Next Hydrogen Solutions Inc.

(previously BioHEP Technologies Ltd.)

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Next Hydrogen Solutions Inc.

Opinion

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

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of net loss and comprehensive loss for the year then ended
- the consolidated statement of changes in shareholders' equity (deficit) for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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.

Emphasis of Matter – Comparative Information

We draw attention to Note 27 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2021, has been restated.

Note 27 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

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, 2022. These matters were addressed in the context of our audit of the financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Measurement of Onerous Contract provisions

Description of the matter

We draw attention to Notes 2 and 13 to the financial statements. Certain of the Entity'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 is recorded as an expense. Provisions from onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of exiting the contract. The Entity has onerous contract provisions of $3,850,000.

Why the matter is a key audit matter

We identified the measurement of the onerous contract provisions as a key audit matter. This matter represented an area of higher assessed risk of material misstatement given the magnitude of the onerous contract provisions and the high degree of estimation uncertainty involved in estimating the lower of the expected cost of fulfilling the contract and the expected cost of exiting the contract. 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.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of sales contracts, we obtained the sales agreements, including modifications to these agreements, and assessed the rights and obligations of the parties to the contract.

We evaluated the estimated costs of fulfilling or exiting the contracts for a selection of sales contracts by:

- Inspecting contractual obligations with customers to understand the performance obligations
- Interviewing operational personnel of the Entity to evaluate the estimate of costs of fulfilling the contracts
- Evaluating contract modifications by inspecting correspondence between the Entity and the customer
- Evaluating the terms of the contracts including the limitation of liability to understand the cost to exit the contracts.

Other Matter – Comparative Information

The financial statements for the year ended December 31, 2021, excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those financial statements on April 1, 2022.

As part of our audit of the financial statements for the year ended December 31, 2022, we also audited the adjustments that were applied to restate the comparative information presented for the year ended December 31, 2021.

In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate the comparative information, we were not engaged to audit, review or apply any procedures to the financial statements for the year ended December 31, 2021.

Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), 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.

- 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.
- 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.

KPMG LLP

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
May 16, 2023

Consolidated Statements of Financial Position

as at December 31, 2022 and 2021 (in Canadian dollars)

	December 31 2022	December 31 2021
		Restated Note 27
Assets		
Current		
Cash and cash equivalents	$ 22,084,721	$ 39,197,357
Trade and other receivables (notes 5 and 19)	715,635	893,894
Prepaid expenses and deposits	398,110	1,225,706
Current income tax recoverable (note 21)	-	119,763
Inventory (note 6)	2,885,854	2,000,131
	26,084,320	43,436,851
Trade and other receivables (notes 5 and 19)	73,720	-
Prepaid expenses and deposits	90,328	97,528
Equipment (note 7)	4,831,817	1,109,184
Right of use asset (note 8)	1,706,349	1,903,235
Patents (note 9)	668,444	772,357
Intangible assets and goodwill (note 10)	272,800	366,694
	$ 33,727,778	$ 47,685,849
Liabilities		
Current		
Bank indebtedness (note 26)	$ 60,000	$ 60,000
Trade and other payables (note 11)	1,093,930	2,321,219
Contingent liability	14,968	-
Deferred revenue (note 12)	45,000	1,784,137
Provisions (note 13)	97,245	81,406
Finance lease liability (note 14)	67,108	54,847
Current portion of long-term debt (note 15)	77,709	137,409
	1,455,960	4,439,018
Contingent liability (note 4)	48,216	63,184
Deferred revenue (note 12)	2,726,641	1,243,804
Provisions (note 13)	3,752,755	3,768,594
Finance lease liability (note 14)	1,752,782	1,819,890
Long-term debt (note 15)	85,682	163,678
	9,822,036	11,498,168
Shareholders' Equity (Deficit)		
Share capital (notes 16, 17)	76,393,695	76,393,695
Contributed surplus (note 18)	5,270,932	3,274,503
Retained deficit	(57,758,885)	(43,480,517)
	23,905,742	36,187,681
	$ 33,727,778	$ 47,685,849

On behalf of the Board

"Raveel Afzaal" *"Allan Mackenzie"*

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statements of Net Loss and Comprehensive Loss

years ended December 31, 2022 and 2021 (in Canadian dollars)

	2022	2021
		Restated Note 27
Revenue (note 23)	**$ 721,588**	$ 177,589
Expenses		
Cost of sales {includes $789,893 (2021 - $5,910,536) of provisions and inventory impairment} (notes 6 and 13)	**1,433,651**	5,992,775
Research and development (note 19)	**7,705,005**	6,403,962
General and administrative (note 19)	**5,204,051**	4,719,898
Marketing and sales	**969,606**	1,419,591
	15,312,313	18,536,226
Loss before the following	**(14,590,725)**	(18,358,637)
Finance (income) costs, net (note 20)	**(312,357)**	265,949
Transaction costs (notes 3 and 4)	**-**	7,988,065
	(312,357)	8,254,014
Net loss and comprehensive loss	**$ (14,278,368)**	$ (26,612,651)
Loss per share:		
Basic	**$ (0.62)**	$ (1.36)
Diluted	**$ (0.62)**	$ (1.36)
Weighted average number of shares outstanding: (note 17)		
Basic	**22,888,436**	19,586,728
Diluted	**22,888,436**	19,586,728

NextHydrogen

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

years ended December 31, 2022 and 2021 (in Canadian dollars)

	Share Capital	Contributed Surplus	Retained deficit	Total
Balances at December 31, 2021	$ 76,393,695	3,274,503	(43,480,517)	$ 36,187,681
DSU issuance (notes 16 and 18)	-	112,500	-	112,500
Share-based compensation expense (note 18)	-	1,883,929	-	1,883,929
Net loss and comprehensive loss	-	-	(14,278,368)	(14,278,368)
Balances at December 31, 2022	$ 76,393,695	5,270,932	(57,758,885)	$23,905,742
Balances at December 31, 2020	$ 10,085,999	71,196	(16,867,866)	$ (6,710,671)
Share issuance (note 17)	64,701,566	-	-	64,701,566
Warrant issuance (note 18)	-	614,700	-	614,700
Option exercise (note 17)	82,816	(27,816)	-	55,000
DSU settlement (notes 17 and 18)	1,523,314	-	-	1,523,314
Share-based compensation expense (note 18)	-	2,616,423	-	2,616,423
Net loss and comprehensive loss	-	-	(26,612,651)	(26,612,651)
Balances at December 31, 2021				
Restated Note 27	*$ 76,393,695*	*3,274,503*	*(43,480,517)*	*$ 36,187,681*

Consolidated Statements of Cash Flows

years ended December 31, 2022 and 2021 (in Canadian dollars)

	2022	2021
		Restated Note 27
Cash flows used in operating activities		
Net loss	**$ (14,278,368)**	$ (26,612,651)
Adjustments:		
Finance (income) costs, net	**(312,357)**	265,949
Depreciation and amortization	**708,129**	278,753
Inventory impairment and provisions (note 6)	**789,893**	5,910,536
Share-based compensation	**1,883,929**	2,616,423
Deferred share unit expense	**112,500**	-
Warrant issuance	**-**	614,700
Transaction costs	**-**	7,347,908
	(11,096,274)	(9,578,382)
Net change in non-cash operating working capital (note 22)	**(2,100,107)**	(3,058,738)
	(13,196,381)	(12,637,120)
Interest paid	**-**	(9,056)
Interest received	**560,282**	92,688
	(12,636,099)	(12,553,488)
Cash flows used in investing activities		
Acquisition of equipment	**(4,028,334)**	(1,069,777)
Proceeds from disposition of equipment (note 7)	**-**	875
Patent costs (note 9)	**(7,737)**	(46,846)
Acquisition of Cleanfuel Systems Inc. ("CFS") (note 4)	**-**	(432,570)
	(4,036,071)	(1,548,318)
Cash flows from financing activities		
Issuance of shares, net	**-**	57,196,870
Reverse takeover costs (note 3)	**-**	(364,627)
Cash acquired on acquisition of BioHEP (note 3)	**-**	521,416
Exercise of options	**-**	55,000
Repayment of loan payable	**-**	(5,105,256)
Repayment of long-term debt	**(146,220)**	(36,555)
Proceeds from bank indebtedness	**-**	20,000
Payment of finance lease liability	**(294,246)**	(79,752)
	(440,466)	52,207,096
(Decrease) increase in cash and cash equivalents	**(17,112,636)**	38,105,290
Cash and cash equivalents, beginning	**39,197,357**	1,092,067
Cash and cash equivalents, ending	**$ 22,084,721**	$ 39,197,357

1. CORPORATE INFORMATION

Founded in 2007, Next Hydrogen Solutions Inc. ("Next Hydrogen" or the "Company") is a designer and manufacturer of electrolyzers that use water and electricity as inputs to generate clean hydrogen for use as an energy source. Next Hydrogen's unique cell design architecture supported by 40 patents enables high-current density operations and superior dynamic response to efficiently convert intermittent renewable electricity into green hydrogen on an infrastructure scale. Following successful pilots, Next Hydrogen is scaling up its technology to deliver commercial solutions to decarbonize transportation and industrial sectors.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting 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 May 16, 2023.

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 two principal sources: (1) product and equipment sales; (2) services as well as aftermarket sales. Product and equipment sales are generated from standard products.

Revenue is recognized when control of the goods or services are transferred to the customerand 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 installed 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, balance of plant equipment and aftermarket parts.

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.

Other revenue

Finance income is recognized as it accrues in income, using the effective interest method.

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 performs 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), bank indebtedness, 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 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.

Business combinations

The acquisition method of accounting is used to account for business combinations. The cost of an acquisition is measured at the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed as incurred. The excess of the cost of the acquisition over the fair value of the acquisition's identifiable assets and liabilities is recorded as goodwill. If the acquisition cost is less than the fair value of the assets and liabilities acquired, the difference is recognized directly in the consolidated statements of net loss and comprehensive loss. Contingent liability is included in total consideration and is recognized at its fair value as at the acquisition date. Subsequent changes in fair values are adjusted against the cost of the acquisition where they qualify as measurement period adjustments.

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

Equipment is assessed for impairment when events or changes in circumstance indicate that the Company may not be able to recover its carrying value. The Company calculates impairment by comparing the carrying value against the higher of the value in use and the fair value less costs to sell. Value in use is calculated based on discounted cash flows expected from its use and disposition, and fair value is the expected price in a binding sale agreement in an arm's length transaction. Any excess is a charge against earnings. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that it does not exceed the amount that would have been determined had the impairment loss not been recognized.

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 fair value. Costs include costs that are directly attributable to bringing the asset to a working condition for its intended use. Intangible assets with finite useful lives are amortized on a straight-line basis over its estimated useful life beginning when the asset is ready for its intended use 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.

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is tested for impairment on an annual basis, and whenever there is an indication of impairment.

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 for rolling stocks and realty 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 Entity'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 and Warrants

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 and warrants 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

Government grants are recognized initially as deferred recoveries 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 other income on a systematic basis in the periods in which the expenses are recognized and/or the related project is agreed to be complete. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the 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 bank indebtedness, long-term debt and finance lease liability. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset or liability are recognized in profit or loss using the effective interest method.

Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

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

Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"))

In May 2020, the IASB issued amendments to IAS 37 regarding costs that should be included as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments clarify that the cost of fulfilling the contract comprises all costs that relate directly to the contract. Such costs include both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted.

Effective January 1, 2022, the Company adopted these amendments, with no impact on the consolidated financial statements.

Future Accounting Pronouncements

IFRS 17 Insurance Contracts

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

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

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

On May 7, 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier adoption is permitted.

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, 2023, with early adoption permitted. The amendments are to be applied retrospectively.

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

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

Disclosure of Accounting Policies (Amendments to IAS 1)

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

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.

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.

<u>Judgements</u>

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 tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired.

c) *Depreciation and impairment of equipment*: Estimates of useful lives for depreciation is based on management's judgment of the expected productive lives and planned uses for each respective asset. Equipment is assessed for impairment when events or circumstances indicate that the Company may not be able to recover its carrying value.

d) *Impairment of trade and other receivables*: An allowance for lifetime expected credit losses is established based on specific account identification. Management regularly analyzes its approach and exposure to credit loss based on analysis of all relevant current information as well as historical trends.

e) *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.

f) *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) *Impairment of patents*: Patents are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. To determine whether patents are impaired, management must estimate the recoverable amount.

d) *Share-based compensation*: The fair value of share-based compensation expense is estimated using the Black-Scholes option pricing model and relies on a number of estimates, such as the expected life of the option, the volatility of the underlying share price of similar companies and the risk-free rate of return.

e) *Depreciation and impairment of equipment*: Estimates of useful lives for depreciation is based on management's judgment of the expected productive lives and planned uses for each respective asset.

f) *Taxes*: Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

3. REVERSE TAKEOVER TRANSACTION

On June 24, 2021, the Company acquired all of the common shares of BioHEP Technologies Ltd. ("BioHEP") by way of a three-cornered amalgamation between Next Hydrogen Corporation and a wholly-owned subsidiary of BioHEP ("FinCo"), forming a subsidiary of BioHEP (the "RTO"). Pursuant to the amalgamation, all of the outstanding common shares of Next Hydrogen Corporation and the wholly-owned subsidiary were canceled and the holders received an equal amount of common shares of BioHEP. Prior to the RTO, BioHEP spun-out all assets and liabilities less $500,000 in working capital, consolidated its common shares on the basis of one post-consolidation share for every 13.3 pre-consolidation shares, and changed its name to "Next Hydrogen Solutions Inc.".

In connection with the RTO, FinCo completed a non-brokered private placement of subscription receipts for gross proceeds of $27,000,000 and a brokered private placement of subscription receipts for gross proceeds of $28,545,000. Each subscription receipt was sold at a price of $10 and was exchanged for one common share of the Company upon completion of the RTO. Share issuance costs of $3,929,051 were deducted from gross proceeds.

years ended December 31, 2022 and 2021 (in Canadian dollars)

In accordance with IFRS 2, Share-Based Payment, the RTO has been accounted for as a reverse acquisition that does not constitute a business, in which Next Hydrogen Corporation is being identified as the acquirer of BioHEP. All of the outstanding common shares of BioHEP were acquired by Next Hydrogen Corporation in exchange for 748,328 common shares valued at $10 per share. The excess of the fair value of identifiable net assets acquired over the share consideration issued is considered as payment for listing and has been included in transaction costs on the consolidated statements of net loss and comprehensive loss. The Company has completed the purchase price allocation over the identifiable net assets of BioHEP and has determined that the fair value of net assets acquired and the resulting reverse takeover cost is as follows:

Cash	$ 521,416
Current taxes receivable	119,718
Trade and other receivables	10,430
Trade and other payables	(151,564)
Total identifiable net assets acquired	500,000
Total share consideration	7,483,280
Reverse takeover cost	$ 6,983,280

As market prices for shares issued as part of the RTO were not available at the time of acquisition, the fair value of the equity instruments issued was based on an arm's length transaction between knowledgeable, willing parties. The valuation was consistent with the price of subscription receipts that FinCo issued as part of a non-brokered and brokered private placement that were completed on April 28, 2021. All relevant factors and knowledge of the Company and its industry were considered at the time of acquisition when making assumptions as part of the valuation of these shares.

In addition to the reverse takeover cost above, transaction costs of $364,627 were incurred in connection with the RTO, other than costs associated with the financing, and have been expensed under transaction costs.

years ended December 31, 2022 and 2021 (in Canadian dollars)

4. BUSINESS COMBINATION

In order to expand its service offering, on April 1, 2021 the Company acquired the assets of Cleanfuel Systems Inc. ("CFS"), a hydrogen system integration and service company focused on delivering energy solutions through system design, component integration and development, and engineering solutions. The following table presents the purchase price allocation over the identifiable net assets and goodwill of CFS:

Equipment	$ 58,640
Licensing agreement	12,000
Non-competition agreement	138,650
Customer list	204,260
Net asset acquired	$ 413,550
Cash	432,570
Contingent consideration	63,184
Total consideration	495,754
Goodwill	$ 82,204

The contingent consideration was recorded at its fair value which represents the probability-weighted determination of the Company's earn-out obligation to pay with a range of $65,955 and $119,020. Contingent consideration is classified as FVTPL using level 3 inputs and was calculated using a discounted cashflow probability model and a discount rate of 25%.

Goodwill represents the value of the acquired workforce and related processes and knowledge. It is expected that the entire amount of goodwill will be deductible for tax purposes. Transaction costs of $25,458 were expensed and included in transaction costs on the consolidated statements of net loss and comprehensive loss.

years ended December 31, 2022 and 2021 (in Canadian dollars)

5. TRADE AND OTHER RECEIVABLES

	Dec 31 2022	Dec 31 2021
Trade receivables	$ 154,094	$ 104,188
GST/HST receivable	527,313	656,757
Employee loan receivable	107,948	132,949
	$ 789,355	$ 893,894
Current portion	715,635	893,894
Long-term portion	73,720	-

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

6. INVENTORY

	Dec 31 2022	Dec 31 2021 *Restated Note 27*
Spare parts	$ 1,858,841	$ 1,048,328
Work in progress	1,027,013	140,937
Finished inventory	-	810,866
	$ 2,885,854	$ 2,000,131

During the year, $789,893 (2021 - $371,145) was recorded as an inventory impairment. Included in this amount was an impairment recognized of $412,999 (2021 - $NIL) as a result of an adjusting event subsequent to year-end, where the commissioning phase of the first generation product line highlighted issues due to the design and reliability.

years ended December 31, 2022 and 2021 (in Canadian dollars)

7. EQUIPMENT

	Equipment	Equipment under Constr'n	Computer Hardware	Furniture and Fixtures	Leasehold Improv'ts	Total
Cost						
Balances, December 31, 2021	$ 666,430	330,692	139,157	64,062	172,452	$1,372,793
Additions	921,508	2,943,259	65,043	11,568	139,046	4,080,424
Transfers	2,691,010	(2,691,010)	-	-	-	-
Disposals	(34,938)	-	(2,190)	-	(15,268)	(52,396)
Balances, December 31, 2022	4,244,010	582,941	202,010	75,630	296,230	5,400,821
Accumulated depreciation						
Balances, December 31, 2021	233,295	-	26,490	1,549	2,275	263,609
Depreciation	216,692	-	57,714	7,218	24,075	305,699
Disposals	-	-	(304)	-	-	(304)
Balances, December 31, 2022	$ 449,987	-	83,900	8,767	26,350	$ 569,004
Net carrying amounts						
At December 31, 2022	$3,794,023	582,941	118,110	66,863	269,880	$ 4,831,817

	Equipment	Equipment under Constr'n	Computer Hardware	Furniture and Fixtures	Leasehold Improv'ts	Total
Cost						
Balances, December 31, 2020	$ 243,029	-	10,711	-	-	$ 253,740
Additions	366,761	330,692	135,810	64,062	172,452	1,069,777
Acquired	58,640	-	-	-	-	58,640
Disposals	(2,000)	-	(7,364)	-	-	(9,364)
Balances, December 31, 2021	666,430	330,692	139,157	64,062	172,452	1,372,793
Accumulated depreciation						
Balances, December 31, 2020	205,394	-	8,864	-	-	214,258
Depreciation	29,901	-	24,115	1,549	2,275	57,840
Disposals	(2,000)	-	(6,489)	-	-	(8,489)
Balances, December 31, 2021	$ 233,295	-	26,490	1,549	2,275	$ 263,609
Net carrying amounts						
At December 31, 2021	$ 433,135	330,692	112,667	62,513	170,177	$1,109,184

years ended December 31, 2022 and 2021 (in Canadian dollars)

8. 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, 2020	$ -	-	$ -
Additions	1,968,864	-	1,968,864
Amortization	-	(65,629)	(65,629)
Balances, December 31, 2021	$ 1,968,864	(65,629)	$ 1,903,235

	Cost	Accumulated Amortization	Net
Balances, December 31, 2021	$ 1,968,864	(65,629)	$ 1,903,235
Amortization	-	(196,886)	(196,886)
Balances, December 31, 2022	$ 1,968,864	(262,515)	$ 1,706,349

9. PATENTS

	Cost	Accumulated Amortization	Net
Balances, December 31, 2020	$ 1,000,351	(189,976)	$ 810,375
Additions	46,846	-	46,846
Amortization	-	(84,864)	(84,864)
Balances, December 31, 2021	1,047,197	(274,840)	772,357
Additions	7,737	-	7,737
Amortization	-	(111,650)	(111,650)
Balances, December 31, 2022	$ 1,054,934	(386,490)	$ 668,444

10. INTANGIBLE ASSETS AND GOODWILL

	Intangible Assets	Goodwill	Net
Balances, December 31, 2020	$ -	-	$ -
Additions (note 4)	354,910	82,204	437,114
Amortization	(70,420)	-	(70,420)
Balances, December 31, 2021	$ 284,490	82,204	$ 366,694
Amortization	(93,894)	-	(93,894)
Balances, December 31, 2022	$ 190,596	82,204	$ 272,800

years ended December 31, 2022 and 2021 (in Canadian dollars)

11. TRADE AND OTHER PAYABLES

	Dec 31 2022	Dec 31 2021
Trade payables	$ 56,699	$ 1,513,014
Accrued payables	977,647	729,695
Other payables	59,584	78,510
	$ 1,093,930	$ 2,321,219

12. DEFERRED REVENUE

	Dec 31 2022	Dec 31 2021 *Restated Note 27*
Opening balance	$ 3,027,941	$ 2,771,641
Payments received	256,300	274,775
Revenue recognized	(512,600)	(18,475)
	$ 2,771,641	$ 3,027,941
Current portion	45,000	1,784,137
Long-term portion	2,726,641	1,243,804

13. PROVISIONS

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

	Dec 31 2022	Dec 31 2021 *Restated Note 27*
Opening balance	$ 3,850,000	$ 690,715
Additions	122,676	2,063,672
Adjustments	-	1,570,745
Utilized	(122,676)	(475,132)
	$ 3,850,000	$ 3,850,000
Current portion	97,245	81,406
Long-term portion	3,752,755	3,768,594

14. 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	$ 303,389	1,751,993	1,079,194	$ 3,134,576
Interest	(231,572)	(917,675)	(165,439)	(1,314,686)
	$ 71,817	834,318	913,755	1,819,890
Current portion				67,108
				$ 1,752,782

15. LONG-TERM DEBT

Long-term debt pertains to grant loans that accrue interest at a blended rate of 3.72%, with blended monthly installments of $12,185. The long-term debt is secured by a second-ranking general security agreement over all assets of the Company.

	Less than 1 Year *(in thousands)*	1 to 5 Years *(in thousands)*	More than 5 Years *(in thousands)*	Total *(in thousands)*
Principal repayments	78	85	-	163

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 2020, 761,657 DSUs were issued in lieu of cash based compensation at a value of $0.29 - $0.60 per unit. Of the DSUs issued, 549,324 were issued to key management. On February 10, 2021, these DSUs were converted into common shares. During the period, 135,288 DSUs were issued to the board of directors in settlement of directors' fees owing of $225,000, which vest on July 1, 2023. Each DSU entitles its holder to receive one common share upon settlement and vests over one year. Included in Contributed Surplus is a DSU component in the amount of $112,500 to reflect the DSUs issued to the board of directors, given that the board of directors are paid one year in advance of providing services, and as at year-end, 6 months worth of services have been provided by the directors.

years ended December 31, 2022 and 2021 (in Canadian dollars)

17. SHARE CAPITAL

Authorized

Unlimited number of common shares with no par value.

	Common Shares #	Share Capital $
Issued		
Balances, December 31, 2020	12,743,951	10,085,999
Shares issued / assumed on RTO (note 3)	748,328	7,483,280
Shares issued as part of equity financing	8,554,500	57,218,286
Settlement of DSUs	761,657	1,523,314
Exercise of stock options	80,000	82,816
Balances, December 31, 2021	22,888,436	76,393,695
Balances, December 31, 2022	22,888,436	76,393,695

On January 21, 2021, the Company completed a non-brokered private placement for 3,000,000 class A common shares at a price of $2 per share. Transaction costs of $397,663 were deducted from equity.

On April 28, 2021, FinCo completed a non-brokered private placement of subscription receipts for total gross proceeds of $27,000,000 and a brokered private placement of subscription receipts for gross proceeds of $28,545,000, where each subscription receipt was sold at a price of $10 per unit. Subscription receipts were converted to common shares of the Company on completion of the RTO on June 24, 2021. Transaction costs of $3,929,051 were deducted from equity.

During the year, there were no stock option exercises (2021 - 80,000), hence the gross proceeds were nil (2021 - $55,000 from exercise of options, and $27,816 due to RTO).

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

	2022	2021
Issued common shares	22,888,436	22,888,436
Effect of issued common shares	-	(3,301,708)
Weighted average number of common shares	22,888,436	19,586,728

years ended December 31, 2022 and 2021 (in Canadian dollars)

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

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 from issuance. The following table summarizes the changes in outstanding stock options during the years ended December 31, 2021 and December 31, 2022:

	Weighted Average Exercise Price $	Options #
Balances, December 31, 2020	0.66	1,025,000
Issued	4.03	2,335,626
Exercised	0.69	(80,000)
Forfeited	1.05	(275,000)
Balances, December 31, 2021	2.52	3,006,626
Issued	2.37	700,000
Forfeited	5.50	(395,000)
Balances, December 31, 2022	2.79	3,311,626

The majority of stock options vest in tranches over three or four years, such that one-third or one-fourth, respectively, of the stock options vest annually. Of the total stock options issued during the year ended December 31, 2022, 450,000 (2021 - 1,471,626) were issued to key management. Of the total stock options outstanding as of December 31, 2022, 2,521,626 (2021 - 2,071,626) were held by key management. Subsequent to the reporting period, 65,000 stock options were granted at an average exercise price of $1.41, of which 25,000 were issued to key management.

years ended December 31, 2022 and 2021 (in Canadian dollars)

The following table summarizes information about stock options outstanding as at December 31, 2021 and December 31, 2022:

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

Exercise Price $	Options Outstanding #	Weighted Avg Remaining Life #	Options Exercisable #
0.60	575,000	2.6	466,667
1 to 1.99	445,000	4.1	150,000
2 to 2.99	1,370,000	3.2	523,233
3 to 3.99	285,000	4.0	-
4 to 4.99	20,000	3.9	5,000
5 to 5.99	40,000	3.8	10,000
6 to 6.99	10,000	3.6	2,500
7 to 7.99	566,626	3.5	152,907
2.79	3,311,626	3.4	1,310,307

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 4 years (2021 - 3 years); ii) the risk free rate is between 1.24% and 3.63% (2021 - 0.18% and 1.32%); iii) the dividend yield will be $NIL (2021 - $NIL); and iv) expected volatility is between 73.07% and 75.52% (2021 - 72.23% and 75.52%), 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 $1,883,929 (2021 - $2,616,423).

years ended December 31, 2022 and 2021 (in Canadian dollars)

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, 2021 and December 31, 2022:

	Weighted Average Price $	DSUs #
Balances, December 31, 2020	0.53	761,657
Settled	2.00	(761,657)
Balances, December 31, 2021	-	-
Issued	1.66	135,288
Balances, December 31, 2022	1.66	135,288

During 2021, the Company issued 150,000 warrants with an exercise price of $10 in connection with the RTO, all of which were outstanding as at December 31, 2021 and December 31, 2022. The estimated fair value of warrants issued during the period was $614,700 and the expense was included in transaction costs. The estimated fair value of warrants issued during 2021 was calculated using the Black-Scholes option pricing model with the following assumptions: i) the time to maturity is 3 years; ii) the risk free rate is between 0.18% and 1.32%; iii) the dividend yield will be $NIL; and iv) expected volatility is between 72.23% and 75.52%, which is calculated based on the standard deviation of the Company's stock price since going public.

years ended December 31, 2022 and 2021 (in Canadian dollars)

19. RELATED PARTY TRANSACTIONS

Included in trade and other receivables are three employee loans to key management employees, in the total amount of $107,948 (2021 - $132,949). Of this amount, $73,720 (2021 - $NIL) 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 research and development, and general and administrative expenses are the following wages and consulting fees paid to key management:

	2022	2021
Salaries and benefits	$ 1,109,607	$ 871,242
Share-based compensation expense	$ 1,586,566	$ 1,522,643

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

20. FINANCE (INCOME) COSTS

	2022	2021
Interest income	$ (560,282)	$ (92,688)
Interest expense	247,925	234,005
Accretion expense	-	124,633
	$ (312,357)	$ 265,950

21. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2021 - 26.5%) to the effective tax rate is as follows:

	2022	2021 *Restated Note 27*
Net loss before income taxes	$ (14,278,368)	$ (26,612,651)
Statutory income tax rate	26.50%	26.50%
Expected income tax recovery	(3,783,770)	(7,052,353)
Non-deductible items	507,300	2,707,217
Share issuance costs booked to equity and debt	-	(1,146,579)
Tax asset acquired on reverse takeover	-	107,623
Tax benefit not recognized	3,276,470	5,384,092
	$ -	$ -

years ended December 31, 2022 and 2021 (in Canadian dollars)

In 2021, taxable losses of $443,397 were carried back to yield an expected refund in the amount of $119,763, which was recognized as a current income tax recoverable.

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. The following table summarizes the components of deferred tax:

	2022	2021
Deferred Tax Assets		
Capital lease obligation	$ 452,180	$ 496,805
Operating tax losses applied	-	7,552
	452,180	504,357
Deferred Tax Liabilities		
Right of use asset	(452,180)	(504,357)
Net deferred tax liability	$ -	$ -

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:

	2022	2021
Operating tax losses carried forward	$ 35,737,200	$ 23,289,473
Operating tax losses carried forward	$ 8,230	$ -
Reserves	4,755,590	4,457,550
Share issuance costs	3,293,450	3,908,313
Scientific research expenditures	2,327,970	2,327,970
Equipment	487,670	580,153
Patents	217,130	105,482
Intangibles	195,100	101,211
Tax credits	40,440	40,444
Bank indebtedness	20,000	20,000
Capital Lease Obligation	113,540	-
	$ 47,196,320	$ 34,830,596

years ended December 31, 2022 and 2021 (in Canadian dollars)

Income tax losses may be carried forward for up to 20 years. The US operating tax losses can be carried forwarded indefinitely. The remaining deductible temporary differences may be carried forwarded indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probably that future taxable profit will be available against which the group can utilize the benefits therefrom. The Company's tax losses will expire as indicated below:

2032	$ 308,920
2033	467,480
2034	971,950
2035	832,470
2036	442,250
2037	968,820
2038	704,240
2039	2,162,230
2040	3,459,710
2041	12,982,950
2042	12,436,180
	$ 35,737,200

22. CHANGE IN NON-CASH WORKING CAPITAL

	2022	2021
Trade and other receivables	$ 104,539	$ (681,303)
Prepaid expenses and deposits	834,796	(1,389,183)
Inventory	(1,675,615)	(460,444)
Trade and other payables	(1,227,290)	2,033,590
Deferred revenue	(256,300)	256,300
Provisions	-	(2,751,251)
Income tax recoverable	119,763	(66,447)
	$ (2,100,107)	$ (3,058,738)

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. During the prior year, the Company acquired a hydrogen system integration and service company, which contributed to 25% (2021 - 100%) of the Company's revenues. However, as this business has nominal assets, has no discrete cost information and is not reviewed internally by decision makers separately from the rest of the business, segmented results have not been presented.

All of the Company's assets are located in Canada. During the year ended December 31, 2022, one customer provided 71% (2021 - 73%) of the Company's revenues.

years ended December 31, 2022 and 2021 (in Canadian dollars)

The Company has two streams of revenue as follows:

	2022	2021
Equipment revenue	$ 512,600	$ -
Service revenue	208,988	177,589
	$ 721,588	$ 177,589

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, 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 December 31, 2022 would result in the following effects:

	2022
Long-term debt - carrying value	$ 163,391
Long-term debt - fair value	182,040
Finance lease liability - carrying value	1,819,890
Finance lease liability - fair value	2,067,625

For the year-ended December 31, 2021, the carrying value of finance lease liability, bank indebtedness, and long-term debt approximates fair value given the difference between the discount rates used to recognize the liabilities in the consolidated statements of financial position and the market rates of interest is insignificant.

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 $22,084,721 at December 31, 2022 (2021 - $39,197,357). 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.

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, 2022, the Company had $22,084,721 (2021 - $39,197,357) in cash and cash equivalents and $24,628,360 (2021 - $38,997,833) in working capital.

The following table sets out the Company's contractual obligations with respect to debt:

(in thousands)	Carrying amount	Total	1 year	2 to 5 years	After 5 years
Bank indebtedness	$ 60	60	60	-	-
Finance lease liability	1,820	3,134	303	1,368	1,463
Long-term debt	$ 163	169	82	87	-

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. As all of the Company's financial instruments bear interest at a fixed rate and are measured at amortized cost, a change in interest rates would not affect the Company's earnings.

Exposure to interest rate risk: Next Hydrogen holds financial assets of $107,948 at a fixed rate and is obligated to financial liabilities of $1,983,281 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.

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.

26. COVID-19 INFORMATION

The Company applied for the Canada Emergency Business Account, which provides an interest-free and partially forgivable loan of up to $60,000 to small businesses. This has been classified as bank indebtedness, of which $20,000 is forgivable if the balance is repaid by December 31, 2023.

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

27. RESTATEMENTS

During the year ended December 31, 2022, the Company identified material misstatements in the measurement of inventories and provisions, and the presentation of the statements of net loss and comprehensive loss as at and for the year-ended December 31, 2021. In 2021, the Company did not appropriately identify modifications to existing sales contracts which created additional obligations on the Company to service these contracts. The modifications to the existing sales contracts resulted in an increase in the unavoidable costs of fulfilling the contracts and a re-allocation of the contract price to the new performance obligations which resulted in an impairment of inventory to its net realizable value. The remeasurement resulted in a $1,233,861 increase in provisions, and $371,145 decrease in inventory, which results in an increase in cost of sales of $1,605,006. These changes also resulted in a change in presentation of deferred revenue between current and long-term, while the total deferred revenue amount remained unchanged. The change in the presentation of the statements of net loss and comprehensive loss resulted in the provisions and inventory impairment amounts being included within cost of sales. In 2021, there was inconsistent presentation of expenses based on the classification of their nature and function, Provisions was separately presented and should have been presented within Cost of sales.

The Company has restated the comparative figures to correct the impact of these errors, and the correcting adjustments for the year ended December 31, 2021 are summarized below. An opening balance sheet for January 1, 2021 was not presented as there was no impact.

years ended December 31, 2022 and 2021 (in Canadian dollars)

a) Consolidated Statements of Financial Position

	Dec 31, 2021	Adjustments	Dec 31, 2021
	As previously reported		*Restated*
Assets			
Current			
Inventory	$ 2,371,276	(371,145)	$ 2,000,131
Total assets	$ 48,056,994	(371,145)	$ 47,685,849
Liabilities			
Current			
Deferred revenue	2,704,792	(920,655)	1,784,137
Provisions	1,067,795	(986,389)	81,406
Long-term			
Deferred revenue	323,149	920,655	1,243,804
Provisions	1,548,344	2,220,250	3,768,594
Total liabilities	$ 10,264,308	1,233,861	$ 11,498,169
Shareholders' equity			
Total shareholders' equity	**$ 37,792,686**	**(1,605,006)**	**$ 36,187,680**
Total liabilities & shareholders' equity	**$48,056,994**	**(371,145)**	**$47,685,849**

b) Consolidated Statements of Net Loss and Comprehensive Loss

	Year ended December 31,		
	2021	2021	2021
	As previously reported	*Adjustment*	*Restated*
Cost of sales	$ 82,239	5,910,536	$ 5,992,775
Provisions	$ 4,305,530	(4,305,530)	$ -
Net loss and comprehensive loss	**$(25,007,646)**	**(1,605,006)**	**$(26,612,652)**
Loss per share			
Basic	(1.28)	(0.08)	$ (1.36)
Diluted	(1.28)	(0.08)	$ (1.36)

c) Consolidated Statements of Cash Flows

There was no impact to the consolidated statement of cash flows as a result of this restatement other than (i) a $1,605,006 increase in net loss offset by (ii) a $1,605,006 increase in net change in non-cash working capital, both of which are included in the operating activities section and therefore, resulted in no change to the net cash provided by operating activities.

d) Consolidated Statements of Changes in Shareholders' Equity (Deficit)

There was no impact to the consolidated statement of changes in shareholders' equity (deficit) as a result of this restatement other than a $1.6M increase in net loss for the year ended December 31, 2021, and resulting in a $1,605,006 increase in deficit for the year ended December 31, 2021.