognized	-	(512,600)
	$ 2,771,641	$ 2,771,641
Current portion	-	45,000
Long-term portion	2,771,641	2,726,641

11. GOVERNMENT GRANTS

In 2023, 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, 2023.

During the period, the Company received a grant from Sustainable Development Technology Canada in the amount of $1,944,659. As the grant has been provided with specific conditions, Next Hydrogen has implemented the income approach to recognizing the grant. In Q1 2023, $269,611 of the grant has been offset against the related expenditure under research and development expenses; the remaining amount of the grant has been recorded in deferred government grant, and will be used to offset project related expenses as they are incurred and further conditions are met in future periods.

three months ended March 31, 2023 and 2022 (in Canadian dollars)

12. PROVISIONS

The Company's provisions consist of onerous contract obligations as follows:

	Mar 31 2023	Dec 31 2022
Opening balance	$ 3,850,000	$ 3,850,000
Additions	39,782	122,676
Utilized	(39,782)	(122,676)
	$ 3,850,000	$ 3,850,000
Current portion	159,128	97,245
Long-term portion	3,690,872	3,752,755

13. FINANCE LEASE LIABILITY

The finance lease liability relates to the lease of the Company's head office and assembly facility, which started on September 1, 2021. The lease expires on August 31, 2026 with an option to extend for an additional five years. The lease liability was initially valued at $1,872,412, using a weighted average incremental borrowing rate of 14%, and the obligation is as follows:

	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
Future minimum lease payments	$ 305,791	1,378,702	1,367,995	$ 3,052,488
Interest	(229,789)	(763,100)	(263,798)	(1,256,687)
	$ 76,002	615,602	1,104,197	1,795,801
Current portion				76,002
				$ 1,719,799

As at December 31, 2022, the obligation was as follows:

	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
Future minimum lease payments	$ 303,389	1,751,993	1,079,194	$ 3,134,576
Interest	(231,572)	(917,675)	(165,439)	(1,314,686)
	$ 71,817	834,318	913,755	1,819,890
Current portion				67,108
				$ 1,752,782

14. LONG-TERM DEBT

Long-term debt pertains to grant loans that accrue interest at a rate of 3.70%, with blended monthly installments of $5,411. The long-term debt is secured by a second-ranking general security agreement over all assets of the Company.

	Less than 1 Year *(in thousands)*	1 to 5 Years *(in thousands)*	More than 5 Years *(in thousands)*	Total *(in thousands)*
Principal repayments	61	70	-	131

15. DEFERRED SHARE UNIT

The Company had a deferred share unit ("DSU") plan for certain employees, directors and consultants that was administered by the Board of Directors and can only be settled in equity. During 2022, 135,288 DSUs were issued to the board of directors in settlement of directors' fees owing of $225,000, which vest on July 1, 2023. Each DSU entitles its holder to receive one common share upon settlement and vests over one year. Included in Contributed Surplus is a DSU component in the amount of $56,250 (2022 - $NIL) to reflect the DSUs issued to the board of directors.

16. SHARE CAPITAL

Authorized

Unlimited number of common shares with no par value.

As at March 31, 2023, the Company has 22,888,436 (December 31, 2022 - 22,888,436) common shares issued and outstanding and there were no shares issued or canceled during the period. The share capital balance as at March 31, 2023 was $76,393,695 (December 31, 2022 - $76,393,695).

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.

three months ended March 31, 2023 and 2022 (in Canadian dollars)

17. 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 Company's stock options:

	Weighted Average Exercise Price $	Options #
Balances, December 31, 2021	2.52	3,006,626
Issued	2.37	700,000
Forfeited	5.50	(395,000)
Balances, December 31, 2022	2.79	3,311,626
Issued	1.37	60,000
Forfeited	3.13	(220,000)
Balances, March 31, 2023	2.73	3,151,626

The majority of stock options vest in tranches over three or four years, such that one-third or one-fourth, respectively, of the stock options vest annually. Of the total stock options issued during the three months ended March 31, 2023, 25,000 (2022 - 250,000) were issued to key management. Of the total stock options outstanding as of March 31, 2023, 2,396,626 (December 31, 2022 - 2,521,626) were held by key management.

Subsequent to the reporting period, 25,000 stock options were granted at an average exercise price of $1.00, none of which were issued to key management.

three months ended March 31, 2023 and 2022 (in Canadian dollars)

The following table summarizes information about stock options outstanding as at March 31, 2023:

Exercise Price $	Options Outstanding #	Weighted Avg Remaining Life #	Options Exercisable #
0 to 0.99	575,000	2.4	466,667
1 to 1.99	480,000	4.0	153,750
2 to 2.99	1,265,000	3.0	644,900
3 to 3.99	230,000	3.8	57,500
4 to 4.99	20,000	3.6	5,000
5 to 5.99	35,000	3.6	8,750
6 to 6.99	10,000	3.4	2,500
7 to 7.99	536,626	3.3	145,407
2.73	3,151,626	3.1	1,484,474

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

Exercise Price $	Options Outstanding #	Weighted Avg Remaining Life #	Options Exercisable #
0.60	575,000	3.6	250,000
1.00	150,000	3.8	150,000
2.00	1,360,000	4.1	275,000
7.41	796,626	4.5	-
6.98	5,000	4.6	-
6.44	10,000	4.6	-
5.95	5,000	4.6	-
4.68	10,000	4.8	-
5.84	20,000	4.8	-
5.35	5,000	4.8	-
5.60	5,000	4.9	-
5.11	15,000	4.9	-
4.15	50,000	4.9	-
2.52	3,006,626	4.0	675,000

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 4 years; ii) the risk free rate is 3.55%; iii) the dividend yield will be NIL; and iv) expected volatility is 73.07%. Included in expenses for the three months ended March 31, 2023 is a share-based compensation expense of $159,884 (March 31, 2022 - $854,700).

three months ended March 31, 2023 and 2022 (in Canadian dollars)

18. RELATED PARTY TRANSACTIONS

Included in trade and other receivables are three employee loans to key management employees, in the total amount of $103,303 (2022 - $107,948). Of this amount, $67,682 (2022 - $73,720) is expected to be received beyond 12 months after year-end, and is thus classified as long-term. These loans are granted at no interest, and the long-term portion is to be received by 2027.

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

	Three months ended March 31,	
	2023	**2022**
Salaries and benefits	$ 293,492	$ 216,750
Share-based compensation expense	$ 402,387	$ 473,260

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

19. FINANCE COSTS

	Three months ended March 31,	
	2023	**2022**
Interest income	$ (206,366)	$ (44,101)
Interest expense	59,738	61,494
	$ (146,628)	$ 17,393

20. CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended March 31,	
	2023	**2022**
Trade and other receivables	$ (130,042)	$ 517,336
Prepaid expenses and deposits	(260,798)	32,850
Inventory	(378,367)	(173,859)
Trade and other payables	(52,459)	(792,958)
Deferred revenue	-	12,715
Provisions	-	(14,178)
Deferred government grants	1,675,048	-
	$ 853,382	$ (418,094)

three months ended March 31, 2023 and 2022 (in Canadian dollars)

21. SEGMENTED INFORMATION AND MAJOR CUSTOMERS

The Company mainly 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 three months ended March 31, 2023 and 2022, one customer provided 100% of the Company's revenues.

The Company has two streams of revenue as follows:

	2023	2022
Equipment revenue	$ -	$ -
Service revenue	44,169	40,795
	$ 44,169	$ 40,795