



Next Hydrogen Solutions Inc.

## Consolidated Financial Statements

For the years ended December 31, 2024 and 2023



**KPMG LLP**

Bay Adelaide Centre  
333 Bay Street, Suite 4600  
Toronto, ON M5H 2S5  
Canada  
Tel 416-777-8500  
Fax 416-777-8818

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Next Hydrogen Solutions Inc.

***Opinion***

We have audited the consolidated financial statements of Next Hydrogen Solutions Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2024 and December 31, 2023
- the consolidated statements of net loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholder's equity (deficit) for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2024 and December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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### ***Material Uncertainty Related to Going Concern***

We draw attention to Note 1 in the financial statements, which indicates that the Entity has prepared the financial statements on a going concern basis. The Entity has had recurring losses, and its continuation as a going concern is dependent on the Entity receiving additional funds from existing grants and contracts and its ability to successfully fund its operations by obtaining additional financing.

As stated in Note 1 in the financial statements, these events or conditions, indicate that a material uncertainty exists that casts significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2024. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the "***Material Uncertainty related to Going Concern***" section of the auditor's report, we have determined that there are no other key audit matters to communicate in our auditor's report.

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.



### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is David Denis Kerrigan Brownridge.

Toronto, Canada

April 24, 2025

Consolidated Statements of Financial Position  
As at December 31, 2024 and 2023

(in Canadian dollars)

	December 31, 2024	December 31, 2023
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 3,586,374	\$ 10,909,061
Trade and other receivables (notes 3 and 19)	392,420	1,510,334
Prepaid expenses and deposits	372,407	520,360
Inventory (note 4)	3,048,954	3,307,281
	<u>7,400,155</u>	<u>16,247,036</u>
Trade and other receivables (notes 3 and 19)	26,011	50,164
Prepaid expenses and deposits	94,332	94,578
Equipment (note 5)	6,005,019	6,817,421
Right of use asset (note 6)	1,312,576	1,509,462
Patents (note 7)	490,034	571,462
Intangible assets and goodwill (note 8)	134,626	153,195
	<u>\$ 15,462,753</u>	<u>\$ 25,443,318</u>
<b>Liabilities</b>		
Current		
Trade and other payables (note 9)	\$ 3,057,985	\$ 1,714,482
Deferred revenue (note 10)	2,640,472	2,307,894
Deferred government grants (notes 11 and 14)	266,688	—
Provisions (note 12)	—	70,000
Finance lease liability (note 13)	114,062	90,734
Long-term debt (note 14)	22,562	62,850
	<u>6,101,769</u>	<u>4,245,960</u>
Deferred revenue (note 10)	2,678,142	2,771,641
Deferred government grants (notes 11 and 14)	359,926	359,926
Provisions (note 12)	3,150,000	3,780,000
Finance lease liability (note 13)	1,543,858	1,657,339
Long-term debt (note 14)	551,412	22,539
Convertible debenture (notes 15 and 19)	2,448,119	—
	<u>16,833,226</u>	<u>12,837,405</u>
<b>Shareholders' Equity (Deficit)</b>		
Share capital (notes 16 and 17)	76,418,695	76,418,695
Contributed surplus (note 18)	6,580,513	5,959,992
Retained deficit	(84,369,681)	(69,772,774)
	<u>(1,370,473)</u>	<u>12,605,913</u>
	<u>\$ 15,462,753</u>	<u>\$ 25,443,318</u>

On behalf of the Board

“Raveel Afzaal”

“Allan MacKenzie”

Consolidated Statements of Net Loss and Comprehensive Loss  
years ended December 31, 2024 and 2023

(in Canadian dollars)

	Year ended December 31, 2024	Year ended December 31, 2023
<b>Revenue</b> (note 23)	<b>\$ 1,362,252</b>	<b>\$ 951,908</b>
<b>Expenses</b>		
Cost of sales {includes \$726,714 (2023 - \$639,236) of inventory impairment} (notes 4 and 12)	1,696,600	1,240,702
Research and development (note 19)	8,634,623	7,065,384
General and administrative (note 19)	5,145,861	4,672,865
Marketing and sales	532,295	466,379
	<b>16,009,379</b>	<b>13,445,330</b>
Loss before the following	<b>(14,647,127)</b>	<b>(12,493,422)</b>
Finance (income) costs, net (note 20)	2,780	(479,533)
Net Income (Loss) before recovery of income taxes	<b>(14,649,907)</b>	<b>(12,013,889)</b>
Income tax (recovery) (note 21)	(53,000)	—
<b>Net loss and comprehensive loss</b>	<b>\$ (14,596,907)</b>	<b>\$ (12,013,889)</b>
<b>Loss per share:</b>		
Basic	<b>\$ (0.64)</b>	<b>\$ (0.52)</b>
Diluted	<b>\$ (0.64)</b>	<b>\$ (0.52)</b>
<b>Weighted average number of shares outstanding: (note 17)</b>		
Basic (note 17)	<b>22,903,468</b>	22,890,948
Diluted (note 17)	<b>22,903,468</b>	22,890,948

Consolidated Statements of Changes in Shareholders' Equity (Deficit)  
years ended December 31, 2024 and 2023

(in Canadian dollars)

	Share Capital	Contributed Surplus	Retained Deficit	Total
Balances at December 31,2023	\$ 76,418,695	\$ 5,959,992	\$ (69,772,774)	\$ 12,605,913
Share-based compensation expense (note 18)	—	473,521	—	473,521
Convertible debenture (note 15)	—	200,000	—	200,000
Deferred tax (note 21)	—	(53,000)	—	(53,000)
Net loss and comprehensive loss	—	—	(14,596,907)	(14,596,907)
<b>Balances at December 31,2024</b>	<b>\$ 76,418,695</b>	<b>\$ 6,580,513</b>	<b>\$ (84,369,681)</b>	<b>\$ (1,370,473)</b>
Balances at December 31,2022	\$ 76,393,695	\$ 5,270,932	\$ (57,758,885)	\$ 23,905,742
DSU exercise (note 18)	25,000	(25,000)	—	—
DSU issuance (notes 16 and 18)	—	112,500	—	112,500
Share-based compensation expense (note 18)	—	601,560	—	601,560
Net loss and comprehensive loss	—	—	(12,013,889)	(12,013,889)
<b>Balances at December 31,2023</b>	<b>\$ 76,418,695</b>	<b>\$ 5,959,992</b>	<b>\$ (69,772,774)</b>	<b>\$ 12,605,913</b>



Consolidated Statements of Cash Flows  
years ended December 31, 2024 and 2023

(in Canadian dollars)

	Year ended December 31, 2024	Year ended December 31, 2023
Cash flows used in operating activities		
Net loss	\$ (14,596,907)	\$ (12,013,889)
Adjustments:		
Finance (income) costs, net (note 20)	2,780	(479,533)
Depreciation and amortization	949,737	872,379
Loss on sale of equipment	23,760	—
Inventory impairment (note 4)	815,539	639,236
Provision (note 12)	(700,000)	—
Equipment under construction write-off (note 5)	724,799	—
Goodwill impairment	—	82,204
Share-based compensation (note 18)	473,521	601,560
Government grant	(457,118)	339,926
Deferred tax recovery (note 21)	(53,000)	—
Deferred share unit expense	—	112,500
	<b>(12,816,889)</b>	<b>(9,845,617)</b>
Net change in non-cash operating working capital (note 22)	<b>2,582,256</b>	<b>906,956</b>
	<b>(10,234,633)</b>	<b>(8,938,661)</b>
Interest received (note 20)	<b>236,980</b>	<b>715,397</b>
	<b>(9,997,653)</b>	<b>(8,223,264)</b>
Cash flows used in investing activities		
Acquisition of equipment (note 5)	<b>(691,038)</b>	<b>(2,525,938)</b>
Proceeds from disposal of equipment	<b>13,000</b>	<b>—</b>
Patent costs	<b>—</b>	<b>(775)</b>
	<b>(678,038)</b>	<b>(2,526,713)</b>
Cash flows from financing activities		
Repayment of long-term debt	<b>(64,928)</b>	<b>(82,293)</b>
Proceeds from long term financing (note 14)	<b>1,013,562</b>	<b>—</b>
Repayment of bank indebtedness	<b>—</b>	<b>(40,000)</b>
Proceeds from convertible debenture (notes 15 and 19)	<b>2,716,635</b>	<b>—</b>
Payment of finance lease liability (note 13)	<b>(312,265)</b>	<b>(303,390)</b>
	<b>3,353,004</b>	<b>(425,683)</b>
(Decrease) in cash and cash equivalents	<b>(7,322,687)</b>	<b>(11,175,660)</b>
Cash and cash equivalents, beginning	<b>10,909,061</b>	<b>22,084,721</b>
Cash and cash equivalents, ending	<b>\$ 3,586,374</b>	<b>\$ 10,909,061</b>

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

The 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 year ended December 31, 2024, the Company had a net loss of \$14,596,907, negative cash flow from operations of \$9,997,653 and cash and cash equivalents of \$3,586,374 and working capital (Current assets less Current liabilities) of \$1,298,386. 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 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 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. MATERIAL ACCOUNTING POLICIES

### Statement of Compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 24, 2025.

### Basis of Measurement

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

### **Functional and Presentation Currency**

These 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 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 subsidiaries and any intercompany balances, gains or losses with subsidiaries 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.

### **Revenue Recognition**

#### *Revenue from contracts with customers*

The Company generates revenue from customer contracts from three principal sources: (1) product and equipment sales; (2) services as well as aftermarket sales; and (3) development contracts. Product and equipment sales are generated from standard products.

Revenue is recognized when control of the goods or services are transferred to the customer and is measured based on the consideration to which the Company expects to be entitled as specified in the contract with the customer.

Based on the specific contract and its obligations, revenue is recognized either at a point in time or over time.

#### *Revenue from sale of standard products and equipment*

The Company recognizes revenue at the point in time at which it satisfies a performance obligation by transferring the control of a good or service to the customer, which is generally at the time the equipment is commissioned at the customer's location and ready for use. The customer has control of a good or service when it has the ability to direct the use of and obtain substantially all of the remaining benefits from the good or service. The point in time measurement basis is the main method of recognizing revenue relating to electrolyzers and balance of plant equipment.

In circumstances where the cost directly related to a contract is expected to exceed the directly related revenues, the estimated loss on the contract will be recognized in its entirety in the period when this is identified.

The Company periodically enters into arrangements with customers that involve multiple elements. The Company assesses such contracts to evaluate whether there are multiple performance obligations and whether the transaction price under the arrangement is being appropriately allocated to each of the performance obligations.

*Service and aftermarket sales*

For contracts where the Company has agreed to provide routine maintenance services and warranty services over a period of time as part of the original contract, a portion of the transaction price is allocated to these performance obligations and revenue is recognized evenly over the contract period.

For sales of aftermarket parts, revenue is recognized when the performance obligation is satisfied, generally upon delivery of parts.

The Company accounts for a significant financing component on contracts where timing of cash receipts and revenue recognition differ substantially. The contracts typically require the customer to pay the full contract value by the time the product is ready for use, which is well before the delivery of maintenance and warranty services and therefore a financing component is accounted for separately. The result is that interest expense is accrued during the advance period and the transaction price will be increased by a corresponding amount.

*Revenue from development contracts*

The Company enters into development contracts with customers from time to time, which consists of multiple milestones, ranging from design to inspection, and from installation to testing. The Company recognizes revenue over time as services are provided. The stage of completion for determining the amount of revenue to be recognized is measured by the milestones and the weighting of the hours to complete each of the milestones as determined by the scope of the project. The contract price is allocated to these performance obligations and revenue is recognized over the contract period. Advances received are included in deferred revenue.

In circumstances where the cost directly related to a contract is expected to exceed the revenues, the estimated loss on the contract will be recognized in its entirety in the period when this is identified.

**Deferred Revenue**

Deferred revenue is the obligation to transfer goods or services to a customer for which the Company has received consideration from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a deferred revenue liability is recognized when the payment is made. Deferred revenue liabilities are recognized as revenue when the Company meets its performance obligations under the contract. Advances received are included within deferred revenue.

**Financial Instruments**

Financial instruments are initially recognized at fair value and are subsequently measured at either (i) amortized cost, (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) fair value through profit or loss ("FVTPL"), based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest.

Financial instruments classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest. Financial instruments classified at amortized cost are initially measured at fair value, plus adjustments for transaction costs, and subsequently amortized using the effective interest method. Financial instruments measured at amortized cost include: cash and cash equivalents, trade and other receivables (excluding sales taxes), trade and other payables, long-term debt and finance lease liability.

Financial instruments classified and measured at FVTPL are those assets and liabilities that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not solely payments of principal and interest, or are not held within a business model whose objective is achieved through contractual cash flows or through both contractual cash flows and through the selling of the financial instrument. Financial instruments classified at FVTPL are initially measured at fair value and subsequently carried at fair value, with changes in fair value recorded through profit or loss. Transaction costs are expensed as incurred through profit and loss. Financial instruments measured at FVTPL include convertible debenture, deferred share unit liability and contingent liability.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The impairment model under IFRS 9 is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. The Company's only financial asset subject to impairment are trade and other receivables (excluding sales taxes), which are measured at amortized cost. The Company uses specific account identification to estimate lifetime expected impairment. Losses are recognized in profit and loss and reflected as an expected credit loss allowance against the financial asset. When a subsequent event causes the amount of the allowance to decrease, the decrease in allowance is reversed through profit and loss.

#### *Convertible notes*

The convertible notes is classified as a compound financial instrument consisting of financial liability host and an equity conversion feature. The liability component is recognized initially at its fair value. The equity component representing the conversion feature is recognized as the difference between the face value of the convertible notes as a whole and the value of the liability component, as a separate component of equity. The liability component is subsequently measured at amortized cost using the effective interest method. Interest, gains and losses related to the liability component are recognized in profit or loss.

#### **Cash and cash equivalents**

Cash and cash equivalents are comprised of cash and highly liquid investments that are readily convertible into known amounts of cash.

#### **Inventory**

Inventory is made up of parts purchased for the assembly of the Company's electrolyzers and balance of plant equipment and is measured at the lower of cost and net realizable value, with cost being determined on a first in, first out basis. Net realizable value represents the estimated selling price less all estimated costs of completion and selling costs.

## Equipment

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes costs that are directly attributable to bringing the asset to a working condition for its intended use. When significant components of an item of equipment have different useful lives, they are accounted for as separate items of equipment. Gains and losses on disposal of equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment and the net is recognized within profit or loss.

Depreciation is recognized in profit or loss on straight line basis over the estimated useful lives of equipment, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation methods, useful lives and residual values are reviewed each year and adjusted prospectively, if appropriate. Depreciation is provided for using the following useful lives:

Computer hardware	3 years
Equipment	10 years
Furniture and fixtures	10 years
Leasehold improvements	10 years

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment.

## Intangible Assets and Patents

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. If intangible assets are acquired through a business combination, costs are measured at the estimated fair value on acquisition. For other intangible assets, costs include any costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives and recorded on the consolidated statements of net loss and comprehensive loss. The Company assesses the useful lives, residual values and amortization methods annually and recognize the effects of changes in estimates in the consolidated statements of net loss and comprehensive loss prospectively.

Amortization of intangible assets is provided for using the following useful lives:

Licensing agreement	2 years
Non-competition agreement	2 years
Customer list	11 years
Patents	8 - 22 years

Intangible assets are assessed for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. If there is any indication of impairment, the carrying amount of the asset is compared to its recoverable amount and any excess is charged to earnings or loss.

## Finance lease liabilities and right of use assets

At the inception of a contract, a right-of-use asset and a lease liability is recognized at the lease commencement date when the contract conveys the right to control the use of an identified asset for a period of time in exchange for considerations.

The asset is initially measured at cost, comprised of the initial amount of the lease liability adjusted for any pre-commencement lease payments, plus any initial direct costs incurred. The asset is subsequently depreciated using the straight-line method from the commencement date of the lease to the end of the useful life of the asset if the lease transfers ownership of the underlying asset by the end of the lease term, or the right of use asset reflects that the Company will exercise a purchase option. Otherwise, the asset is depreciated using the straight-line method from the commencement date of the lease to the end of the lease term. The estimated useful lives of leased assets are determined on the same basis as those of property and equipment. The carrying amount of the leased asset is adjusted by remeasurement of the lease liability and reduced by impairment losses, if any.

The lease liability is initially measured at the present value of future lease payments, less any lease incentive received, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. In the event of a change in the Company's assessment of whether it will exercise a purchase, extension or termination option, the lease liability will be remeasured and an adjustment will be made to the carrying amount of the right-of-use asset, or recognized in the consolidated statements of net loss and comprehensive loss if the carrying value of the leased asset is zero.

### **Provisions**

Provisions are recognized when the Company has a material obligation, whether existing or potential, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash flows.

#### *Warranties*

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products or at the time the obligation was committed to, and is recognized at management's best estimate of the expenditures required to settle the Company's obligation.

#### *Onerous Contracts*

Certain of the Company's sales contracts are onerous contracts as the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract.

If it is more likely than not that the unavoidable costs of meeting the obligations under a firm contract exceed the economic benefits expected to be received under it, a provision for onerous contracts is recorded as an expense, with the interest component being recorded as a financing expense. Unavoidable costs include the costs that relate directly to the contract such as anticipated cost overruns, expected costs associated with late delivery penalties and technological problems, as well as allocations of costs that relate directly to the contract. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of exiting the contract.

### **Deferred Share Units**

The expense associated with the Company's deferred share unit ("DSU") plan is determined based on the market price of the Company's common shares on the grant date. The expense is recognized in the consolidated statements of net loss and comprehensive loss in the period in which the units are granted



with a corresponding equity component recorded on the consolidated statements of financial position. Each DSU entitles its holder to receive one common share upon settlement and vests over one year.

### Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares, stock options and warrants are recognized as a deduction from equity, net of any tax effects. When share capital recognized as equity is repurchased, the amount of consideration paid, including direct costs, net of tax effects, is recognized as a deduction from equity.

### Share-Based Compensation

The grant date fair value of share-based payment awards granted is recognized as an expense, with a corresponding increase in contributed surplus, over the period that the individual becomes entitled to the awards. The fair value of stock options granted is determined using the Black-Scholes option pricing model. The fair value of deferred share units granted is determined using the fair value of the Company's common shares on the date of grant. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service performance conditions at the vesting date.

When stock option awards are exercised, the proceeds, together with the amount originally recorded in contributed surplus, are recorded in share capital.

### Government Grants

The Company uses the income-based approach to account for government grants. Government grants are initially recognized as deferred government grants at fair value when there is reasonable assurance that they will be received, and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognized in profit or loss as a reduction in the related expense on a systematic basis in the periods in which the expenses are recognized. Grants that compensate the Company for the cost of an asset are included within deferred government grants, and are recognized in profit or loss on a systematic basis over the useful life of the asset as reduced depreciation expense for the underlying asset.

### Investment Tax Credits

Investment tax credits ("ITC") are recognized where there is reasonable assurance that the ITC will be received and all attached conditions will be complied with. When the ITC relates to an expense item, it is netted against the related expense. Where the ITC relates to an asset, it reduces the carrying amount of the asset. The ITC is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. The Company is actively engaged in research and product development ("R&D") and, accordingly, has previously filed for ITC refunds under both the Canadian federal and Ontario provincial Scientific Research and Experimental Development ("SR&ED") tax incentive programs.

The ITCs recorded in the accounts are based on management's interpretation of the Income Tax Act of Canada provisions, which govern the eligibility of R&D costs. The claims are subject to review by the Canada Revenue Agency and the Minister of Revenue for Ontario before the refunds can be released.



**Research and Product Development**

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred.

Development activities that involve a plan or design for the production of new or substantially improved products and processes are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. All of the Company's development expenditures to date have been expensed as incurred.

**Finance Costs**

Finance costs are comprised of interest expense on long-term debt, convertible debenture and finance lease liability, offset by interest income earned on cash and cash equivalents. Interest income or expense is recognized under the effective interest method.

**Earnings (Loss) Per Share**

Basic earnings (loss) per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares using the treasury stock method. The calculation of diluted loss per share excludes the effects of outstanding instruments that would be anti-dilutive.

**Foreign Currency Translation**

Transactions denominated in a foreign currency have been translated at the rate of exchange in effect on the date of the transaction. Monetary items included in the consolidated statement of financial position have been translated at the rate of exchange in effect as at the consolidated statement of financial position date. Realized and unrealized gains and losses on translations of foreign currencies are included in profit and loss.

**Change 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.

*Amendments to IAS 1: Non-Current Liabilities with Covenants*

The International Accounting Standards Board (IASB) has amended IAS 1, Presentation of Financial Statements, to improve disclosures related to non-current liabilities with covenants. The amendments:

- Clarify the classification of liabilities as current or non-current when the right to defer settlement is subject to compliance with covenants
- Require separate presentations of non-current liabilities subject to conditions in the next 12 months
- Mandate disclosures about the conditions, compliance, and expected compliance with covenants

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 is assessing the amendment on its consolidated financial statements.

*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 preparation of 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.

#### Judgements

- 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.
- b) *Impairment of patents*: Patents are assessed for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. In doing so, management must assess the future potential of its protected technology, and its ability to result in future benefit in the form of cost reductions or growth in revenues and profitability.
- c) *Going Concern*: The 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.

- d) *Provisions*: In assessing revenue contracts, management must analyze each performance obligation, and determine the onerous component (if any) of each revenue stream, based on the allocation of transaction price to the various performance obligations based on the expected costs for each performance obligation.

#### Estimates

- 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*: The Company evaluates the unavoidable costs related to fulfilling onerous contracts as of the reporting date. This involves identifying and measuring performance obligations, along with other costs resulting from contract termination or inability to fulfil the contract. Predictions about future events, analysis of contractual legal terms, and estimations regarding future cash flows require judgment. Alterations to these estimates and assumptions can considerably affect the recognized provision amount for onerous contracts.
- c) *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.
- d) *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.

### 3. TRADE AND OTHER RECEIVABLES

	Dec 31, 2024	Dec 31, 2023
Trade receivables	\$ 316,121	\$ 1,428,596
GST/HST receivable	52,146	56,655
Employee loan receivable	50,164	75,247
	<u>\$ 418,431</u>	<u>\$ 1,560,498</u>
Current portion	392,420	1,510,334
Long-term portion	26,011	50,164

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

### 4. INVENTORY

	Dec 31, 2024	Dec 31, 2023
Spare parts	\$ 1,994,495	\$ 2,496,415
Work in progress	1,054,459	810,866
	<u>\$ 3,048,954</u>	<u>\$ 3,307,281</u>

During the year, \$815,539 (2023 - \$639,236) was recorded as an inventory impairment. Of this amount, \$88,825 was expensed through research and development expenses and \$726,714 through cost of sales.

Notes to Consolidated Financial Statements  
years ended December 31, 2024 and 2023

(in Canadian dollars)

**5. EQUIPMENT**

	Equipment	Equipment Under Constr'n	Computer Hardware	Furniture and Fixtures	Leasehold Improv'ts	Total
<b>Cost</b>						
Balances, December 31,2023	\$ 5,084,008	\$ 2,155,962	\$ 258,171	\$ 94,102	\$ 334,516	\$ 7,926,759
Additions	18,831	583,536	61,511	5,744	21,416	691,038
Transfers within Equipment	527,083	(527,083)	—	—	—	—
Transfers to Inventory <sup>(1)</sup>	—	(89,027)	—	—	—	(89,027)
Disposals	(55,500)	—	—	—	—	(55,500)
Write-offs <sup>(2)</sup>	—	(724,799)	—	—	—	(724,799)
Balances December 31,2024	5,574,422	1,398,589	319,682	99,846	355,932	7,748,471
<b>Accumulated depreciation</b>						
Balances, December 31,2023	(878,019)	—	(155,343)	(17,846)	(58,130)	(1,109,338)
Depreciation	(535,453)	—	(73,648)	(9,641)	(34,112)	(652,854)
Disposals	18,740	—	—	—	—	18,740
Balances, December 31,2024	(1,394,732)	—	(228,991)	(27,487)	(92,242)	(1,743,452)
<b>Net carrying amounts</b>						
At December 31,2024	\$ 4,179,690	\$ 1,398,589	\$ 90,691	\$ 72,359	\$ 263,690	\$ 6,005,019

<sup>(1)</sup> Relates to assets moved from Equipment Under Construction into Inventory.

<sup>(2)</sup> Write-offs of equipment-under-construction during the year relate to an older version of the electrolyzer module that will no longer be utilized and were recorded in research and development in the consolidated statements of net loss and comprehensive loss.

	Equipment	Equipment Under Constr'n	Computer Hardware	Furniture and Fixtures	Leasehold Improv'ts	Total
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
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)
<b>Net carrying amounts</b>						
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	—	(196,886)	(196,886)
Balances, December 31,2024	\$ 1,968,864	\$ (656,288)	\$ 1,312,576

## 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
Additions	—	—	—
Amortization	—	(81,428)	(81,428)
Balances, December 31,2024	\$ 1,055,709	\$ (565,675)	\$ 490,034

## 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
Impairment	—	—	—
Amortization	(18,569)	—	(18,569)
Balances, December 31,2024	\$ 134,626	\$ —	\$ 134,626

## 9. TRADE AND OTHER PAYABLES

	Dec 31, 2024	Dec 31, 2023
Trade payables	\$ 1,006,416	\$ 494,473
Accrued payables	2,011,565	1,192,732
Other payables	40,004	27,277
	\$ 3,057,985	\$ 1,714,482

## 10. DEFERRED REVENUE

Deferred revenue relates to amounts received in advance from the Company's customers. Revenue is recognized as the performance obligations in the revenue contracts are fulfilled.

	Dec 31, 2024	Dec 31, 2023
Opening balance	\$ 5,079,534	\$ 2,771,641
Advance consideration	1,300,391	3,053,000
Revenue recognized	(1,061,311)	(745,106)
	<u>\$ 5,318,614</u>	<u>\$ 5,079,535</u>
Current portion	2,640,472	2,307,894
Long-term portion	2,678,142	2,771,641

## 11. GOVERNMENT GRANTS

During the year, the Company received a second milestone grant of \$1,992,777 (2023 – first milestone grant of \$1,944,659) 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. During the year ended December 31, 2024, \$1,746,667 has been offset against the related expenditure under research and development expenses for the second milestone (2023 - \$1,584,733 for the first milestone). The remaining grant from the first milestone 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. The Company has recast the December 31, 2023 amount of \$359,926 to long-term government grants from short-term government grants. 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. Payment for the third milestone was advanced to the Company in January 2025. Once all milestones have been completed, a 10% holdback will be released to the Company.

During the year 2024, the Company received a grant from the National Research Council of Canada under the Industrial Research Assistance Program ("INSAT"). The total grant approved is in the amount of \$2,000,000; \$658,410 of which has been offset against the related expenditure under research and development expenses during the year ended December 31, 2024. This grant was utilized to cover expenses incurred on research for the development of high-efficiency, low-cost electrolyzers needed for establishing hydrogen production infrastructure for the aviation industry.

In December 2023, the Company signed an agreement with the Independent Electricity System Operator (IESO) to receive a Hydrogen Innovation Fund ("HIF") grant. The fund provides a percentage of the expenses incurred in demonstrating the ability of Next Hydrogen's GEN2 electrolyzer modules at capacities of 75 kW, 750 kW, and 1.5 MW to meet the electrolyzer operational requirements for the provision of grid management services. Deliverables have been divided into three milestones and for the first milestone, \$263,777 of the grant was approved during the year ended December 31, 2024 and received in 2025.



## 12. PROVISIONS

During the fourth quarter of December 31, 2024, the performance obligations in a revenue contract, which was historically onerous, was modified and the contract is no longer determined to be onerous. Therefore, a provision amounting to \$700,000 was reversed into cost of sales.

	Dec 31, 2024	Dec 31, 2023
Opening balance	\$ 3,850,000	\$ 3,850,000
Additions	76,403	78,585
Utilized	(76,403)	(78,585)
Reversal	(700,000)	—
	<u>\$ 3,150,000</u>	<u>\$ 3,850,000</u>
Current portion	—	70,000
Long-term portion	3,150,000	3,780,000

## 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	\$ 321,452	\$ 1,513,697	\$ 683,902	\$ 2,519,051
Interest	(207,390)	(587,217)	(66,524)	(861,131)
	<u>\$ 114,062</u>	<u>\$ 926,480</u>	<u>\$ 617,378</u>	<u>\$ 1,657,920</u>
Current portion				114,062
Long-term portion				1,543,858

## 14. LONG-TERM DEBT

Included in long-term debt is a zero-interest loan received from the Federal Economic Development Agency for Southern Ontario ("FedDev Ontario"). On May 7, 2024, the Company entered into a Contribution Agreement with FedDev Ontario to support the Company's project ("FedDev Ontario Project") to strengthen its capabilities and productivity in manufacturing the next generation of electrolyzer modules for large-scale, green hydrogen producers by enhancing manufacturing process development, quality control, supply chain development, and the development of manufacturing tooling and equipment.

The Contribution Agreement provides for a repayable contribution of 50% of eligible and supported costs of the FedDev Ontario Project to the Company up to \$2,000,000 (which is 50% of the \$4,000,000 attributed to the FedDev Ontario Project). The contributions will be received in tranches and are based on qualifying expenses submitted by the Company and approved by the Agency.

The loan received is fully repayable by Next Hydrogen in equal monthly installments from August 1, 2026, to July 1, 2031.

As at the year ended December 31, 2024, the Company received a total of \$1,013,562 in two tranches of \$624,226 and \$389,336. Since it's a zero-interest loan, the loan tranches have been fair valued using a



discounted cash flow model and an interest rate of 15.8% and 14.9% respectively which resulted in a fair value of \$535,865 with the remaining \$477,697 recognized as a government grant. The portion recognized as a government grant has been recognized as an offset to applicable commercialization expenses.

## 15. CONVERTIBLE DEBENTURE

During the year ended December 31, 2024, the Company issued a private placement offering (the "Offering") of unsecured convertible debentures (each, a "Convertible Debenture") consisting of up to \$2,725,000 principal amount of Convertible Debentures. The Company received \$2,725,000, and incurred transaction costs of \$76,000. Maturity is 24 months from issuance and will bear interest of 10% per annum calculated and paid in cash on a semi-annual basis. These Convertible Debentures may be converted into Common Shares at a price of \$1.00 per share. The Company estimated the fair value of the debt component using a market interest rate that would be representative of a debt offering that had no conversion option. Upon determination of the fair value of the debt portion the residual amount of \$200,000 was attributed to the conversion feature and recognized in equity.

## 16. 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 year ended December 31, 2024, NIL (2023 - 15,032) DSUs were settled in shares; therefore, 120,256 DSUs (December 31, 2023 - 120,256) were outstanding as at December 31, 2024.

## 17. SHARE CAPITAL

### Authorized

Unlimited number of common shares with no par value.

	Common Shares #	Share Capital \$
<b>Issued</b>		
Balances, December 31, 2022	22,888,436	76,393,695
Settlement of DSUs	15,032	25,000
Balances, December 31, 2023	22,903,468	76,418,695
Balances, December 31, 2024	22,903,468	76,418,695

During the year, there were no stock option exercises (2023 - NIL), hence there were no gross proceeds (2023 - \$NIL) received as a result.

The Company has 22,903,468 common shares issued and outstanding as at December 31, 2024. During the year, NIL (2023 - 15,032) shares were issued as settlement for DSUs. There were no (2023 - NIL) shares cancelled during the period. The weighted average number of common shares outstanding has been calculated as follows:

	2024	2023
Issued common shares at January 1	22,903,468	22,888,436
Effect of issued common shares	—	2,512
Weighted average number of common shares	22,903,468	22,890,948

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.

## 18. 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 after issuance. The following table summarizes the changes in outstanding stock options during the years ended December 31, 2023 and December 31, 2024:

	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	0.56	185,000
Cancelled	2.00	(142,500)
Forfeited	1.01	(93,750)
Balances, December 31, 2024	2.33	3,120,376

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 185,000 stock options issued during the year ended December 31, 2024. Of the total stock options issued during the year ended December 31, 2024, none (2023 - 300,000) were issued to key management. Of the total stock options outstanding as of December 31, 2024, 2,401,626 (2023 – 2,371,626) were held by key management. Subsequent to the reporting period, no stock options were granted.

The following table summarizes information about stock options outstanding as at December 31, 2023 and December 31, 2024:

### 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

**December 31, 2024:**

Exercise Price \$	Options Outstanding #	Weighted Avg Remaining Life #	Options Exercisable #
0 to 0.99	1,105,000	2.3	637,500
1 to 1.99	463,750	2.3	292,500
2 to 2.99	845,000	1.3	795,000
3 to 3.99	225,000	2.0	112,500
4 to 4.99	10,000	1.8	7,500
5 to 5.99	25,000	1.8	18,750
6 to 6.99	10,000	1.6	7,500
7 to 7.99	436,626	1.5	336,220
2.33	3,120,376	1.9	2,207,470

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 time to maturity is 3-4 years (2023 – 3-4 years); ii) the risk free rate is 3.63% (2023 - 3.77% and 3.84%); iii) the dividend yield will be \$NIL (2023 - \$NIL); and iv) expected weighted average volatility is 81.47% (2023 - 73.07% and 84.53%), which is calculated based on the standard deviation of the Company's stock price since going public. Included in expenses is a share-based compensation expense of \$473,521 (2023 - \$601,560).

Each DSU entitles its holder to receive one common share upon settlement and vests over one year. The following table summarizes the changes in DSUs during the years ended December 31, 2023 and December 31, 2024:

	Weighted Average Price \$	DSUs #
Balances, December 31, 2022	1.66	135,288
Settled	1.66	(15,032)
Balances, December 31, 2023	1.66	120,256
Balances, December 31, 2024	1.66	120,256

**19. RELATED PARTY TRANSACTIONS**

Included in trade and other receivables are two (2023 - two) employee loans to key management employees, in the total amount of \$50,164 (2023 - \$75,247). Of this amount, \$26,011 (2023 - \$50,164) is expected to be received beyond twelve months after year-end, and is thus classified as long-term. These loans are granted at no interest, with monthly principal repayments through 2027.

Members of the Board of Directors participated in the Offering of Convertible Debentures on the same terms offered to other Convertible Debenture holders. The Company issued \$550,000 Convertible Debentures to these Board of Directors.

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

Notes to Consolidated Financial Statements  
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(in Canadian dollars)

	<u>2024</u>	<u>2023</u>
Salaries, benefits, and consultant fees	\$ 2,044,406	\$ 1,504,500
Share-based compensation expense	369,283	670,856
	<u>\$ 2,413,689</u>	<u>\$ 2,175,356</u>

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

## 20. FINANCE (INCOME) COSTS

	<u>2024</u>	<u>2023</u>
Interest income	\$ (236,980)	\$ (715,397)
Interest expense	239,760	235,864
	<u>\$ 2,780</u>	<u>\$ (479,533)</u>

## 21. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2023 - 26.5%) to the effective tax rate is as follows:

	<u>2024</u>	<u>2023</u>
Net loss before income taxes	\$ (14,649,907)	\$ (12,013,889)
Statutory income tax rate	26.50 %	26.50 %
Expected income tax recovery	(3,882,230)	(3,183,681)
Non-deductible & other expenses	132,850	159,294
Change in tax benefits not recognized	3,696,380	3,024,387
Income tax (recovery)	<u>\$ (53,000)</u>	<u>\$ —</u>

The following table summarizes the components of deferred tax:

	<u>2024</u>	<u>2023</u>
Deferred Tax Assets		
Finance lease liability	\$ 347,830	\$ 400,008
Operating tax losses carried forward	80,000	
	<u>427,830</u>	<u>400,008</u>
Deferred Tax Liabilities		
Finance lease liability	(347,830)	(400,008)
Convertible debentures	(80,000)	
	<u>(427,830)</u>	<u>(400,008)</u>
Net deferred tax liability	<u>\$ —</u>	<u>\$ —</u>

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Notes to Consolidated Financial Statements  
years ended December 31, 2024 and 2023

(in Canadian dollars)

Movement in net deferred tax liabilities:

	<u>2024</u>	<u>2023</u>
Balance at the beginning of the year	\$ —	\$ —
Recognized in profit/loss	53,000	
Recognized in equity	(53,000)	—
Balance at the end of the year	<u>\$ —</u>	<u>\$ —</u>

Deferred taxes are provided as a result of temporary differences that arise due to differences between income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	<u>2024</u>	<u>2023</u>
Operating tax losses carried forward	\$ 58,053,720	\$ 48,197,270
Operating tax losses carried forward - USA	20,210	14,220
Reserves	3,200,000	4,202,230
Share issuance costs	1,373,670	2,297,380
Scientific research expenditures	2,216,870	2,327,970
Equipment	2,467,830	1,027,470
Patents	396,320	314,890
Intangible assets and goodwill	333,280	314,710
Tax credits	153,960	40,440
Finance lease liability	345,340	238,610
	<u>\$ 68,561,200</u>	<u>\$ 58,975,190</u>

The Canadian operating tax loss carry forwards expire as noted in the table below. The U.S. operating tax losses can be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian operating tax losses expire as follows:

2029	41,360
2030	183,980
2031	325,090
2032	65,070
2033	549,870
2034	640,030
2035	183,950
2036	719,860
2037	968,820
2038	704,240
2039	2,162,230
2040	3,459,710
2041	12,982,950
2042	11,112,170
2043	9,504,920
2044	14,449,490
	<u>\$ 58,053,740</u>

## 22. CHANGE IN NON-CASH WORKING CAPITAL

	<u>2024</u>	<u>2023</u>
Trade and other receivables	\$ 1,142,067	\$ (771,143)
Prepaid expenses and deposits	148,199	(126,500)
Inventory	(468,185)	(1,060,663)
Trade and other payables	1,274,987	620,552
Deferred revenue	239,079	2,307,894
Deferred government grants	246,109	—
Other liabilities	—	(63,184)
	<u>\$ 2,582,256</u>	<u>\$ 906,956</u>

## 23. SEGMENTED INFORMATION, MAJOR CUSTOMERS, AND REVENUE

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 year ended December 31, 2024, one customer provided 68% (2023 - 76%) of the Company's revenues.

The Company's revenue streams are as follows:

	<u>2024</u>	<u>2023</u>
Service revenue	\$ 194,491	\$ 186,801
Revenue from development contract	1,167,761	765,107
	<u>\$ 1,362,252</u>	<u>\$ 951,908</u>

Revenue from one of the development contracts is recognized on a percentage of completion basis.

## 24. 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.

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 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 December 31, 2024 would result in the following effects:

	<u>2024</u>	<u>2023</u>
Long-term debt - carrying value	\$ 573,974	\$ 85,389
Long-term debt - fair value	613,361	110,702
Convertible debenture - carrying value	2,448,119	—
Convertible debenture - fair value	2,448,119	—

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 of Convertible Debenture and Long-term debt. The fair values of Convertible Debenture and Long-term debt are determined using the present value of expected payments, discounted using a risk-adjusted discount rate. 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 \$3,586,374 at December 31, 2024 (2023 - \$10,909,061). The cash and cash equivalents are held with one major Canadian financial institution which is rated AA1, 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 \$316,121 (2023 - \$75,247) at a fixed rate and is obligated to financial liabilities of \$4,680,013 (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.

#### (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 December 31, 2024, the Company had cash and cash equivalents of \$3,586,374 (2023 - \$10,909,061) and current trade and other accounts receivable of \$392,420 (2023 - \$1,510,334) which were available to settle current trade and other payables of \$3,057,985 (2023 - \$1,714,482), current portion of finance lease liability of \$114,062 (2023 - \$90,734), and current portion of long-term debt of \$22,562 (2023 - \$62,850). Subsequent to December 31, 2024, the Company has received approximately \$3 million of a \$5 million working capital debt facility from Export Development Canada.

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	\$ 3,057,985	\$ 3,057,985	\$ 3,057,985	\$ —	\$ —
Finance lease liability	1,657,920	2,518,923	321,452	1,513,569	683,902
Long-term debt	573,974	1,035,640	22,078	692,601	320,961
Convertible debenture	2,448,119	3,270,000	272,500	2,997,500	—
	<b>\$ 7,737,998</b>	<b>\$ 9,882,548</b>	<b>\$ 3,674,015</b>	<b>\$ 5,203,670</b>	<b>\$ 1,004,863</b>

## 25. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. Management defines capital as the aggregate of its equity, which is comprised of share capital, contributed surplus and retained earnings. The Company manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company may issue new shares or new debt, acquire or dispose of assets, or repay long-term debt. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as annual capital and operating budgets. The Company is not subject to externally imposed capital requirements and there was no change to the Company's approach to capital management during the year.