CHARBONE HYDROGEN CORPORATION
(Formerly Orletto Capital II Inc.)

MANAGEMENT'S DISCUSSION & ANALYSIS

DECEMBER 31, 2022 and 2021

The following analysis concerns the financial situation, operating results and cash flows of Charbone Hydrogen Corporation ("Charbone", the "Company", or the "Corporation") for the years ended December 31, 2022 and 2021. The discussion should be read in conjunction with the Company's audited annual financial statements for the years ended December 31, 2022 and 2021, and the related notes thereto. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All monetary amounts are reported in Canadian dollars unless otherwise noted. The information contained herein is presented as of May 1, 2023.

Forward-Looking Statements

This document may contain forward-looking statements relating to the Company's operations or to the environment in which it operates, which are based on the Company's operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or are beyond the Company's control. A number of important factors including those set forth in other public filings could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made.

Forward-looking information reflects the Company's current beliefs and is based on information currently available to the Company and on assumptions it believes to be not unreasonable in light of all of the circumstances. In some instances, material factors or assumptions are discussed in this MD&A in connection with statements containing forward-looking information. Such material factors and assumptions include, but are not limited to: the ability of the Company to acquire and to integrate hydropower plants; the timing of the completion of the Sorel-Tracy hydrogen plant and start of production of green hydrogen in all targeted locations; the Company's success in expanding its product offerings; the ability of the Company to achieve rapid incremental customer growth; the Company's ability to retain key members of its management and development teams; and the Company's ability to raise additional capital. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein is made as of the date of this MD&A and, other than as required by law, the Company's disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

Business Overview

Charbone Hydrogen Corporation is a corporation incorporated under the CBCA on April 17, 2019. The registered and head office of Charbone is located at 5005, boul. Lapinière, Suite 1080, Brossard (Québec) J4Z 0N5.

Charbone is a clean and sustainable hydroelectric manager of power plants with limited operations and activities. Charbone is becoming a producer of green hydrogen that will provide an environmentally friendly solution for industrial, commercial and mobility use.

As the hydrogen market evolves, Charbone plans to use its hydropower plants to supply clean energy to its green hydrogen production plants in order to reduce carbon emissions and control production costs. Energy costs are currently a significant component of the hydrogen prices and the ability to control and lower these costs will allow Charbone to have a more competitive offering when compared to other methods of production of hydrogen.

Reverse Takeover Transaction, Private Placement and TSXV Listing

On April 8, 2021, the Company entered into a letter of intent with Orletto Captital II Inc. ("Orletto") to complete a going-public transaction in Canada for the Company.

On April 21, 2022, the Corporation entered into an amalgamation agreement with Orletto Capital II Inc. ("Orletto") pursuant to which Charbone and Orletto agreed to amalgamate (the "Amalgamation") in order to complete an arm's length qualifying transaction in accordance with the policies of the TSX Venture Exchange (the "Qualifying Transaction"). In connection with these transactions, including those described below, Orletto acquired all of the Class A common shares of the Corporation through the issuance of Orletto common shares. However, after the transactions, the shareholders of the Corporation held a majority of the common shares of Orletto.

In connection with the Amalgamation and Qualifying Transaction:

- Immediately prior to the completion of the Qualifying Transaction, Orletto consolidated its common shares on the basis of 0.9265 post-consolidation Orletto common share for every Orletto common share existing before such consolidation. Similarly, immediately prior to the Amalgamation, the Corporation consolidated its common shares on the basis of 0.8342 shares for each share existing prior to such consolidation ("the Exchange Ratio").
- The Corporation concurrently completed a private placement of subscription receipts ("Subscription Receipt") for aggregate gross proceeds of $4,508,000. Each Subscription Receipt was exchangeable, without payment of any additional consideration and without further action on the part of the holder thereof, for one Class A common share and one-half warrant of the Corporation, and which will be automatically converted on the basis of the Exchange Ratio. In connection with the private placement, amongst other fees, the Corporation will pay agents' fees of 8% in cash, and issue compensation options representing 8% of the number of shares issued in connection with the private placement. After consideration of the Exchange Ratio, the Corporation issued 11,270,000 commons shares and 5,635,000 warrants to investors, as well as 250,000 common shares, 125,000 warrants and 901,600 compensation options to the agents. The warrants issued are exercisable at a price of $0.60 per share and the compensation options issued are exercisable at a price of $0.40 per share, both for a period of 18 months.
- All the debentures were converted into Class A common shares. In connection with the conversion, the Corporation issued 9,428,171 additional Class A common shares and 9,428,171 warrants (7,864,650 common shares and 7,864,650 warrants following the Exchange Ratio of 0.8342 to 1).
- All the Corporation's issued and outstanding Class A common shares and warrants after the exercise of the Subscription Receipts and conversion of debentures were exchanged for Orletto common shares and warrants on the same terms and conditions. The agent warrants and compensation options issued by the Corporation were exchanged for replacement Orletto agent warrants and compensation options with adjusted terms according to the same ratio as for the issuance of the Orletto common shares in exchange for all the issued and outstanding Charbone common shares.
- On April 21, 2022, Orletto completed the amalgamation with Charbone PrivateCo pursuant to Policy 2.4 - Capital Pool Companies of the TSXV. Orletto changed its name to "Charbone Hydrogen Corporation/ Corporation Charbone Hydrogène".
- On May 3, 2022, Charbone's common shares have begun trading on the Toronto Stock Venture Exchange (the "TSXV") under the symbol "CH".

For accounting purposes, it has been determined that Orletto was the accounting acquiree and Charbone Corporation was the accounting acquirer as the shareholders of the former Charbone Corporation now control Charbone Hydrogen Corporation, based upon the guidance in IFRS 10, Consolidated Financial Statements, and IFRS 3, Business Combinations, to identify the accounting acquirer. Since Charbone Corporation is considered the accounting acquirer, these consolidated financial statements are prepared as a continuation of the financial statements of Charbone Corporation. As a result, 2021 comparative information included herein is solely that of Charbone Corporation. For simplicity, transactions undertaken by Charbone Corporation are referred to as being undertaken by the Corporation in these consolidated financial statements. See notes 1 and 5 to the consolidated financial statements.

Significant Acquisitions and Dispositions

Charbone, through its wholly-owned subsidiary, Charbone Corporation USA, made its first acquisition since incorporation on June 29, 2021, Stuwe and Davenport, a 0.2 MW hydropower plant located in Vermont for $465,454 (US$375,000) paid in cash. The Vermont hydropower plant has a 20-year operating agreement with Cabot Hosiery Mills Inc. Stuwe and Davenport is located in the municipality of Northfield where it owns a dam built in 1983 on the Dog River. The powerplant was operated by Gravity Renewables, Inc., a Colorado-based Corporation, from 2015 to 2021. On October 19, 2022, Charbone received from the Vermont Department of Environmental Conservation the approval for the removal of the debris and sediment that has accumulated in the intake area that will permit to re-start the plant and generate revenues.

On July 27, 2021, Charbone announced the execution of a 25-year lease with a 10-year renewal option, on a 390,686.89 sq. ft land in Sorel-Tracy, for an annual rent of $78,000. On September 19, 2022 the leases was amended to forgive 10 months of accrued rent and extend until July 27, 2047. Charbone continues to build its first 0.5 MW hydrogen plant in Q4-2022. Furthermore, facing supply chain challenges like all other industries in 2022, the revised plans are progressing with the intent to start production of green hydrogen in Sorel-Tracy in the late spring of 2023 with a ramp-up through the end of 2023. The Company is actually looking for various financing options to continue the construction of this hydrogen plant. The equipment for the first phase, having a remaining balance of payment to be made of around $1.5M, is ready to be delivered at Charbone's facility. Charbone is at the final stage to complete a Tax credits/equipment financing in parallel of a more important equity raise supported by Maxim Group LLC.

Following the purchase of the Vermont hydropower plant, Charbone plans to pursue the acquisition of 0.2 MW to 25 MW hydropower plants in the USA where the Corporation has identified over 1,500 MW of potential assets to be acquired. Through the acquisition and consolidation of small hydropower plants, the Corporation expects to generate recurring revenues during the deployment of green hydrogen plants throughout North America.

On October 7, 2022, Charbone Corporation USA signed a purchase and sale agreement for the acquisition of Wolf River Hydro Limited Partnership ("Wolf River"). The purchase and sale agreement allows the Corporation to acquire 100% of Wolf River's units through its US subsidiary, Charbone Corporation USA, for a cash consideration of USD700,000, subject to adjustments. In October 2022, the Corporation paid a non-refundable deposit of USD195,000 and the remaining consideration was paid in cash at the closing of the transaction effective December 1, 2022. Refer to note 4 of the annual consolidated financial statements for additional details related to this acquisition.

During November 2022, the Corporation signed, through Charbone Hydrogen Manitoba Inc., a lease with the city of Selkirk in Manitoba, for 4.6-acre parcel of land. Under the terms of the lease, Charbone Hydrogen Manitoba Inc. will design, build and operate the first regional green hydrogen production facility in Manitoba. The lease term is three years beginning November 1, 2022 with a two-year renewal option and monthly payments are $10,000 per annum, with an annual escalation clause of 2%, plus applicable operating costs and taxes.

On January 17, 2023, the Corporation has concluded the final negotiations and executed the Purchase and Sale Agreement (the "PSA") for the acquisition of all of the general partner and limited partner interests of TKLP and BRLP, respectively the owner of the Tower 560 kW, Kleber 1,200 kW and Alverno 1,000 kW operating hydropower plants in the Onaway, Michigan area. The purchase price for the acquisition is $3,600,000 USD, subject to adjustments, from which the Corporation made an additional deposit of $75,000 USD. The terms and conditions of PSA stipulate that the acquisition of TKLP and BRLP is to be closed on or before May 15, 2023, subject to customary closing conditions, including financing completion. Management is still working on closing financing solutions. Should the closing of this proposed transaction does not occur, this deposit would not be recoverable.

COVID-19

The extent to which COVID-19 will continue to impact the Corporation's business, construction project, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. Accordingly, actual results could differ materially from those estimates and assumptions made by management. There was no material impact on the Corporation's operations up to the date of the report of these audited financial statements.

Overview of past three fiscal years (Selected annual consolidated information)

The following discussion of the Company's financial performance is based on the financial statements for the year ended December 31, 2022 compared to year ended December 31, 2021. There were limited activities in the period ended December 31, 2020. During these periods, the Company was focused on development phase of the business. For the year ended December 31, 2022 and 2021, the Company had a net loss of $7.4 million compared to a net loss of $4.0 million, respectively, detailed as follows:

	2022	2021	2020
INCOME			
Hydroelectricity income	$ 22,481	$ -	$ -
GENERAL AND ADMINISTRATIVE EXPENSES			
Professional fees included related to acquisition	$ 2,876,115	$ 926,589	$ 299,210
Meals, entertainment, travel and other business development expenses	344,311	183,841	32,628
Investors relationships and marketing	310,433	6,503	-
Share based compensation	180,948	-	-
Salaries, fringe benefits and board	178,130	3,161	-
Office expenses	72,699	46,883	139
Utilities	63,316	51,488	-
Insurance	40,423	15,097	-
Certification fees	34,513	-	-
Rent expenses	35,258	8,809	11,040
Computer expenses	22,906	13,491	846
Cost related to hydrogen plant	14,461	-	-
Telecommunication	17,853	11,669	579
Bank fees	6,821	6,754	658
Repairs and maintenance	5,139	685	-
Taxes and permits	3,954	10,612	-
General and administrative expenses	$ 4,207,280	$ 1,285,582	$ 345,100
Depreciation of property, plant and equipment	112,092	34,214	-
Depreciation of right-of-use-assets	21,976	33,126	-
Amortization of intangible assets	7,663	2,974	-
OPERATING LOSS BEFORE THE FOLLOWING:	$ 4,326,530	$ 1,355,896	$ 345,100
Change in the fair value of the debentures	69,394	1,609,712	-
Interest on debentures	129,566	213,202	13,807
Interest on short term debt	41,773	16,372	-
Interest on lease obligations	3,959	10,671	-
Interest and bank fees	6,822	-	-
Realized loss on foreign exchange	16,743	9,294	-
Unrealized (gain)/loss on foreign exchange	3,111	(11,362)	(2,030)
Gain on settlement of account payable	(2,783)	-	-
Interest on promissory notes	-	1,541	9,621
Write-off of an advance to a company under common control	-	10,000	22,143

FINANCIAL EXPENSES, NET	$ 268,585	$ 1,859,430	$ 43,541
REVERSE ACQUISITION OF ORLETTO CAPITAL II	$ 2,788,422	$ 815,591	$ -
NET LOSS	$ (7,383,537)	$ (4,030,917)	$ (388,641)
BASIC LOSS PER SHARE	$ (0.19)	$ (0.17)	$ (0.02)
DILUTED LOSS PER SHARE	$ (0.19)	$ (0.17)	$ (0.02)
WEIGHTED AVERAGE NUMBER SHARES OUTSTANDING	39,500,645	24,412,781	18,089,564
TOTAL ASSETS	$ 4,415,197	$ 2,806,199	$ 139,759
TOTAL NON-CURRENT LIABIITIES	$ 2,022,343	$ 5,194,380	$ 301,160

Hydroelectricity income represents one month of revenues since the closing of the Wolf River acquisition on December 1, 2022.

General and administrative expenses

There was an increase in all categories of expenses due to an overall increase in activity of the Company for the year ended December 31, 2022 compared to the corresponding period in 2021. There has been a steady increase in development activities such as industry research, supplier selection, meetings and presentations with potential clients and partners, investors, specialized resources, and validation of potential opportunities. Furthermore, the organization of all the corporate and administrative processes have been ongoing along with the going-public transaction in Canada.

Significant general administrative expenses include professional fees, meal, entertainment and travel and publicity. Professional fees and meals, entertainment, travel and other business development expenses are further disaggregated below.

Detail of the services included in the professional fees:

	2022	2021
Consulting services with members of management (a)	$ 631,701	$ 213,867
External consultants	136,589	352,076
Auditors	211,650	-
Accounting services (c)	373,367	68,645
Lawyers and notary (b)	587,882	107,985
Engineering	-	66,667
Graphic design for website and logo company	47,341	15,342
Company employees (d)	413,948	48,850
Stock market fees	220,674	-
Other	42,053	1,346
	2,665,205	874,778
Professional fees related to business acquisition (e)	210,910	51,811
Total	**$** 2,876,115	$ 926,589

a) Professional services received from 3 key consultants and key management personnel increased in 2022 compared to 2021, as the Company was progressing quickly and became more mature in 2022 requiring significant additional consulting services.
b) The increase in professional fees in 2022 compared to 2021 for legal fees was related to legal general matters and to continued disclosure information requirements for a listed entity.
c) The accounting services and administrative resources increased in 2022 because of increased accounting and reporting requirements as a listed entity.
d) Professional services received from consultants and management and team increased in 2022 compared to 2021, as the Company was progressing quickly and became more mature in 2022 requiring significant additional services.
e) Professional services, primarily legal fees, in connection with acquisitions of Wolf River and Stuwe and Davenport in 2022 and 2021, respectively. See note 4 to the annual consolidated financial statements for additional information related to these acquisitions.

Detail of the meals, entertainment, travel, and other business development expenses:

		2022		2021
Travel expenses	$	298,112	$	151,557
Meal & entertainment		46,154		23,077
Other business development expenses		45		9,207
Total	**$**	344,311	$	183,841

The Company was able to move forward and incurred higher travel expenses to help develop the Charbone business plan, assess market opportunities, evaluate key suppliers, financing and prepare the Sorel-Tracy green hydrogen project.

Common share purchase options

During the year, the Corporation granted a total of 4,881,600 options, of which, 252,000 options have been exercised as of December 31, 2022. For more details, see note 16 of the consolidated financial statements.

Depreciation and amortization

The increase of depreciation of property, plant and equipment expense is mainly due to new leasehold improvements and equipment purchased in 2022.

Financial

Financial expenses variation in 2022 is mainly due to the change in fair value of debentures and related interest which was significantly higher in 2021.

Reverse acquisition of Orletto expense

In 2022, the reverse acquisition of Orletto Capital II expenses are mainly related to the consideration transferred of $ 2,629,528 in excess of net liabilities assumed and professional fees of $158,894, directly related to the transaction, compared to professional fees of $815,591 in 2021. See notes 1 and 5 to the consolidated financial statements.

Analysis of consolidated net loss for the three-month period ended December 31, 2022

The following discussion of the Company's financial performance is based on the financial results for the three-month periods ended December 31, 2022 and 2021. The main variations can be explained by the same discussion in the section above on the yearly basis. For the three-month period ended December 31, 2022 and 2021, the Company had a net loss of $1.3 million compared to a net loss of $1.5 million, respectively, detailed as follows:

		Three-month period ended December 31, 2022		Three-month period ended December 31, 2021	
INCOME					
Hydroelectricity income	$	22,481	$	-	$
GENERAL AND ADMINISTRATIVE EXPENSES					
Professional fees included related to acquisition	$	827,327	$	173,573	$
Meals, entertainment, travel and other business development expenses		77,337		57,632	
Investors relationships and marketing		87,377		2,517	
Salaries, fringe benefits and board		95,833		65	
Office expenses		28,248		16,759	
Utilities		23,606		28,746	
Insurance		12,088		7,980	
Certification fees		6,300		-	
Rent expenses		13,337		8,809	
Computer expenses		7,331		8,500	
Telecommunication		3,811		4,380	
Bank fees		1,436		1,514	
Repairs and maintenance		2,147		308	
Taxes and permits		2,290		7,116	
General and administrative expenses	$	1,188,468	$	317,899	$
Depreciation of property, plant and equipment		39,513		16,825	
Depreciation of right-of-use-assets		(8,570)		9,035	
Amortization of intangible assets		3,042		1,487	
OPERATING LOSS BEFORE THE FOLLOWING:	$	1,199,972	$	345,246	$
Change in the fair value of the debentures		-		270,627	
Interest on debentures		54,563		68,059	
Interest on short term debt		10,696		16,372	
Interest on lease obligations		(4,138)		2,845	
Interest and bank fees		1,001		-	
Realized loss on foreign exchange		199		2,170	
Unrealized (gain)/loss on foreign exchange		4,302		(8,338)	
FINANCIAL EXPENSES, NET	$	66,623	$	351,735	$
REVERSE ACQUISITION OF ORLETTO CAPITAL II	$	-	$	587,836	
NET LOSS	$	(1,266,595)	$	(1,284,817)	$

Quarterly Information

The selected financial information for the last eight quarters is as follow:

	2022-12-31	2022-09-30	2022-06-30	2022-03-31	2021-12-31	2021-09-30	2021-06-30	2021-03-31
Revenue	22,481 $	- $	- $	- $	- $	- $	- $	- $
Net (loss) income	(1,266,595) $	(1,466,745) $	(3,729,874) $	(920,323) $	(1,284,815) $	(2,034,653) $	(413,216) $	(298,233) $
Net (loss) income per share, basic and diluted	(0.02) $	(0.03) $	(0.09) $	(0.04) $	(0.06) $	(0.08) $	(0.02) $	(0.01) $

Liquidity and Capital Resources

As at December 31, 2022, the Company had a working capital deficiency (current liabilities in excess of current assets) of $1,851,788 (December 31, 2021 - $1,818,132). The Company has succeeded to finance activities to keep the deficiency at the same level, while using $1,640, 485 for investing activities during the year.

The Company used cash in operating activities of $3,922,918 (December 31, 2021 - $546,263). The increase is mainly due to the increase in net loss before consideration transferred in excess of net liabilities assumed and the negative variation in non-cash working capital items.

In the year ended December 31, 2022, the Company used cash of $1,640,485 for investing activities compared with cash used of $877,879 for the year ended December 31, 2021. The Company used cash for business acquisitions for an amount of $1,000,301, compared to $465,454 for the years ended December 31, 2022 and 2021. In 2022, the Company made acquisitions of property, plant and equipment for an amount of $772,543 related to the construction of its Sorel-Tracy green hydrogen plant compared to $56,200 in 2021 related to its administrative location. The Company received advances' reimbursements of $132,359 from key management personnel, compared to advances made for year ended December 31, 2021 of $292,082. On March 22, 2023, the independent and disinterested directors of the Corporation approved an extension of 12 months for the repayment of shareholder advances originally due to be repaid on or before March 31, 2023 by the key management shareholders. The advances remain repayable on demand but no later than March 31, 2024, and as provided in the escrow agreements that were entered into in April 2022, the release from escrow of any shares held by each of the Management Shareholders will also remain subject to the prior repayment of their respective amounts. The Management Shareholders have already started to decrease the total amount due to the Corporation and acknowledge the repayment obligation. In 2021, security deposits were made for corporate lease and credit cards. These cash outflows were offset by $14,857 of cash advances repaid from an unrelated company in the year ended December 31, 2021.

In the year ended December 31, 2022, financing activities generated $5,556,393 compared to $1,418,480 for year ended December 31, 2021. The increase for the year ended December 31, 2022, is mainly due to the proceeds of the issuance of units from private placements and secured convertible debentures. The cash received from financing activities for the year ended December 31, 2021was from the issuance of convertible debentures.

The net cash position at December 31, 2022 was an indebtedness of $28,467 in comparison with indebtedness of $4,960 at December 31, 2021.

At its current operating level, the Company will not have sufficient funds generated from ongoing operations to cover short-term and long-term operational needs. The Company expects to still operate at a loss for the next 12 months. As such, the Company will need additional financing for costs related to operations, and its growth strategy. The Company is currently addressing its liquidity concerns by proactively planning future financings through the raise of debt and (or) equity. Timing and ability to do so will depend on the liquidity of the financial markets, economic conditions, as well as the acceptance of investors to small cap companies.

Until such time that it can generate significant revenue, the Corporation expects to finance its operations through a combination of public or private equity or debt financings or other sources. While the Corporation has been successful in securing financing in the past, raising additional funds is dependent on several factors outside the Corporation's control, and as such there is no assurance that it will be able to do so in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. The Corporation's continuing operations are dependent upon the continued financial support of shareholders and lenders, its ability to attain profitable operations and generate funds from and/or to raise equity capital or obtain the necessary financing sufficient to meet current and future obligations. See note 1 to the consolidated financial statements as at and for the year ended December 31, 2022 for additional details on the going concern basis of accounting.

The primary need for liquidity is to fund acquisitions and working capital requirements of the business. The Corporation has closed a third tranche of a private financing for aggregate proceeds amounting to $555,400 during January 2023 (see Note 24 of consolidated financial statements as at and for the year ended December 31, 2022).

The Corporation also has commitments related to the purchase of property, plant and equipment, corresponding to $1,220,460 for the purchase of hydrogen production equipment and $2,144 for the acquisition of office furniture for the corporate office.

Overall, the Corporation will require additional financing in order to complete its business plan and meet future obligations for the next 12 months.

Subsequent events (not disclosed elsewhere in the MD&A)

On January 20, 2023, the Corporation closed a third and final tranche of its private placement financing of units of the Company (the "Offering") for gross proceeds of $555,400. When combined with the two previous closings, the Company has raised an aggregate of $1,197,600 pursuant to the Offering. At the Closing Date, the Company engaged to pay a finder's fee of $2,880 plus to issue 24,000 finder's warrants to a registered finder in connection with sale of Units to a qualified subscriber introduced to the Company by such finder.

On March 10, 2023, the Corporation has engaged Maxim Group LLC (''Maxim'') as its financial advisor and investment banker to provide general financial advisory and investment banking services in the United States of America for an initial term of one year. In connection with the engagement, the Corporation granted Maxim 860,449 options to acquire up to 860,449 common shares, at an exercise price of US $1.00 per share, for a period of one year. 50% of the options shall be exercisable six months following the engagement, and the remaining 50% shall be exercisable one year following the execution of this engagement.

Off Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Related Party Transactions

The related parties include key management personnel and their close family, and key management personnel's companies. Key management personnel include the directors and officers of the Corporation, who are also shareholders of the Corporation through their management companies.

At December 31, 2022, the amounts due from key management personnel directly or indirectly through their management companies of $283,513 (as at December 31, 2021 - $415,872) is non-interest bearing. The advances remain repayable on demand but no later than March 31, 2023 (see note 24), and the release from escrow of any shares held by each individual will be subject to prior repayment of their advance.

At December 31, 2022, the amounts due to key management personnel directly or indirectly through their management companies and included in the accounts payable and accrued liabilities is $171,736 (as at December 31, 2021 - $0).

The key management compensation includes amounts incurred for the following:

		2022		2021
Professional fees	$	821,226	$	-
Salaries and fringe benefits		179,516		-
Share-based compensation		152,623		-
Interest on debentures		497		1,650
Development costs		-		672
Write-off of an advance to a company under common control		-		10,000
Total	$	1,153,862	$	12,322

As at December 31, 2021, a debenture of $15,000 is held by a close family member of a key management personnel, for payment of marketing services according to the agreement between parties. Theses debenture has been converted into units at a price of $0.30 per unit as at April 20, 2022 (Note 14). Accrued interest payable on these debentures of $2,897 ($2,400 as at December 31, 2021) are included in trade and other payables as at December 31, 2022.

Proposed Transactions

As at the date of this MD&A there are no proposed transactions other than those already disclosed elsewhere in the MD&A.

Accounting Estimates and judgements

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. For the years ended December 31, 2022 and December 31, 2021, the following are critical judgments, estimates or assumptions made by management that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses:

Critical judgment

Going concern (Note 1 of consolidated financial statements)

Key sources of estimation uncertainty

Debentures (Notes 14 and 19 of the consolidated financial statements)

Business combinations

Business combinations are accounted for in accordance with the acquisition method. On the date that control is obtained, the identifiable assets, liabilities, and contingent liabilities of the acquired company are measured at their fair value. Depending on the complexity of determining these valuations, the Corporation uses appropriate valuation techniques. In determining the fair value of the intangibles and property plant and equipment, management was required to estimate future cash flows which may be influenced by a number of assumptions such as electricity production, selling prices and discount rate to determine the fair value of the assets acquired. Consideration transferred in connection with the reverse acquisition

Consideration transferred in connection with the reverse acquisition

In determining the fair value of the consideration transferred to acquire the net assets of Orletto, management was required to estimate the fair value of the commons shares, as well as the share price and expected volatility inputs in the Black-Scholes valuation model used to determine the fair value of the options transferred, at the time of the reverse acquisition. The fair value of the common shares were valued principally using the pricing in a concurrent private placement at the time of the reverse acquisition. The Corporation estimated expected volatility based on that observed for other similar-sized reporting issuers in Canada.

Impairment of non-financial assets (Note 7 of consolidated financial statements)

As part of assessing property, plant and equipment and intangible assets for impairment, the recoverable amount of a CGU is determined using a complex valuation method that requires the use of a number of methods, including the discounted future cash flow method and the market-based method. When the discounted future cash flow method is used, cash flow projections are established based on past experience, certain economic trends as well as industry and market trends, and represent management’s best estimates of future results. The recoverable amount of a CGU is also influenced by the discount rate used in the model, by the growth rate used to make the extrapolation and by the weighted average cost of capital. When a market-based method is used, the Corporation estimates the fair value of the CGU by gathering market data, similar transactions and third-party evaluation. These methods rely on numerous assumptions and estimates that may have a significant impact on the recoverable amount of a CGU, and thereby, on the amount of impairment, if any. The impact of significant changes in assumptions and the revision of estimates, if any, is recognized in net earnings in the period in which the changes occur or the estimates are revised.

Share based compensation

The Corporation uses the Black-Scholes option pricing model to determine the fair value of stock options. In estimating the fair value of options and warrants, management is required to make certain assumptions and estimates such as the fair value of the underlying share, the expected life of options, volatility of the Corporation’s future share price, risk-free rate, future dividend yields and estimated forfeitures.

Leases

In determining the carrying amount of right-of-use assets and lease liabilities at lease inception and for lease modifications, the Company is required to estimate the incremental borrowing rate specific to each leased asset if the interest rate implicit in the lease is not readily determinable. Management determines the incremental borrowing rate of each leased asset by incorporating the Corporation's creditworthiness, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change.

Other areas involving estimation uncertainty include the determination of the estimated useful lives of property, plant and equipment.

Covid-19

The extent to which COVID-19 will continue to impact the Corporation’s business, construction project, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. Accordingly, actual results could differ materially from those estimates and assumptions made by management. There was no material impact on the Corporation's operations up to the date of the report of these audited financial statements.

Standards issued but not yet effective

As at December 31, 2022, a number of new standards, amendments to standards and interpretations have been issued but are not yet effective. Accordingly, they have not been applied in preparing these financial statements. The Corporation is currently assessing the impact that these standards will have on the financial statements.

The standards issued but not yet effective that are expected to be relevant to the Corporation's consolidated financial statements are provided below.

Management anticipates that all the pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of each pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's consolidated financial statements and are not listed. Several new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2023 and have not been applied in preparing these financial statements. Those which may be relevant to the Corporation's are set out below.

i) Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

The amendments introduce the definition of an accounting estimate and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies.

The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are effective for annual periods beginning on or after January 1, 2023, and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period, with early application permitted.

ii)Amendments to IAS 12 – Income taxes

The amendments clarify that the initial recognition exemption under IAS 12 does not apply to transactions that give rise to equal taxable and deductible temporary differences, such as leases.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

Financial Instruments

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is, therefore, exposed to liquidity risk with respect to all of the financial liabilities recognized on the consolidated balance sheet.

The following are the contractual cash flows of financial liabilities, including estimated interest payments, as at December 31, 2022 and December 31, 2021:

December 31, 2022		Carrying amount	Contractual cash flow	Less than 1 year	2 to 5 years
Trade and other payables	$	2,363,990	2,363,990	2,363,990	-
Short term loan	$	30,677	30,677	30,677	-
Due to unrelated individual	$	3,000	3,000	3,000	-
Debentures	$	1,057,556	1,200,000	-	1,200,000
Lease obligation, including current portion	$	999,377	2,092,671	110,177	1,982,494
	$	4,454,600	5,690,338	2,507,844	3,182,494

December 31, 2021		Carrying amount	Contractual cash flow	Less than 1 year	**2 to 5 years**
Trade and other payables	$	1,897,135	1,897,135	1,897,135	-
Short term loan	$	42,622	42,622	42,622	-
Due to unrelated companies	$	4,000	4,000	4,000	-
Due to an unrelated individual	$	3,000	3,000	3,000	-
Debentures	$	3,969,107	2,359,350	-	**2,359,350**
Lease obligation, including current portion	$	1,309,489	2,179,265	177,698	**2,001,567**
	$	7,225,353	6,485,372	2,124,455	**4,360,917**

Market risk

Market risk is the risk that the fair value or future cash flows of the Corporation 's financial instruments will fluctuate because of changes in market prices. Some of the Corporation's financial instruments expose it to this risk, which comprises currency risk and interest rate risk.

i) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuates because of variations in market interest rates. The promissory notes and debentures issued by the Corporation bear fixed-rate interest and expose the Corporation to the risk of fair value variation resulting from interest rate fluctuations.

A 1% change in the interest rate would have an impact of approximately $12,134 on the Corporation's statement of loss and comprehensive loss and cash flow on an annual basis.

ii)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.

Fair value

When measuring the fair value of an asset or a liability, the Corporation uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- First level includes quoted prices (unadjusted) in an active market of identical assets or liabilities.
- Second level includes inputs other than quoted prices included in the first level that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).; and
- Third level includes data that are not based on observable market data.

The carrying value of cash, subscription to be received, trade and other payables, promissory notes, due to companies under common control, advances from unrelated companies and advance from an unrelated individual are considered to be a reasonable approximation of fair value because of the short-term maturity of these instruments.

The Company determined that the fair value of the debentures approximates their carrying value as they bear interest at interest rates that are similar to the rate that would be obtain on the market for financial instruments with similar terms and risks and because the conversion option at the discretion of the Corporation has a negligible value. (Level 3)

Disclosure of Share Capital

As at the date of this report (May 1, 2023) the Company share capital consists only 57,363,287 of fully paid Class "A" common shares, voting and participating. The Corporation has authorized an unlimited number of Class "A" common shares without par value.

The Company has 26,937,497 outstanding purchase warrants that entitling their holders to subscribe to an equivalent number of common shares.

The Company has 4,629,600 outstanding share purchase options.

Below is a summary of the share capital, warrants, and options as at December 31, 2022.

	Number of common shares	Number of warrants and Compensation Options
Issued and outstanding common shares of Charbone as at December 31, 2021	24,977,493	-
Issuance of common shares and warrants for conversion of Charbone Debenture	9,428,171	9,428,171
Issuance of common shares and warrants to investors of the Private Placement	13,510,517	6,755,258
Total Charbone common shares and warrants	47,916,181	16,183,429
Share consolidation of Charbone at 0.8342:1	0.8342	0.8342
	39,970,000	13,499,650
Issued and outstanding common shares of Orletto, as at December 31, 2021	6,800,000	-
Share consolidation of Orletto at 0.9265:1	0.9265	
Issuance of common shares to Orletto Unit holders	6,300,000	-
Issuance of compensation options to Agent		901,600
Issuance of subscription receipt to Agent	250,000	125,000
Conversion of the interest on debenture	548,838	274,419
Issuance of units for payment to a supplier	62,445	31,224
Issuance of granted stock options to the existing shareholders of Orletto at the date of the reverse acquisition	-	630,000
Exercise of stock options	252,000	(252,000)
Issuance of granted stock options to members of the Board, key management personal and employees	-	3,350,000
Issuance of common shares and warrants to investors of the 1st and 2nd tranche of Private Placement	5,351,669	5.351.669
Issuance of finder fees warrants to broker	-	3,200
Issuance to secured convertible debentures holders	-	3,000,000
Ending balances as at December 31, 2022	52,734,952	26,914,762

Use of Proceeds

The following table includes a reconciliation of the manner in which the net proceeds from the Business Combination and concurrent private placement were used by the Company through December 31, 2022, compared to the disclosure in the Company's filling statement dated March 31, 2022.

(In Canadian dollars)		Actual use of proceeds	Estimated use of proceeds		Variance
Hydrogen Facility and Equipement					
Land Lease in Sorel-Tracy, Québec	$	-	$90,000		90,000
Land Infrastructure	$	22,179	$400,000		377,821
Plant (Engineering Phase I)	$	199,847	$165,000		(34,847)
Electrolyzer of 0.5 MW	$	261,365	$1,750,000		1,488,635
Compressor	$	114,117	$460,000		345,883
Storage	$	102,496	$150,000		47,504
Electrical Substation, Installation Services and Startup costs	$	-	$380,000		380,000
Total		**700,004**	**3,395,000**		**2,694,996**
Asset based financing agreement		-	(2,500,000)		(2,500,000)
Balance to be financed with equity raised		**700,004**	**895,000**		**194,996**
Hydropower Plant					
Maintenance and Repair		-	68,000		68,000
General working capital Expenses		2,992,836	2,700,360	(1)	(292,476)
Asset Based financing agreement		115,181	10,000		(105,181)
Payment of interest on convertible debenture		-	220,000		220,000
Unallocated funds		-	170,000		170,000
Share issuance costs and professional fees		832,338	860,640		28,302
		4,640,359	4,924,000		283,641
Additional advances to (Reimbursment of advances from) key management		**(132,359)**	**(416,000)**		**(283,641)**
Charbone private placement		**4,508,000**	**4,508,000**		**0**

(1) Included in the estimated general working capital requirements the estimated working capital deficiency as at February 28, 2022 of $784,000 and the estimated expenses in March 2022 of $58,800.

The Company made initial deposits on production equipment and will use an Asset-Based Financing or other source to fund the balance as the equipment manufacturing is completed to be delivered at the facility. The Company is also analyzing other financing sources at better conditions in addition of the third tranche of the private placement close on January 20, 2023. It was initially anticipated that the Sorel-Tracy facility would start production in 2022, but supply chain constraints are delaying installation and production to spring 2023.

As referenced in the table above, the variance in the Company's actual use of proceeds compared to the estimated total use of proceeds can be explained as follows: (i) delays in the delivery of hydrogen equipment (ii) delays in repair and maintenance for Stuwe & Davenport hydropower plant (iii) conversion in Charbone units (1 share at 0.40$ and ½ warrant at 0.60$) of $220,000 interest related to the convertible debentures.