Next Hydrogen Solutions Inc.

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2024

Condensed Interim Consolidated Statements of Financial Position
As at June 30, 2024 and December 31, 2023 (in Canadian dollars) (unaudited)

		June 30, 2024		December 31, 2023
Assets				
Current				
Cash and cash equivalents	**$**	**5,397,620**	$	10,909,061
Trade and other receivables (notes 3, 17)		**1,073,319**		1,510,334
Prepaid expenses and deposits		**626,775**		520,360
Inventory (note 4)		**3,236,718**		3,307,281
		10,334,432		16,247,036
Trade and other receivables (notes 3, 17)		**38,088**		50,164
Prepaid expenses and deposits		**108,583**		94,578
Equipment (note 5)		**6,724,579**		6,817,421
Right of use asset (note 6)		**1,411,019**		1,509,462
Patents (note 7)		**530,748**		571,462
Intangible assets and goodwill (note 8)		**143,911**		153,195
	$	**19,291,360**	$	25,443,318
Liabilities				
Current				
Trade and other payables (note 9)	**$**	**1,841,100**	$	1,714,482
Deferred revenue (note 10)		**2,131,155**		2,307,894
Deferred government grants (note 11)		**1,008,166**		—
Provisions (note 12)		**10,000**		70,000
Finance lease liability (note 13)		**102,603**		90,734
Current portion of long-term debt		**54,277**		62,850
		5,147,301		4,245,960
Deferred revenue (note 10)		**2,771,641**		2,771,641
Deferred government grants (note 11)		**359,926**		359,926
Provisions (note 12)		**3,840,000**		3,780,000
Finance lease liability (note 13)		**1,587,983**		1,657,339
Long-term debt		**—**		22,539
		13,706,851		12,837,405
Shareholders' Equity				
Share capital (note 15)		**76,418,695**		76,418,695
Contributed surplus (notes 14, 16)		**6,252,189**		5,959,992
Retained deficit		**(77,086,375)**		(69,772,774)
		5,584,509		12,605,913
	$	**19,291,360**	$	25,443,318

On behalf of the Board

"Raveel Afzaal" *"Allan Mackenzie"*

Condensed Interim Consolidated Statements of Net Loss and Comprehensive Loss
three and six months ended June 30, 2024 and 2023 (in Canadian dollars) (unaudited)

	3 months ended June 30, 2024	3 months ended June 30, 2023	6 months ended June 30, 2024	6 months ended June 30, 2023
Revenue (note 20)	**$ 551,519**	45,526	**$ 1,127,159**	$ 89,695
Expenses				
Cost of sales {includes impairment of $230,092 and 87,594 (2023: $70,922 and impairment reversal of $18,470) for the three and six months respectively} (notes 4 and 12)	**414,550**	79,784	**1,257,849**	8,776
Research and development (note 17)	**2,813,629**	1,475,821	**4,668,339**	3,825,095
General and administrative (note 17)	**1,122,334**	1,427,144	**2,362,144**	2,549,138
Marketing and sales	**115,008**	145,965	**238,502**	331,882
	4,465,521	3,128,714	**8,526,834**	6,714,891
Loss before the following	**(3,914,002)**	(3,083,188)	**(7,399,675)**	(6,625,196)
Finance (income) costs, net (note 18)	**(19,124)**	(143,322)	**(86,074)**	(289,951)
Net loss and comprehensive loss	**$ (3,894,878)**	(2,939,866)	**$ (7,313,601)**	$ (6,335,245)
Loss per share:				
Basic	**$ (0.17)**	$ (0.13)	**$ (0.32)**	$ (0.28)
Diluted	**$ (0.17)**	$ (0.13)	**$ (0.32)**	$ (0.28)
Weighted average number of shares outstanding: (note 15)				
Basic	**22,888,436**	22,888,436	**22,888,436**	22,888,436
Diluted	**22,888,436**	22,888,436	**22,888,436**	22,888,436

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficit)
three and six months ended June 30, 2024 and 2023 (in Canadian dollars) (unaudited)

	Share Capital	Contributed Surplus	Retained Deficit	Total
Balances, December 31, 2023	$ 76,418,695	$ 5,959,992	$ (69,772,774)	$ 12,605,913
Share-based compensation expense (note 16)	—	292,197	—	292,197
Net loss and comprehensive loss	—	—	(7,313,601)	(7,313,601)
Balances, June 30, 2024	$ 76,418,695	$ 6,252,189	$ (77,086,375)	$ 5,584,509
Balances, December 31, 2022	$ 76,393,695	$ 5,270,932	$ (57,758,885)	$ 23,905,742
DSU issuance	—	112,500	—	112,500
Share-based compensation expense (note 16)	—	262,016	—	262,016
Net loss and comprehensive loss	—	—	(6,335,245)	(6,335,245)
Balances, June 30, 2023	$ 76,393,695	$ 5,645,448	$ (64,094,130)	$ 17,945,013

Condensed Interim Consolidated Statements of Cash Flows
three and six months ended June 30, 2024 and 2023 (in Canadian dollars) (unaudited)

	3 months ended June 30, 2024	3 months ended June 30, 2023	6 months ended June 30, 2024	6 months ended June 30, 2023
Cash flows used in operating activities				
Net loss and comprehensive loss	**$ (3,894,878)**	$ (2,939,866)	**$ (7,313,601)**	$ (6,335,245)
Adjustments:				
Finance (income) costs, net (note 18)	**(19,124)**	(143,322)	**(86,074)**	(289,951)
Depreciation and amortization	**221,947**	227,995	**443,933**	470,020
Deferred revenue	**294,950**	—	**(176,739)**	—
Provisions and inventory impairment	**87,594**	70,922	**230,092**	(12,383)
Share-based compensation (note 16)	**124,751**	102,132	**292,197**	262,016
Deferred share unit expense (note 14)	**—**	56,250	**—**	112,500
	(3,184,760)	(2,625,889)	**(6,610,192)**	(5,793,043)
Net change in non-cash operating working capital (note 19)	**(888,341)**	(1,066,865)	**1,303,926**	(219,664)
	(4,073,101)	(3,692,754)	**(5,306,266)**	(6,012,707)
Interest received (note 18)	**74,992**	202,306	**198,917**	408,234
	(3,998,109)	(3,490,448)	**(5,107,349)**	(5,604,473)
Cash flows used in investing activities				
Acquisition of equipment (note 5)	**(86,718)**	(339,195)	**(202,650)**	(353,640)
Patent Costs (note 7)	**—**	(775)	**—**	(775)
	(86,718)	(339,970)	**(202,650)**	(354,415)
Cash flows from (used in) financing activities				
Repayment of long-term debt	**(16,233)**	(16,326)	**(32,464)**	(49,829)
Repayment of finance lease liability	**(84,488)**	(82,087)	**(168,978)**	(164,175)
	(100,721)	(98,413)	**(201,442)**	(214,004)
Decrease in cash and cash equivalents	**(4,185,548)**	(3,928,831)	**(5,511,441)**	(6,172,892)
Cash and cash equivalents, beginning	**9,583,168**	19,840,660	**10,909,061**	22,084,721
Cash and cash equivalents, ending	**$ 5,397,620**	$ 15,911,829	**$ 5,397,620**	$ 15,911,829

1. CORPORATE INFORMATION AND GOING CONCERN

Next Hydrogen Solutions Inc. (“Next Hydrogen” or the “Company”) was incorporated on February 11, 2014 under the British Columbia Business Corporations Act and its registered head office is at 6610 Edwards Blvd, Mississauga, Ontario, L5T 2V6.

Founded in 2007, 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. 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. 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”.

The condensed interim consolidated financial statements of the Company have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

For the six months ended June 30, 2024, the Company had a net loss of $7,313,601, negative cash flow from operations of $5,107,349 and has working capital of $5,187,131. The continuation of the Company as a going concern is dependent upon its ability to meet the relevant criteria of government grants and revenue contracts for additional funds to be received and to obtain financing through equity or debt, and there can be no assurance that it will be able to obtain adequate financing in the future or on terms acceptable to the Company. These circumstances represent a material uncertainty that casts significant doubt about the Company’s ability to continue as a going concern.

The condensed interim consolidated financial statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities that might be necessary should the Company be unable to continue as a going concern. These adjustments may be material.

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, 2023.

The accounting policies described in Note 2 of the 2023 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 August 14, 2024.

Changes in Accounting Standards

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 performed an assessment of this amendment and determined this standard to have no effect on its consolidated financial statements.

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 performed an assessment of this amendment and determined this standard to have no effect on its consolidated financial statements.

Supplier Finance Arrangements (Amendments to IAS 7, Statement of Cash Flows and IFRS 7, Financial Instruments: Disclosures)

In May 2023, the International Accounting Standards Board (IASB) issued Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. It requires an entity (the buyer) to disclose qualitative and quantitative information about its supplier finance arrangements, such as terms and conditions – including, for example, extended payment terms and security or guarantees provided. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted.

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

Future Accounting Pronouncements

Lack of exchangeability (Amendment to IAS 21 The effects of changes in foreign exchange rates)

In August 2023, the IASB issued amendments to IAS 21 to clarify the exchangeability of a currency into another, and the process to estimate a spot rate when a currency lacks exchangeability. The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with early adoption permitted.

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

Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9, Financial Instruments and IFRS 7, Financial Instruments: Disclosures)

In May 2024, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 and IFRS 7 in response to feedback from the post-implementation review. The amendments clarify the settlement of financial liabilities through electronic payment systems and the assessment of contractual cash flow characteristics, including those with environmental, social and governance (ESG)-linked features. Additionally, the amendments update disclosure requirements for equity investments designated at fair value through other comprehensive income and introduce new disclosure requirements for financial instruments with contingent features that go beyond basic lending risks and costs. The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with early adoption permitted.

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

IFRS 18, Presentation and Disclosure in Financial Statements

IFRS 18 was issued by the International Accounting Standards Board (IASB) on April 9, 2024. IFRS 18 replaces IAS 18 and introduces changes to financial statement presentation and disclosure requirements. The new standard requires a revised income statement format with three categories: operating, investing, and financing, and mandates subtotals for operating profit or loss and profit or loss before financing and income taxes. Operating expenses must be presented directly on the income statement, with enhanced disclosure requirements.

IFRS 18 also provides guidance on aggregating and disaggregating information, introduces new disclosure requirements for management-defined performance measures, and eliminates classification options for interest and dividends in the statement of cash flows. These changes aim to improve the clarity and consistency of financial statement presentation. The new standard is effective January 1, 2027

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 and six months ended June 30, 2024 and 2023 (in Canadian dollars)

3. TRADE AND OTHER RECEIVABLES

	June 30, 2024	Dec 31, 2023
Trade receivables	$ 912,328	$ 1,428,596
GST/HST receivable	136,838	56,655
Employee loan receivable	62,241	75,247
	$ 1,111,407	$ 1,560,498
Current portion	1,073,319	1,510,334
Long-term portion	38,088	50,164

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

4. INVENTORY

	June 30, 2024	Dec 31, 2023
Spare parts	$ 2,425,852	$ 2,496,415
Work in progress	810,866	810,866
	$ 3,236,718	$ 3,307,281

During the six months ended June 30, 2024, $230,092 (June 30, 2023 - $52,452) was recorded as an inventory impairment.

three and six months ended June 30, 2024 and 2023 (in Canadian dollars)

5. EQUIPMENT

	Equipment	Equipment under Constr'n	Computer Hardware	Furniture and Fixtures	Leasehold Improv'ts	Total
Cost						
Balances, December 31, 2023	$ 5,084,008	$ 2,155,962	$ 258,171	$ 94,102	$ 334,516	$ 7,926,759
Additions	18,831	116,455	57,659	3,232	6,473	202,650
Transfers	418,022	(418,022)	—	—	—	—
Balances, June 30, 2024	5,520,861	1,854,395	315,830	97,334	340,989	8,129,409
Accumulated depreciation						
Balances, December 31, 2023	(878,019)	—	(155,343)	(17,846)	(58,130)	(1,109,338)
Depreciation	(234,664)	—	(39,284)	(4,732)	(16,812)	(295,492)
Balances, June 30, 2024	(1,112,683)	—	(194,627)	(22,578)	(74,942)	(1,404,830)
Net carrying amounts						
At June 30, 2024	$ 4,408,178	$ 1,854,395	$ 121,203	$ 74,756	$ 266,047	$ 6,724,579

	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	342	2,412,677	56,161	18,472	38,286	2,525,938
Transfers	839,656	(839,656)	—	—	—	—
Balances, December 31, 2023	5,084,008	2,155,962	258,171	94,102	334,516	7,926,759
Accumulated depreciation						
Balances, December 31, 2022	(449,987)	—	(83,900)	(8,767)	(26,350)	(569,004)
Depreciation	(428,032)	—	(71,443)	(9,079)	(31,780)	(540,334)
Balances, December 31, 2023	(878,019)	—	(155,343)	(17,846)	(58,130)	(1,109,338)
Net carrying amounts						
At December 31, 2023	$ 4,205,989	$ 2,155,962	$ 102,828	$ 76,256	$ 276,386	$ 6,817,421

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, 2022	$ 1,968,864	$ (262,515)	$ 1,706,349
Amortization	—	(196,887)	(196,887)
Balances, December 31, 2023	1,968,864	(459,402)	1,509,462
Amortization	—	(98,443)	(98,443)
Balances, June 30, 2024	$ 1,968,864	$ (557,845)	$ 1,411,019

three and six months ended June 30, 2024 and 2023 (in Canadian dollars)

7. PATENTS

	Cost	Accumulated Amortization	Net
Balances, December 31, 2022	$ 1,054,934	$ (386,490)	$ 668,444
Additions	775	—	775
Amortization	—	(97,757)	(97,757)
Balances, December 31, 2023	1,055,709	(484,247)	571,462
Amortization	—	(40,714)	(40,714)
Balances, June 30, 2024	$ 1,055,709	$ (524,961)	$ 530,748

8. INTANGIBLE ASSETS AND GOODWILL

	Intangible Assets	Goodwill	Net
Balances, December 31, 2022	$ 190,596	$ 82,204	$ 272,800
Impairment	—	(82,204)	(82,204)
Amortization	(37,401)	—	(37,401)
Balances, December 31, 2023	153,195	—	153,195
Amortization	(9,284)	—	(9,284)
Balances, June 30, 2024	$ 143,911	$ —	$ 143,911

9. TRADE AND OTHER PAYABLES

	June 30, 2024	Dec 31, 2023
Trade payables	$ 288,211	$ 494,473
Accrued payables	1,508,786	1,192,732
Other payables	44,103	27,277
	$ 1,841,100	$ 1,714,482

10. DEFERRED REVENUE

	June 30, 2024	Dec 31, 2023
Opening balance	$ 5,079,535	$ 2,771,641
Advance consideration	856,000	3,053,000
Revenue recognized	(1,032,739)	(745,106)
	$ 4,902,796	$ 5,079,535
Current portion	2,131,155	2,307,894
Long-term portion	2,771,641	2,771,641

three and six months ended June 30, 2024 and 2023 (in Canadian dollars)

11. GOVERNMENT GRANTS

During 2023, the Company received a grant from Sustainable Development Technology Canada. As the grant has been provided with specific conditions, Next Hydrogen has implemented the income approach to recognizing the grant. Of the total grant, $1,584,733 has been offset against the related expenditure under research and development expenses. The remaining grant in the amount of $359,926 relates to equipment currently being constructed and will be offset against the depreciation of this equipment, once it is ready for use. This grant will be utilized for the development and demonstration of the Company's second and third-generation products and market demonstrations associated with these product lines. As per the grant agreement, the Company has three milestones to achieve, the first of which has been completed, and the second milestone is currently in progress. During Q1, 2024, the Company received payment for the second milestone in the amount of $1,992,777; of this, $316,901 (three months ended June 30, 2024), and $984,611 (six months ended June 30 2024) has been offset against the related expenditure under research and development expenses. Payment for the third milestone will be advanced to the Company upon completion of the second milestone. Finally, once all milestones have been completed, a 10% holdback will be released to the Company.

	June 30, 2024	Dec 31, 2023
Opening balance	$ 359,926	$ —
Grant received	1,992,777	1,944,659
Offset against expenses	(984,611)	(1,584,733)
	$ 1,368,092	$ 359,926
Current portion	1,008,166	—
Long-term portion	359,926	359,926

Comparative amounts in 2023 of $359,926 were reclassified as non-current as the grants relate to long term assets (equipment under construction).

During 2023, the Company also received a grant from the National Research Council of Canada under the Industrial Research Assistance Program (IRAP). The total grant approved is in the amount of $750,000, all of which was offset against the related expenditure under research and development expenses during the year ended December 31, 2023. This grant was utilized to cover labour and consultant costs for our next generation product lines.

12. PROVISIONS

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

	June 30, 2024	Dec 31, 2023
Opening balance	$ 3,850,000	$ 3,850,000
Additions	43,977	78,585
Utilized	(43,977)	(78,585)
	$ 3,850,000	$ 3,850,000
Current portion	10,000	70,000
Long-term portion	3,840,000	3,780,000

three and six months ended June 30, 2024 and 2023 (in Canadian dollars)

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	$ 317,204	$ 1,461,504	$ 883,501	$ 2,662,209
Interest	(214,601)	(645,386)	(111,636)	(971,623)
	$ 102,603	$ 816,118	$ 771,865	$ 1,690,586
Current portion				102,603
Long-term portion				1,587,983

14. 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 could have been settled in cash or equity. In July 2022, 135,288 DSUs were issued to the board of directors in settlement of directors' fees owing of $225,000, which vested on July 1, 2023; no DSUs were issued in 2024. Each DSU entitles its holder to receive one common share upon settlement and vests over one year. During the three and six months ended June 30, 2024, NIL (2023 - 15,032) DSUs were settled in shares; therefore, 120,256 (December 31, 2023 - 120,256) DSUs were outstanding as at June 30, 2024.

15. SHARE CAPITAL

Authorized

Unlimited number of common shares with no par value.

As at June 30, 2024, the Company has 22,903,468 (December 31, 2023 - 22,903,468) common shares issued and outstanding and there were no shares issued or canceled during the period.

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 and six months ended June 30, 2024 and 2023 (in Canadian dollars)

16. 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, 2022	2.79	3,311,626
Issued	0.87	590,000
Cancelled	1.32	(25,000)
Forfeited	3.07	(705,000)
Balances, December 31, 2023	2.38	3,171,626
Issued	0.65	115,000
Cancelled	3.28	(5,000)
Forfeited	1.56	(28,750)
Balances, June 30, 2024	2.32	3,252,876

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. There were 115,000 stock options issued during the six months ended June 30, 2024 (2023 - 30,000). During the six months ended June 30, 2024, NIL (2023 - 25,000) stock options issued to key management. Of the total stock options outstanding as of June 30, 2024, 2,401,626 (December 31, 2023 - 2,371,626) were held by key management.

The following table summarizes information about stock options outstanding as at June 30, 2024:

Exercise Price $	**Options Outstanding** #	**Weighted Avg Remaining Life** #	**Options Exercisable** #
0 to 0.99	1,090,000	2.8	525,000
1 to 1.99	483,750	2.8	242,500
2 to 2.99	972,500	1.8	914,861
3 to 3.99	225,000	2.5	112,500
4 to 4.99	10,000	2.3	5,000
5 to 5.99	25,000	2.3	12,500
6 to 6.99	10,000	2.1	5,000
7 to 7.99	436,626	2.0	235,813
2.32	3,252,876	2.4	2,053,174

three and six months ended June 30, 2024 and 2023 (in Canadian dollars)

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

Exercise Price $	Options Outstanding #	Weighted Avg Remaining Life #	Options Exercisable #
0 to 0.99	980,000	3.1	525,000
1 to 1.99	500,000	3.3	215,000
2 to 2.99	980,000	2.3	604,067
3 to 3.99	225,000	3.0	56,250
4 to 4.99	15,000	2.9	7,500
5 to 5.99	25,000	2.8	12,500
6 to 6.99	10,000	2.6	5,000
7 to 7.99	436,626	2.5	235,813
2.38	3,171,626	2.8	1,661,130

Included in expenses for the six months ended June 30, 2024 is a share-based compensation expense of $124,751(June 30, 2023 - $214,632) for the three month period and $292,197(June 30, 2023 - $374,516 for the six month period ended June 30, 2023.

17. RELATED PARTY TRANSACTIONS

Included in trade and other receivables are three employee loans to key management employees, in the total amount of $62,241 (2023 - $75,247). Of this amount, $38,088 (2023 - $50,164) 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:

	3 months ended June 30, 2024	3 months ended June 30, 2023	6 months ended June 30, 2024	6 months ended June 30, 2023
Salaries and benefits	$ 624,780	$ 349,000	$ 1,068,780	$ 698,500
Share-based compensation expense	103,166	267,846	233,369	670,233
	$ 727,946	$ 616,846	$ 1,302,149	$ 1,368,733

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

18. FINANCE COSTS

	3 months ended June 30, 2024	3 months ended June 30, 2023	6 months ended June 30, 2024	6 months ended June 30, 2023
Interest income	$ (74,992)	$ (202,306)	$ (198,917)	$ (408,234)
Interest expense	55,868	58,984	112,843	118,283
	$ (19,124)	$ (143,322)	$ (86,074)	$ (289,951)

three and six months ended June 30, 2024 and 2023 (in Canadian dollars)

19. CHANGE IN NON-CASH WORKING CAPITAL

	3 months ended June 30, 2024	3 months ended June 30, 2023	6 months ended June 30, 2024	6 months ended June 30, 2023
Trade and other receivables	$ (527,697)	$ (14,267)	$ 449,091	$ (144,309)
Prepaid expenses and deposits	(136,158)	147,661	(120,420)	(113,137)
Inventory	(49,847)	(1,385,573)	(159,529)	(1,853,332)
Trade and other payables	142,262	1,001,827	126,618	949,368
Deferred government grants	(316,901)	(745,685)	1,008,166	929,363
Provisions	—	(70,828)	—	12,383
	$ (888,341)	$ (1,066,865)	$ 1,303,926	$ (219,664)

20. 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 six months ended June 30, 2024, one customer provided 80% of the Company’s revenues (68% during the three months ended June 30, 2024); during the three and six months ended June 30, 2023, another customer provided 100% of the Company’s revenues.

The Company has three streams of revenue; two active streams of revenue were applicable to the following periods:

	3 months ended June 30, 2024	3 months ended June 30, 2023	6 months ended June 30, 2024	6 months ended June 30, 2023
Service revenue	$ 43,469	$ 45,526	$ 94,420	$ 89,695
Revenue from development contract	508,050	—	1,032,739	—
	$ 551,519	$ 45,526	$ 1,127,159	$ 89,695

21. FINANCIAL INSTRUMENTS

Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework but has delegated to management the responsibility for monitoring and managing the risks that the Company faces. Financial instruments present a number of specific risks as identified below:

Fair Value

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

three and six months ended June 30, 2024 and 2023 (in Canadian dollars)

Valuation techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. The carrying value of cash and cash equivalents, trade and other receivables, bank indebtedness, and trade and other payables approximate their fair values due to their nature or capacity for prompt liquidation. The carrying values of finance lease liability and long-term debt are based on the contractual interest rates. Using the market interest rates for similar arrangements as at June 30, 2024 and December 31, 2023 would result in the following effects:

	June 30, 2024	Dec 31, 2023
Long-term debt - carrying value	$ 54,277	$ 85,389
Long-term debt - fair value	82,082	110,702
Finance lease liability - carrying value	1,690,586	1,748,073
Finance lease liability - fair value	1,828,332	1,883,936

Valuation techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. Level 2 valuation methods have been used to determine fair values. Level 1 uses quoted prices in active markets for identical assets or liabilities. Level 2 uses inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Credit Risk

Credit risk arises from the potential that debtors will fail to satisfy their obligations as they come due. Credit risk with respect to trade and other receivables is considered low as the balance is largely made up of sales taxes as well as large customers with strong credit. Credit risk with respect to cash and cash equivalents is considered low; the Company held cash and cash equivalents of $5,397,620 at June 30, 2024 (December 31, 2023 - $10,909,061). The cash and cash equivalents are held with two major Canadian financial institutions which are rated AA1 and A1, based on Moody’s ratings. As such, no provision for lifetime expected credit losses has been made.

Market Risk

Market risk refers to the risk that a change in one or more general market conditions will result in losses to the Company. The Company is exposed to interest rate risk and manages this risk through regular monitoring of its financial instruments. The Company is not exposed to other price risk.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will have a negative effect on the value of financial instruments. The Company is exposed to interest rate cash flow risk on its cash and cash equivalents balances, which earn interest at a floating rate.

Exposure to interest rate risk: Next Hydrogen holds financial assets of $62,241 (December 31, 2023 - $75,247) at a fixed rate and is obligated to financial liabilities of $1,744,863 (December 31, 2023 - $1,833,462) also at fixed rates; these are accounted for at amortized cost. Given that these are held at fixed rates, they are not subject to interest rate risk, and thus would not impact equity or net loss.

three and six months ended June 30, 2024 and 2023 (in Canadian dollars)

(ii) Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company enters into foreign currency purchase and sale transactions resulting in exposure to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. However, given that the volume and magnitude of foreign currency transactions is low, the effect this risk has on the Company's earnings is not significant.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing, on an ongoing basis, its financial requirements for operations and capital expenditures and ensuring financing is available when necessary. As at June 30, 2024, the Company had $5,397,620 (December 31, 2023 - $10,909,061) in cash and cash equivalents and $1,073,319 (December 31, 2023 - $1,510,334) in current trade and other accounts receivable, which were available to settle current trade and other payables, current portion of finance lease liability, and current portion of long-term debt of $1,997,980 (December 31, 2023 - $1,868,066).

Next Hydrogen plans to focus on research and development while building out the necessary infrastructure to commercialize its business and will use its working capital to carry out such initiatives. The continuation of the Company as a going concern is dependent upon its ability to meet the relevant criteria of government grants and revenue contracts for additional funds to be received and to obtain financing through equity or debt, and there can be no assurance that it will be able to obtain adequate financing in the future or on terms acceptable to the Company. These circumstances represent a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

The following table sets out the Company's financial commitments as follows:

	Carrying amount	Total	1 year	2 to 5 years	After 5 years
Trade and other payables	$ 1,841,100	$ 1,841,100	$ 1,841,100	$ —	$ —
Finance lease liability	1,690,586	1,690,586	102,603	816,118	771,865
Long-term debt	54,277	54,277	54,277	—	—
	$ 3,585,963	$ 3,585,963	$ 1,997,980	$ 816,118	$ 771,865