Charbone Hydrogen Corporation
(Formerly Orletto Capital II Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Charbone Hydrogen Corporation

Opinion

We have audited the consolidated financial statements of Charbone Hydrogen Corporation (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity (deficiency) for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of 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 December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Entity generated a net loss of $7,383,537 and negative cash flows from operating activities of $3,922,918 for the year ended December 31, 2022. As at December 31, 2022, the Entity has an accumulated deficit of $12,027,878 and a working capital deficiency (current liabilities in excess of current assets) of $1,851,789. The Entity will require additional financing in the near future in order to complete its business plan and meet its obligations in the normal course of operations.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the “Material Uncertainty related to Going Concern” section of the auditor’s report, we have determined the matters described below to be the key audit matters to be communicated in our auditor’s report.

Evaluation of the fair value of the consideration transferred in the reverse acquisition

Description of the matter

We draw attention to Note 1, Note 3.13 and Note 5 to the consolidated financial statements. On April 21, 2022, Charbone Corporation entered into an amalgamation agreement with Orletto Capital II Inc. (“Orletto”) and 13375307 Canada Inc. (“Orletto Subco”), pursuant to which Charbone Corporation and Oreletto Subco agreed to amalgamate to form a new entity. The Amalgamation was structured as a three-cornered amalgamation and, as a result, the amalgamated corporation became a wholly-owned subsidiary of Orletto at the time of the completion of the Amalgamation on April 21, 2022. 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 (the “Entity”, formerly Orletto). Consequently, the transaction has been accounted for as a reverse acquisition of net assets of Orletto by Charbone Corporation.

In determining the fair value of the consideration transferred by the accounting acquirer totaling $2,559,245, the Entity’s significant assumptions include:

- using the share value outlined in the merger agreement to determine the fair value of the shares transferred

- the share price and expected volatility inputs in the Black-Scholes valuation model used to determine the fair value of the options transferred.

Significant management judgement was required over the assessment of the share price assumption.

As the fair value of Orletto's net liabilities at the reverse acquisition date was $70,283, the excess of consideration transferred over the net liabilities assumed of $2,629,528 is reflected as a reverse acquisition of Orletto expense in the consolidated statements of loss and comprehensive loss.

Why the matter is a key audit matter

We identified the evaluation of the fair value of the consideration transferred in the reverse acquisition as a key audit matter. The reverse acquisition transaction represented a significant risk of material misstatement given its magnitude and complexity. In addition, significant auditor's judgment and effort involving more experienced professionals were required in evaluating the results of our audit procedures regarding the Entity's significant assumptions and judgments over the determination of the fair value of the consideration transferred.

How the matter was addressed in the audit

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

We read the reverse acquisition transaction legal documents to understand the terms of the arrangement and to evaluate the proper determination of the accounting acquirer and of the accounting of the transaction as a reverse acquisition of assets.

We evaluated the appropriateness of the Entity's share price assumption by comparing it to the share price in a concurring private placement by the Entity given they had the same characteristics and conditions.

We evaluated the appropriateness of the expected volatility rate assumption by comparing it to an expected volatility rate independently developed using the historic share trading activity of similar entities.

Evaluation of the acquisition-date fair values of the intangible asset and property, plant and equipment related to the Wolf River Hydro Limited Partnership acquisition

Description of the matter

We draw attention to Note 3.1 (i), Note 3.13 and Note 4 to the consolidated financial statements. On December 1, 2022, the Entity acquired 100% interest in Wolf River Hydro Limited Partnership for a total consideration of $1,000,301. In connection with the acquisition, the Entity recorded an intangible asset of $138,271, and property, plant and equipment of $697,985.

The fair value of the intangible asset attributable to the power purchase agreement and of the property, plant and equipment was calculated using a discounted cash flow method.

The Entity makes a number of assumptions when determining the acquisition date fair values of the intangible asset and the property, plant and equipment including:

- Future cash flows which may be influenced by a number of assumptions such as electricity production and selling prices.
- Discount rate.

Why the matter is a key audit matter

We identified the evaluation of the acquisition-date fair values of the intangible asset and property, plant and equipment related to the Wolf River Hydro Limited Partnership acquisition as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of the intangible asset, and the property, plant and equipment acquired and the high degree of estimation uncertainty in determining their fair values. In addition, significant auditor's judgment was required in evaluating the results of our audit procedures due to the sensitivity to the Entity's determination of the fair values of the intangible asset, and the property, plant and equipment acquired to minor changes to significant assumptions for which there was limited observable market information. Further, professionals with specialized skills and knowledge were needed to assess the appropriateness of the Entity's valuation model and to evaluate the appropriateness of the Entity's significant assumptions.

How the matter was addressed in the audit

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

We evaluated the appropriateness of the future cash flows significant assumptions used by the Entity in its valuation methodologies by comparing the estimated future electricity production to historical volumes and the future selling price assumption to long term power purchase agreements.

We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the Entity's:

- market selling price assumption, by comparing it against publicly available market data;
- discount rate, by comparing it against a discount rate range that was independently developed using publicly available market data for comparable peers;
- valuation models to calculate the fair value of the intangible asset and property, plant and equipment based on the knowledge of valuations professionals.

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 auditors' 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, 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 auditors' 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Alain Bessette.

KPMG LLP*

Montréal, Canada

May 1, 2023

*CPA auditor, public accountancy permit No. A115894

CHARBONE HYDROGEN CORPORATION
(FORMERLY ORLETTO CAPITAL II INC.)
Consolidated Financial Statements

Years ended December 31, 2022 and December 31, 2021

CONSOLIDATED FINANCIAL STATEMENTS

Charbone Hydrogen Corporation
(Formerly Orletto Capital II Inc.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)

AS AT DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Accounts receivable (Note 6)	$ 261,702	$ 208,965
Prepaid expenses	63,721	8,836
Advances to key management personnel, without interest, due on demand but no later than March 31, 2023 (Notes 20, 24)	283,513	-
	608,936	217,801
NON-CURRENT ASSETS		
Security deposits (Note 21)	79,000	79,000
Property, plant and equipment (Note 7)	2,340,229	730,536
Intangible assets (Note 8)	251,083	110,026
Right-of-use-assets (Note 9)	941,671	1,252,964
Restricted cash (Note 10)	194,278	-
Advances to key management personnel, without interest, due on demand but no later than March 31, 2023 (Notes 20, 24)	-	415,872
	3,806,261	2,588,398
TOTAL ASSETS	$ 4,415,197	$ 2,806,199
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	$ 28,467	$ 4,960
Trade and other payables (Note 12)	2,363,991	1,897,135
Short term loan (Note 11)	30,677	42,622
Current portion of lease obligations (Note 13)	34,590	84,216
Due to unrelated companies, without interest and no specific repayment terms	-	4,000
Due to an unrelated individual, without interest and no specific repayment terms	3,000	3,000
	2,460,725	2,035,933
NON-CURRENT LIABILITIES		
Lease obligations (Note 13)	964,787	1,225,273
Debentures (Note 14)	1,057,556	3,969,107
	2,022,343	5,194,380
TOTAL LIABILITIES	4,483,068	7,230,313
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 15)	10,158,513	220,553
Contributed surplus (Note 16)	366,164	-
Warrants (Note 16)	1,380,931	-
Accumulated other comprehensive income (loss)	20,841	(326)
Equity component of the convertible debenture	33,558	-
Deficit	(12,027,878)	(4,644,341)
TOTAL SHAREHOLDERS' DEFICIENCY	(67,871)	(4,424,114)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	$ 4,415,197	$ 2,806,199

Nature of operations and going concern (Note 1)
Commitments and guarantees (Note 21)
Subsequent events (Note 24)

The accompanying notes form an integral part of these consolidated financial statements.

Charbone Hydrogen Corporation
(Formerly Orletto Capital II Inc.)

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(in Canadian dollars, except number of shares)

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
INCOME		
Hydroelectricity income	$ 22,481	$ -
EXPENSES		
General and administrative expenses (Note 17)	$ 4,207,280	$ 1,285,582
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
	4,349,011	1,355,896
OPERATING LOSS BEFORE THE FOLLOWING:	(4,326,530)	(1,355,896)
FINANCIAL EXPENSES (Note 18)	268,585	1,859,430
REVERSE ACQUISITION OF ORLETTO CAPITAL II (Note 5)	2,788,422	815,591
NET LOSS	$ (7,383,537)	$ (4,030,917)
OTHER COMPRENSIVE LOSS		
Item that may be reclassified subsequently to the statement of loss		
Foreign currency translation income (loss)	21,167	(326)
TOTAL COMPREHENSIVE LOSS	$ (7,362,370)	$ (4,031,243)
LOSS PER SHARE		
Basic	$ (0.19)	$ (0.17)
Diluted	$ (0.19)	$ (0.17)
Weighted average number of shares outstanding	39,500,645	24,412,781

The accompanying notes form an integral part of these consolidated financial statements.

Charbone Hydrogen Corporation
(Formerly Orletto Capital II Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(in Canadian dollars, except for per share data)

FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

	Number of shares	Share capital Class "A" Common shares	Contributed surplus	Warrant reserve	Equity component of the convertible debenture	Deficit	Accumulated other Comprehensive income (loss)	Total shareholders' equity (deficiency)
	#	$	$	$	$	$	$	$
BALANCE AS AT DECEMBER 31, 2021	20,835,350*	220,553	-	-	-	(4,644,341)	(326)	(4,424,114)
Private placement (Notes 15 and 16)	11,270,000	4,269,109	-	238,891	-	-	-	4,508,000
Share issue costs (Notes 15 and 16)	-	(642,984)	-	(41,980)	-	-	-	(684,964)
Units issued to brokers (Notes 15 and 16)	250,000	94,701	-	5,299	-	-	-	100,000
Stock options issued to brokers (Notes 15 and 16)	-	-	81,707	-	-	-	-	81,707
Effect of reverse acquisition (Notes 5, 15 and 16)	6,300,000	2,386,730	172,515	-	-	-	-	2,559,245
Conversion of debentures (Notes 15 and 16)	7,864,650	2,979,493	-	1,059,008	-	-	-	4,038,501
Conversion of the interest on debentures (Notes 15 and 16)	548,838	207,925	-	11,634	-	-	-	219,559
Issuance of units for payment to a supplier (Notes 15 and 16)	62,445	24,407	-	571	-	-	-	24,978
Exercise of stock options	252,000	96,206	(69,006)	-	-	-	-	27,200
Share based compensation (Note 16)	-	-	180,948	-	-	-	-	180,948
Private placement (Notes 15 and 16)	5,351,669	544,762	-	97,438	-	-	-	642,200
Share issue costs (Notes 15 and 16)	-	(22,389)	-	(5,685)	-	-	-	(28,074)
Warrants issued to brokers (Notes 15 and 16)	-	-	-	106	-	-	-	106
Warrants issued with debentures, net of issuance costs (Note 14)	-	-	-	15,649	-	-	-	15,649
Equity conversion option of the convertible debentures, net of issuance costs (Note 14)	-	-	-	-	33,558	-	-	33,558
Net loss and comprehensive loss for the period	-	-	-	-	-	(7,383,537)	-	(7,383,537)
Other comprehensive income :								
Foreign currency translation	-	-	-	-	-	-	21,167	21,167
BALANCE AS AT DECEMBER 31, 2022	52,734,952	10,158,513	366,164	1,380,931	33,558	(12,027,878)	20,841	(67,871)

The accompanying notes form an integral part of these consolidated financial statements.

Charbone Hydrogen Corporation
(Formerly Orletto Capital II Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(in Canadian dollars, except for per share data)

FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

	Share capital						
	Number of shares	Class "A" Common shares	Contributed surplus	Warrant reserve	Deficit	Accumulated other Comprehensive income (loss)	Total shareholders' equity (deficiency)
	#	$	$	$	$	$	$
BALANCE AS AT DECEMBER 31, 2020	20,222,969*	316	-	-	(613,424)	-	(613,108)
			-	-			
Share issuances (note 15)	612,381*	220,237					220,237
Net loss and comprehensive loss for the period	-	-	-	-	(4,030,917)	-	(4,030,917)
Other comprehensive loss :							
Foreign currency translation loss	-	-	-	-	-	(326)	(326)
BALANCE AS AT DECEMBER 31, 2021	20,835,350*	220,553	-	-	(4,644,341)	(326)	(4,424,114)

*In relation to the reverse takeover transaction, as described in Note 1, on April 21, 2022, the common shares of Charbone Corporation were reverse split on a 1:.8342 basis (the "Exchange Ratio"). The Exchange Ratio is reflected retrospectively in these consolidated financial statements

Charbone Hydrogen Corporation
(Formerly Orletto Capital II Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOW
(in Canadian dollars)

AS AT DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING ACTIVITIES		
Net loss	$ (7,383,537)	$ (4,030,917)
Adjustments:		
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
Interest on promissory notes	-	1,541
Interest on debentures (Note 18)	129,566	213,202
Unrealized loss (gain) on foreign exchange (Note 18)	3,111	(11,362)
Interest on lease obligations (Notes 13 and 18)	3,959	10,671
Change on fair value of debentures (Note 18)	69,394	1,609,712
Write-off of an advance to a company under common control	-	10,000
Gain on settlement of account payable	(2,783)	-
Consideration transferred in excess of net liabilities assumed on reverse acquisition (Notes 5 and 15)	2,559,245	-
Share based compensation	180,948	-
Changes in non-cash working capital items (Note 23)	375,448	1,580,576
Cash flows used in operating activities	**(3,922,918)**	**(546,263)**
INVESTING ACTIVITIES		
Changes in advances to key management personnel	132,359	(292,082)
Additions of property, plant and equipment (Note 7)	(772,543)	(56,200)
Business acquisition (Note 4)	(1,000,301)	(465,454)
Security deposits		(79,000)
Reimbursement of advance to a company under common control	-	14,857
Cash flows used in investing activities	**(1,640,485)**	**(877,879)**
FINANCING ACTIVITIES		
Debentures proceeds	1,200,000	1,375,542
Debenture issuance expenses	(108,133)	-
Subscription received	-	316
Interest paid	(54,647)	-
Changes in short term loan	(11,945)	42,622
Due to a company, without interest nor specific repayment terms	(4,000)	-
Payment of lease obligation (Note 13)	(57,242)	-
Proceeds from issuance of units from private placement (Note 15)	5,097,919	-
Share issuance costs (Notes 15 and 16)	(531,226)	-
Exercise of stock options (Note 15)	27,200	-
Fees related to lease obligation (Note 13)	(1,533)	-
Cash flows from financing activities	**5,556,393**	**1,418,480**
NET CHANGE IN CASH	(7,010)	(5,662)
EFFECT OF MOVEMENT IN EXCHANGE RATE ON CASH HELD	(16,497)	(94)
CASH (BANK INDEBTEDNESS) AT BEGINNING OF YEAR	(4,960)	796
BANK INDEBTEDNESS AT END OF YEAR	**$ (28,467)**	**$ (4,960)**

Supplemental cash flow information - refer to Note 23 for non-cash transactions.

The accompanying notes form an integral part of these consolidated financial statements.

Charbone Hydrogen Corporation
(Formerly Orletto Capital II Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in Canadian dollars)

AS AT DECEMBER 31, 2022 AND 2021

1. NATURE OF OPERATIONS AND GOING CONCERN

Charbone Hydrogen Corporation's (formerly Orletto Capital II Inc.) (the "Corporation") is a start-up renewable energy group that will eventually deliver clean and reliable hydropower solutions from small-scale hydroelectric power generation plants to green hydrogen production facilities.

The Corporation is incorporated under the *Canadian Business Corporations Act*. The address of the Corporation's registered office and its principal place of business is 5005, Boulevard Lapinière, Suite 1080, Brossard, (Québec) J4Z 0N5.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which contemplates the realization of assets and discharge of liabilities at their carrying values in the ordinary course of operations.

Going Concern

During the year ended December 31, 2022, the Corporation generated a net loss of $7,383,537 (December 31, 2021 - $4,030,917) and negative cash flows from operating activities of $3,922,918 (December 31, 2021 - $546,263). As at December 31, 2022, the Corporation has an accumulated deficit of $12,027,878 (December 31, 2021 - $4,644,341) and a working capital deficiency (current liabilities in excess of current assets) of $1,851,789 (December 31, 2021 - $1,818,132). The Corporation's current liabilities and expected level of expenses for the next 12 months exceed cash on hand as at December 31, 2022. The Corporation has closed a private financing for aggregate proceeds amounting to $555,400 during January 2023 (see Note 24), however the Corporation will require additional financing in the near future in order to complete its business plan and meet its obligations in the normal course of operations. The Corporation is pursuing other various financing options. Until such time that the Corporation can generate significant revenue, the Corporation expects to finance its operations through public or private equity, debt or other sources. While the Corporation has been successful in securing financing in the past, raising additional funds is dependent on a number of factors outside the Corporation's control, and as such there is no assurance that it will be able to do so in the future. 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 therefrom and/or to raise equity capital or obtain the necessary financing sufficient to meet current and future obligations.

These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the classification and amounts of assets and liabilities that may be required should the Corporation be unable to continue as a going concern. Such adjustments could be material.

Private placement, Amalgamation and reverse takeover

On April 21, 2022, Charbone Corporation entered into an amalgamation agreement with Orletto Capital II Inc. ("Orletto") and 13375307 Canada Inc. ("Orletto Subco"), pursuant to which Charbone Corporation and Orletto Subco agreed to amalgamate (the "Amalgamation") under the Canada Business Corporations Act to form a new entity "Amalco" to complete an arm's length qualifying transaction in accordance with the policies of the TSX Venture Exchange (the "Qualifying Transaction"). The Amalgamation was structured as a three-cornered amalgamation and, as a result, the amalgamated corporation was to become a wholly-owned subsidiary of Orletto at the time of the completion of the Amalgamation.

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 ("the Orletto Exchange Ratio"). Similarly, immediately prior to the Amalgamation, the Corporation did a reverse split of its common shares on the basis of 0.8342 shares for each share existing prior to such consolidation ("the Exchange Ratio").

1. NATURE OF OPERATIONS AND GOING CONCERN (cont'd)

Private placement, Amalgamation and reverse takeover (cont'd)

On April 21, 2022, the Amalgamation was completed and Orletto changed its name to Charbone Hydrogen Corporation. On May 3, 2022, the common shares of Charbone Hydrogen Corporation began trading on the TSX Venture Exchange (TSX-V) under the symbol "CH" and the common shares of the former Orletto were delisted from the TSX-V.

In connection with the Amalgamation, the following transactions occurred:

• On March 17, 2022, Charbone Corporation completed a private placement of 11,270,000 subscription receipts ("Subscription Receipt") at a price of $0.40 per subscription 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, Charbone Corporation paid agents' fees of 8% in cash, and issued 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 are exercisable at a price of $0.60 per share and compensation options are exercisable at a price of $0.40 per share, both for a period of 18 months;

• All the debentures issued by Charbone Corporation were converted into one common share and one warrant prior to the Qualifying Transaction. In connection with the conversion, Charbone Corporation issued 9,428,171 additional 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). Each warrant entitles the holder to purchase one additional common share of the Corporation at a price of $0.40 for a period of 36 months following the date of issuance;

• The stock option plan of Orletto is still in effect and has not been amended by Charbone Hydrogen Corporation. After consideration of the exchange ratio, upon dissolution of the Orletto stock option plan, all 680,000 outstanding Orletto stock options were cancelled and exchanged for 630,000 stock options of Charbone Hydrogen Corporation following the Orletto Exchange ratio. These stock options have an exercise price of $0.1079 for a period of 12 months following the date of issuance;

• After consideration of the exchange ratio, the holders of Charbone Corporation's common shares (including those investors in the Private Placement following the exchange of the Subscription Receipts, and those debentures holders converted for common shares of Charbone Corporation) received one common share of Charbone Hydrogen Corporation in exchange for each outstanding common share of Charbone Corporation. Following the share exchange, there were 46,520,000 issued and outstanding common shares of Charbone Hydrogen Corporation, of which the common shareholders of the former Charbone Corporation controlled a majority.

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 (refer to Note 5). 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.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND COMPLIANCE TO IFRS

2.1 Statement of compliance

These consolidated financial statements have been prepared under IFRS as issued by the International Accounting Standards Board ("IASB"). The Corporation has consistently applied the same accounting policies throughout the periods presented in these consolidated financial statements.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Corporation on April 27, 2023.

2.2 Basis of assessment

These consolidated financial statements have been prepared on the historical cost basis, except for the following items were evaluated as detail below:

- convertible debentures issued in 2021, which are measured at fair value;
- equity-based share-based payment arrangements, which have been recorded at fair value at grant date pursuant to IFRS 2, *Share-based Payment;*
- identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are generally measured initially at their fair values at the acquisition date; and
- lease liabilities, which are measured at the present value of future lease payments.

2.4 Functional and presentation currency

The Corporation's functional and presentation currency is the Canadian dollar. The functional currency of the Corporation's U.S. subsidiaries, Charbone Corporation USA, Stuwe & Davenport Partnership, LLC and Wolf River Hydro Limited Partnership, is determined by the currency of the primary economic environment in which they operate, being the United States dollar. Gains and losses arising from the conversion from US dollars to Canadian dollars for presentation purposes are recorded in accumulated other comprehensive income (loss).

(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

3.1 Basis of consolidation

These consolidated financial statements of the Corporation include the accounts of the Corporation and of its subsidiaries.

i) Business combinations
Business combinations are accounted for using the acquisition method. Accordingly, the consideration transferred for the acquisition of a business is the fair value of the assets transferred and any debt and equity interests issued by the Corporation on the date control of the acquired company is obtained. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are generally measured initially at their fair values at the acquisition date. The Corporation measures goodwill as the fair value of the consideration transferred including the fair value of liabilities resulting from contingent consideration arrangements, less the net recognized amount of the identifiable assets acquired, and liabilities assumed, all measured at fair value as of acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

ii) Subsidiaries
Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those through its power over the entity. The consolidated financial statements from the date that control starts until the date that control ceases. The accounting policies of the subsidiaries are aligned with the policies adopted by the Corporation.

The Corporation's subsidiaries as at December 31, 2022 are:

Name	Nature of services	December 31, 2022	December 31, 2021
Charbone Hydrogen Quebec (formely Charbone Hydrogen)	Green hydrogen producer	100 %	100 %
Charbone Systems Inc.	Sales and maintenance of hydrogen equipment	100 %	-
Charbone Hydrogen Manitoba Inc.	Green hydrogen producer	100 %	-
Charbone Hydrogen Nova Scotia	Green hydrogen producer	100 %	-
Charbone Corporation USA	Holding company	100 %	100 %
Stuwe & Davenport Partnership, LLC	Hydroelectric power plant	100 %	100 %
Wolf River Hydro Limited Partnership	Hydroelectric power plant	100 %	-
Charbone HoldCo, LLC	Holding company	100 %	

On May 18, 2022, the Corporation incorporated Charbone Hydrogen Manitoba Inc., a new wholly-owned subsidiary based in the province of Manitoba. On June 30, 2022, the Corporation incorporated Charbone Systems Inc., a new wholly-owned subsidiary based in the province of Quebec. On November 8, 2022, the Corporation incorporated Charbone Hydrogen Nova Scotia Inc., a new wholly-owned subsidiary based in the province of Nova Scotia. On December 1 2022, the Corporation completed the acquisition of Wolf River Hydro Limited Partnership (Note 4)

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Basis of consolidation

iii) Transactions eliminated on consolidation
Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

3.2 Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Corporation becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets – Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income or FVTPL based on the business model objective, whether achieved by collecting contractual cash flows or selling the financial assets or both, as well as whether or not the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets are not reclassified subsequent to their initial recognition unless the Corporation changes its business model for managing financial assets.

Financial liabilities – Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is either held for trading, a derivative or it is designated as at FVTPL on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including interest expense, are recognised in profit or loss. For financial liabilities that are designated at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method.

The Corporation designated the debenture in place as of December 2021 and its embedded derivative at FVTPL on initial recognition, but at amortized cost for the new 2022 debenture.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Financial instruments (cont'd)

The Corporation has classified all of its financial assets and liabilities as follows:

Financial Instrument	Classification
Cash or bank indebtedness	Amortized cost
Accounts receivable	Amortized cost
Advances to key management personnel	Amortized cost
Trade and other payables	Amortized cost
Short term loan	Amortized cost
Due to unrelated companies	Amortized cost
Due to an unrelated individual	Amortized cost
Debentures issued in 2022	Amortized cost
Debentures issued in 2021	FVTPL

Derecognition

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Financial instruments (cont'd)

Impairment of financial assets

The Corporation recognizes loss allowances for expected credit losses on financial assets on financial assets measured at amortized cost.

Loss allowances are measured at an amount equal to lifetime expected credit losses.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Corporation's is exposed to credit risk. The Corporation does not hold any financial asset subject to expected credit losses with contractual period over 12 months.

Expected credit losses ("ECLs") are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

3.3 Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and impairment losses.

Cost includes all costs incurred initially to acquire an item of property, plant and equipment, costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and costs incurred subsequently to add to or replace part of it. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Day-to-day maintenance costs of property, plant and equipment are recognized in net income (loss) when incurred. Day-to-day maintenance costs primarily include labor and consumables and may also include the cost of small parts. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is recognized on a straight-line and declining basis to write down the cost to its estimated residual value, with a constant charge over the useful life of the asset. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The applicable periods and method are as follows:

	Method	Period
Office furniture	Straight-line method	5 years
Computer equipment	Straight-line method	4 years
Leasehold improvements	Straight-line method	Lesser of lease term and 60 months
Equipment	Straight-line method	5 to 20 years
Dams	Straight-line method	15 to 30 years
Building	Straight-line method	20 years

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Intangible assets

Intangible assets consist of a power purchase agreement acquired as part of the business acquisition (Note 4). Intangible assets that are acquired by the Corporation and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses in accordance with IAS 36, Impairment of Assets. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives as follows:

	Useful life
Power purchase agreements	Contractual period - 19 and 8 years

Useful lives and residual values are reviewed at each financial year-end and adjusted prospectively, if appropriate. The carrying amounts are reviewed at each reporting date to determine whether there is an indication of impairment.

3.5 Leases

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

I. The contract involves the use of an identified asset;
II. The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
III. The Corporation has the right to direct the use of the asset.

The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Corporation's incremental borrowing rate. The carrying amount of the rental obligations must be revalued if there is a change in the term of the lease, rent payments that are essentially fixed payments or a change in the assessment of an option to purchase the underlying property.

The Corporation applies the practical expedient exemption not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. The right-of-use asset for land is depreciated over the term of the lease, which is 25 years. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Leases (cont'd)

The term of the lease is to be determined as the non-cancellable term of the lease plus any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Payments associated with short-term leases and leases of low-value assets, which are considered to be assets having a replacement cost value of less than $5,000, are recognized as expenses on a straight-line basis. Short-term leases are leases with a lease term of 12 months or less.

3.6 Segmented information

An operating segment is a component in the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. The Corporation's Chief Executive Officer regularly reviews all operating segments' operating results to decide which resources should be allocated to the segment and to assess its performance, for which specific financial information is available.

Management considers that the Corporation operates in a single sector, which is small-scale hydroelectric power generation in North America.

3.7 Net loss per share

The calculation of the loss per share is based on the weighted average number of shares outstanding for each year. The basic loss per share is calculated by dividing the loss attributable to the equity owners of the Corporation by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by adjusting earnings attributable to common shares of the Corporation, and the weighted average number of shares outstanding. Dilutive potential common shares shall be deemed to have been converted into common shares at the beginning of the period or, if later, the date of issuance of the potential common shares.

For the purpose of calculating diluted earnings per share, the Corporation assumes the exercise of all dilutive options, warrants and conversion of debentures of the Corporation. The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the year. The debenture is antidilutive whenever its interest (net of tax and other changes in income or expenses) per ordinary share obtainable on conversion exceeds basic earnings per share. At the end of the reporting year, the diluted earnings per share is equal to the basic earnings per share as a result of the anti-dilutive effect of the outstanding options, warrants and debentures, their conversion would have an impact on the net loss per share.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Deferred income taxes

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in shareholder's deficiency or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred income taxes are recognised in respect of temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not recorded on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Corporation and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply on their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Corporation has the right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax in profit or loss, except where they relate to items that are recognized in other comprehensive loss or directly in shareholder's deficiency, in which case the related deferred tax is also recognized in other comprehensive loss or shareholders' deficiency, respectively.

3.9 Equity

Share capital represents the amount received on the issuance of shares.

Unit placements
Proceeds from unit placements are allocated between shares and warrants issued using their relative fair value determined using the Black-Scholes pricing model, to calculate the fair value of the warrants.

Issuance costs of shares
The issuance costs of shares, net of tax benefits when recognized, are included against share capital in the period in which they occurred.

Options issued to brokers are accounted for as share issue expenses of equity instruments against share capital with a corresponding credit to contributed surplus in equity.

The Corporation operates an equity-settled share-based remuneration plan (share options plan) for its directors, officers and employees who are eligible and other stock-based payments offered to consultants.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Equity (cont'd)

The Corporation's plan does not feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair value and recorded as an expense in net income (loss). Where an employee or other providing similar services is rewarded using share-based payments, the fair value of the services rendered by the employee is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in a prior period if the number of share options ultimately exercised is different than the number estimated.

Upon exercise of share options, the proceeds received are recorded as share capital. The accumulated charges related to the share options and brokers' options recorded in contributed surplus are then transferred to share capital.

3.10 Government Assistance

Government assistance is recognized when there is reasonable assurance that the Corporation will comply with the requirements of the approved grant and the Corporation, based on management's judgment, is reasonably certain that the government assistance will be received. Government assistance related to certification fees is recorded as a reduction of such expenses.

3.11 Revenue recognition

The Corporation recognizes its revenues, which consist of energy sales, when the energy is delivered to the buyer's substation, and there is no unfulfilled obligation that could affect the buyer's acceptance of energy.

3.12 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Standards issued but not yet effective (cont'd)

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.

3.13 Critical accounting estimates, judgments and assumptions

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 judgments
Going concern (Note 1)

Key sources of estimation uncertainty
Debentures (Notes 14 and 19)

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.13 Critical accounting estimates, judgments and assumptions (cont'd)

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 common 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 was 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
As part of assessing property, plant and equipment and intangible assets for impairment, the recoverable amount of a CGU is determined as the higher of the amount determined using the discounted future cash flow method (value-in-use) and the market-based method (estimated fair value less costs to sell). 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. See Note 7.

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.

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4. BUSINESS ACQUISITION

Acquisition of Wolf River Hydro Limited partnership, LP
On December 1, 2022, the Corporation completed the acquisition of Wolf River Hydro Limited partnership ("Wolf River"). The Wolf River acquisition expanded the Corporation's scope of services, particularly as a renewable energy group that delivers clean and reliable hydropower solutions from small-scale hydroelectric power generation plants.

The Corporation acquired 100 % of Wolf River interest through a US subsidiary, Charbone Corporation USA, for a cash consideration of US$740,525 (CAD 1,000,301). Transaction costs of $210,910 in connection with the acquisition were expensed as incurred in the consolidated statements of loss and comprehensive loss.

The Corporation determined the fair value of the assets acquired based on management's best estimate of their fair values and taking into account all relevant information available at that time. The Corporation has not yet finalized the purchased price allocation given the limited time between the acquisition and December 31, 2022. The purchase prices have been allocated on a preliminary basis and will be finalized as soon as the Corporation's management has obtained all the information it considers necessary.

The acquisition was accounted for by the Corporation using the acquisition method set out in IFRS 3, Business Combinations and the balance sheet and results of operations of Wolf River has been consolidated with the Corporation as of December 1, 2022. Had the acquisition occurred at the beginning of the fiscal year, revenues for the Corporation would have increased by $247,291 and net loss would have decreased by $86,355.

The following provides the allocation of the net assets acquired and liabilities assumed at estimated fair value at the date of acquisition:

Net assets acquired		
Prepaid expenses	$	6,328
Restricted cash		193,731
Property, plant and equipment		697,985
Intangible assets		138,271
		1,036,315
Assumed liabilities		
Deferred revenue		(12,254)
Trade and others payable		(23,760)
	$	(36,014)
Net asset acquired and assumed liabilities		1,000,301

The fair value of the intangible assets, which consist of a power purchase agreement, to sell electricity at a pre-determined rate per MWh until February 2031, was calculated using a discounted cash flow method. The fair value of property, plant and equipment was established using a discounted cash flow approach.

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4. BUSINESS ACQUISITION (cont'd)

Acquisition of Stuwe and Davenport Partnership, LLC
On June 29, 2021, the Corporation completed the acquisition of Stuwe & Davenport Partnership, LLC ("Stuwe"). The Stuwe acquisition expanded the Corporation's scope of services, particularly as a renewable energy group that delivers clean and reliable hydropower solutions from small-scale hydroelectric power generation plants.

The Corporation acquired 100 % of Stuwe interest through a US subsidiary, Charbone Corporation USA, for a cash consideration of US$375,000 (CAD 465,454). Transaction costs of $51,811 in connection with the acquisition were expensed as incurred in the consolidated statements of loss and comprehensive loss.

The allocation of the purchase price is based on the Corporation's estimates. The acquisition was accounted for by the Corporation using the acquisition method set out in IFRS 3, *Business Combinations* and the balance sheet of Stuwe has been consolidated with the Corporation as of June 29, 2021. Had the acquisition occurred at the beginning of the fiscal year, revenues for the Corporation would have increased $110 and net loss would have increased by $206,771.

The following provides the allocation of the net assets acquired and liabilities assumed at estimated fair value at the date of acquisition:

Net assets acquired		
Property, plant and equipment	$	377,454
Intangible assets		113,000
		490,454
Assumed liabilities		
Trade and others payable		(25,000)
Net of asset acquired and assumed liabilities	$	465,454

The fair value of the intangible assets, which consist of a power purchase agreement, to sell electricity at a pre-determined rate per MWh until end of 2040, was calculated using discounted cash flow method. The fair value of property, plant and equipment was established using a discounted cash flow approach.

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5. REVERSE ACQUISITION OF ORLETTO CAPITAL II INC. BY CHARBONE CORPORATION

Through the Amalgamation, as described in Note 1, Orletto acquired legal control of Charbone Corporation by way of an amalgamation between Charbone Corporation and Orletto Subco, a wholly-owned subsidiary of Orletto. However, as the shareholders of Charbone Corporation gained voting control of Orletto pursuant to the issuance of Orletto common shares to the shareholders of Charbone Corporation, representing a significant majority interest, Charbone Corporation. is determined to be the accounting acquirer and, consequently, the transaction has been accounted for as a reverse acquisition of Orletto by Charbone Corporation. As Orletto does not meet the definition of a business, the transaction is accounted for as a reverse acquisition of net assets, pursuant to IFRS 2, Share-based payment.

The acquisition-date fair value of the consideration transferred by the accounting acquirer, Charbone Corporation, for its interest in the accounting acquiree, Orletto, of $2,559,245 is determined based on the fair value of the equity interest Charbone Corporation would have had to give to the owners of Orletto, before the reverse acquisition, to provide the same percentage equity interest in the combined entity that results from the reverse acquisition, and is recorded as an increase in common shares in the consolidated statement of financial position.

As the fair value of Orletto's identifiable net liabilities at the reverse acquisition date was $70,283, the excess of consideration transferred over the net liabilities assumed of $2,629,528 is reflected as a reverse acquisition of Orletto expense in the consolidated statements loss and comprehensive income loss.

The following table provides a breakdown of expenses incurred in connection with the reverse acquisition of Orletto by Charbone Corporation for the year ended December 31, 2022:

	2022	2021
Consideration transferred for Orletto in excess of net liabilities assumed	$ 2,629,528	$ -
Professional fees	158,894	815,591
	$ 2,788,422	$ 815,591

6. ACCOUNTS RECEIVABLE

	December 31, 2022	December 31, 2021
Trade receivable	10,114	-
Sales taxes receivable	195,166	208,965
Other receivables	56,422	-
	$ 261,702	$ 208,965

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7. PROPERTY, PLANT AND EQUIPEMENT

As at December 31, 2022

	Office furniture	Computer equipment	Leasehold improvements	Equipment	Dams	Land	Hydrogen plant in construction	Building	Total
COST									
Balance as at January 1, 2022	$ 12,124	5,587	23,075	287,982	72,379	17,093	346,510	-	764,750
Additions	55,578	20,934	228,265	10,735	-	-	742,584	-	1,058,096
Impact of lease payment forgiveness (note 9 (2))	-	-	-	-	-	-	(66,170)	-	(66,170)
Addition through business acquisition (Note 4)	-	-	-	416,208	151,256	70,512	-	60,009	697,985
Effect of movements in exchange rate	-	-	-	28,085	7,182	1,787	-	161	37,215
Balance as at December 31, 2022	67,702	26,521	251,340	743,010	230,817	89,392	1,022,924	60,170	2,491,876
ACCUMULATED DEPRECIATION									
Balance as at January 1, 2022	703	815	2,692	28,798	1,206	-	-	-	34,214
Depreciation	5,740	4,094	31,110	67,514	3,382	-	-	252	112,092
Effect of movements in exchange rate	-	-	-	5,130	211	-	-	-	5,341
Balance as at December 31, 2022	6,443	4,909	33,802	101,442	4,799	-	-	252	151,647
CARRYING AMOUNT AS AT DECEMBER 31, 2022	$ 61,259	21,612	217,538	641,568	226,018	89,392	1,022,924	59,918	2,340,229

The accompanying notes form an integral part of these consolidated financial statements.

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7. PROPERTY, PLANT AND EQUIPEMENT (cont'd)

As at December 31, 2021

	Office furniture	Computer equipment	Leasehold improvements	Equipment	Dam	Land	Hydrogen plant in construction	Total
COST								
Balance as at January 1, 2021	$ -	-	-	-	-	-	-	-
Additions	12,124	5,587	23,075	-	-	-	346,510	387,296
Additions through business acquisition (Note 4)	-	-	-	287,982	72,379	17,093	-	377,454
Balance as at December 31, 2021	12,124	5,587	23,075	287,982	72,379	17,093	346,510	764,750
ACCUMULATED DEPRECIATION								
Balance as at January 1, 2021	-	-	-	-	-	-	-	-
Depreciation	703	815	2,692	28,798	1,206	-	-	34,214
Balance as at December 31, 2021	703	815	2,692	28,798	1,206	-	-	34,214
CARRYING AMOUNT AS AT DECEMBER 31, 2021	$ 11,421	4,772	20,383	259,184	71,173	17,093	346,510	730,536

The accompanying notes form an integral part of these consolidated financial statements.

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7. PROPERTY, PLANT AND EQUIPEMENT (cont'd)

Impairment test
The Corporation identified possible indicators of impairment for the cash generating unit Stuwe and Davenport acquired in June 2021. The Corporation performed an impairment test and determined that there was no impairment of the property, plant and equipment or intangible assets. The estimated recoverable amount of these assets was based on fair value less costs of disposal (''FVLCD''). The fair value measurement was categorized as a Level 3 fair value and was determined based on a market comparable, third-party market value discussions and future cash flows analysis from a buyer perspective. The main assumptions used in the FVLCD measurement are the annual MWh production capacity, the discount rate and cash outflows. The total cash generated unit's (Stuwe and Davenport) has a net book value of $420,000 as of December 31, 2022.

Management has identified that a reasonable possible change in the annual MWh production could cause carrying amount of these assets to exceed the recoverable amount. A 10% decrease in the annual MWh production would result in a decrease in the recoverable amount and an impairment charge of $118,000.

8. INTANGIBLE ASSETS

		December 31, 2022		December 31, 2021
Costs				
Balance at the beginning	$	113,000	$	-
Acquisition through a business acquisition (Note 4)		138,271		113,000
Effect of movements in exchange rate		10,953		-
Balance at the end		262,224		113,000
Accumulated amortization				
Balance at the beginning	$	2,974	$	-
Amortization		7,663		2,974
Effect of movements in exchange rate		504		-
Balance at the end		11,141		2,974
Net book value at the end	$	251,083	$	110,026

Impairment test
The Corporation performed an impairment test and determined that there was no impairment of the intangible assets relating to the Stuwe cash generating unit. See note 7 for more details as the recoverable amount was calculated together.

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9. RIGHT-OF-USE-ASSETS

		Office	Premises	Automobile	Total
Book value of assets					
Balance as at January 1, 2022	$	192,732	1,111,890	-	1,304,622
Addition of right-of-use assets		-	21,634	33,574	55,208
Revaluation of right-of-use assets (1)			21,596	-	21,596
Lease modification (2)		(56,305)	(267,236)	-	(323,541)
Balance as at December 31, 2022		136,427	887,884	33,574	1,057,885
Accumulated depreciation					
Balance as at January 1, 2022	$	33,126	18,532	-	51,658
Depreciation (3)		15,519	42,580	6,457	64,556
Balance as at December 31, 2022		48,645	61,112	6,457	116,214
Net book value as at December 31, 2022	$	87,782	826,772	27,117	941,671

(1) The land lease provides for an annual increase in lease payment corresponding to the lesser of 2% and the CPI index measured by the Bank of Canada for the Montreal area. After the commencement date, the lease liability is remeasured to reflect changes to the lease payments arising from changes in the index. Any remeasurement of the lease liability is adjusted against the right-of-use asset.
(2) During the third quarter, the land lease included as part of premises in the table above was renegotiated so that the lease payments that remained due for the months of August 2021 to May 2022 were forgiven, and the duration of the lease was increased by one year until 2047. The change was accounted for as a lease modification requiring modification of the lease obligation to reflect the new payments at lease modification date using a revised discount rate, making a corresponding adjustment to the right-of-use asset. In addition, the impact of forgiveness of the lease payable was recognized as an adjustment of previously capitalized interest and amortization to Property, Plant and Equipment.
Right-of-use assets for premises has been calculated net of a renovation allowance to be received of $25 per square feet for a total amount of 64 100 $. An amount of 32,050$ was received in October 2022, the other portion of the allowance will be received in future.
(3) Depreciation of right-of-use assets for the premises of $42,580 are capitalized in property, plant and equipment.

		Office	Premises	Automobile	Total
Book value of assets					
Balance as at January 1, 2021	$	-	-	-	-
Addition of right-of-use assets		192,732	1,111,890	-	1,304,622
Balance as at December 31, 2021		192,732	1,111,890	-	1,304,622
Accumulated depreciation					
Balance as at January 1, 2021	$	-	-	-	-
Depreciation		33,126	18,532	-	51,658
Balance as at December 31, 2021		33,126	18,532	-	51,658
Net book value as at December 31, 2021	$	159,606	1,093,358	-	1,252,964

The accompanying notes form an integral part of these consolidated financial statements.

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10. RESTRICTED CASH

The restricted cash has been acquired in a business acquisition (Note 4) to respect the obligation to reserve funds for future projects and maintenance services that must be jointly financed with the regional tribes. The Corporation is not expected to use the funds in the next 12 months.

11. SHORT TERM LOAN

On February 16, 2022, the Corporation signed an amendment to the financing agreement with Finexcorp to increase the maximum amount available to $2,500,000 ($1,000,000 as at December 31, 2021). The available financing is for a non-cumulative amount of up to $500,000 for advances on trade receivables, purchase orders and other receivables from the government (the short-term facility), and an amount of up to $2,500,000 to finance up to 85% of the purchase price of fixed assets accepted by the lender (the long-term facility). The short-term and long-term facilities used from time to time shall not exceed the total maximum amount of $2,500,000. The asset backed securities of $500,000 will be subject to a fee varying from 0.85% to 5.0% at the time of the advances and daily interest between 0.085% and 0.1% for a term of 12 months. The long-term facility will bear interest at an annual rate of 14% and will have a term of 60 months, with monthly repayments starting at the 6-month anniversary.

As at December 31, 2022, $30,677 ($42,622 as at December 31, 2021) is used in connection with this financing agreement.

12. TRADE AND OTHER PAYABLES

	December 31, 2022	December 31, 2021
Accounts payables and accrued liabilities	$ 2,245,923	$ 1,638,205
Accounts payable to a company under common control	-	9,790
Accrued interest on debentures	118,068	220,250
Interest on unpaid lease obligation	-	28,890
	$ 2,363,991	$ 1,897,135

13. LEASE OBLIGATIONS

The following table presents the lease obligations of the Corporation:

	December 31, 2022	December 31, 2021
Balance as at the beginning	$ 1,309,489	$ -
New lease obligations	53,675	1,304,622
Revaluation of lease obligation (Note 9)	21,596	
Modification of lease obligation (Note 9)	(291,492)	-
Effective interest on lease obligations	3,959	33,757
Effective interest on lease obligations capitalized	16,303	-
Payments of lease liability, including related interest	(114,153)	-
Unpaid payments of lease liability, including related interest	-	(28,890)
Balance at the end	$ 999,377	$ 1,309,489

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13. LEASE OBLIGATIONS (cont'd)

The following table summarizes the contractual undiscounted cash flows from lease obligations:

		December 31, 2022
Maturity analysis – contractual undiscounted cash flows		
Less than one year	$	110,177
One to five years		461,494
More than five years		1,521,000
Total undiscounted lease obligations		2,092,671
Lease obligation balance, end of year		999,377
Current portion		34,590
Non-current portion	$	964,787

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14. DEBENTURES

	December 31, 2022	December 31, 2021
Debentures, nominal value of $1,892,500 (December 31, 2021 - $1,892,500), measured at fair value, unsecured, repayable at maturity either in cash or in common shares at the Corporation's option as described below, bearing interest at 11%, payable in cash semi-annually or settled in securities at maturity, December 2023[a) b) c) d)]	$ -	$ 3,183,585
Debentures, nominal value of $216,895 (December 31, 2021 - $216,895), measured at fair value, unsecured, repayable at maturity either in cash or in common shares at the Corporation's option as described below, bearing interest at 16%, payable in cash semi-annually, maturing in December 2023[a) f)]	-	364,864
Debentures, nominal value of $250,000 (December 31, 2021 - $250,000), measured at fair value, unsecured, repayable at maturity either in cash or in common shares at the holder's option as described below, bearing interest at 11%, payable in cash semi-annually, maturing in December 2023 [a) e)]	-	420, 658
Debentures, nominal value of $1,200,000, measured at amortized cost, secured, repayable at maturity either in cash or in common shares at the holder's option as described below, bearing interest at 14%, payable in cash quarterly or in units at the holder's option, maturing in October 2024 [g)]	1,057,556	-
Total	$ 1,057,556	$ 3,969,107

A rollforward of the debentures was as follows:

	December 31, 2022	December 31, 2021
Balance at the beginning of year	$ 3,969,107	$ 301,160
Debenture issued for cash	1,145,918	1,375,542
Debenture issued for payment of services	-	270,328
Debenture issued for the acquisition of property plant & equipment	-	91,970
Debentures issued for payment of promissory notes	-	276,588
Debenture issued in settlement of due to unrelated companies	-	41,114
Debenture issued as for an advance receivable from a related company [1)]	-	10,000
Issuance expenses	(103,259)	-
Unrealized foreign exchange gain	-	(7,307)
Change in the fair value of the debentures	69,394	1,609,712
Interest on debenture	54,563	-
Unpaid interest on debenture	(39,666)	-
Conversion of the debenture into equity (Note 15)	(4,038,501)	-
Balance at the end of year	$ 1,057,556	$ 3,969,107

[1)] This advance receivable has subsequently been written off during the year.

14. DEBENTURES (cont'd)

a) These debentures are convertible at the option of the Corporation or the holder, upon any of these events, if they occur before the maturity date:

- A listing of the Corporation's Class A Share on a Stock exchange;
- The acquisition of the Corporation by an existing company listed on a Stock Exchange, such that the resulting effect is that holders of the Class A Shares receive shares in the capital of the resulting public company;
- Any other type of transaction which results in the current holders of Class A Shares receiving shares of a company listed on a Stock Exchange in exchange for their existing shares of the Corporation; or
- An issuance of shares of the Corporation to an outside investor based on a valuation of the Corporation of no less than $5,000,000.

The conversion price is established as equal to 75% of the price attributed to the Class A Share of the Corporation, in the context of the relevant events above. Upon conversion, the holder will also receive one warrant for every share issued. The warrants will have a maturity of three years and be exercisable at the price attributed to the Class A Share of the Corporation at the time of issuance.

b) In 2021, the Corporation reached agreements to settle payables and promissory notes, in exchange of convertible debentures for the same nominal value. The details of the elements settled against these debentures are as follows:
   - Trade payables and accrued liabilities of $103,412
   - Promissory notes and accrued interest of $276,588

c) In 2021, the Corporation reached agreements to settle due to unrelated companies of $41,114 and professional fees of $8,886 through the issuance of a debenture with a nominal value of $50,000.

d) In 2021, the Corporation issued convertible debentures of a nominal value of $250,000 for engineering professional services.

e) On December 1, 2021, the Corporation signed an agreement with the holder of a convertible debenture with a nominal value of USD175,000 to convert this into a Canadian-denominated debenture with a nominal value of CAD216,895. All other terms remained unchanged.

f) During March 2022, the Corporation has concluded agreements with debenture holders to convert accrued interest on their debentures into shares and warrants. According to the agreements, accrued interest is calculated as of April 8, 2022, the estimated date for the Corporation's listing on the stock market. On April 28, 2022, the Corporation issued 548,838 units at a price of $0.40 per units to settle the interest owed on the principal of the Charbone Debenture in the amount of $219,559. Each unit represents one common share of the Corporation and a half of a warrant. Each full warrant entitles the holder to purchase one additional common share of the Corporation at a price of $0.60 for a period of 18 months following the date of issuance. (Note 15)

14. DEBENTURES (cont'd)

g) These debentures are convertible at the option of the holder. The capital of the debenture is convertible at a conversion price of $0.40 per the Class A Share of the Corporation. At the issuance, the holder also received, for each $1,000 principal amount of debentures, 2,500 warrants. The warrants will have a maturity of two years and be exercisable at an exercise price of $0.60. The maturity date for payment of these debentures is October 7, 2024. At maturity, the principal amount is payable in cash if no conversion has taken place.

The convertible debenture is a compound financial instrument. The fair value of the instrument was allocated between a liability for the debenture and equity for the warrants and conversion option. The fair value of the liability component at inception was $1,145,918, determined using estimated future cash flows discounted using a market interest rate of 18 %, net of financing costs of $103,259. The residual of $54,082 has been prorated between the warrants issued with debentures and option of the convertible debenture according to their fair value estimated using the Black-Scholes option pricing model assumptions (Note 19). The fair value of the warrants included in the warrant reverse at inception was $17,200, net of financing costs of $1,551. The fair value of the equity conversion option of the convertible debentures at inception was $36,882, net of financing costs of $3,324.

Interest on the convertible debentures is payable, at the option of the holder, into one unit, which is composed of one Class A share and one warrant:

- The common share price will be determined as the higher of:
  - the last closing price on the date of the press release announcing the interest payment being made in unit, less the maximum discount permitted by the TSX;
  - the average share price on the TSVX over the last 5 days prior to the press release announcing the interest payment being made in unit, prorated by volume.
- The warrants included in these units will have an exercise price 30% higher than the common share price determined as detailed above.

Each of the above debentures is secured by Charbone USA's investments in Stuwe and Wolf River.

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15. SHARE CAPITAL

Shares

	December 31, 2022	
	Number of shares	Carrying amount
Balance at beginning of year	20,835,350	$ 220,553
Effect of reverse acquisition (1)	6,300,000	2,386,730
Conversion of debentures (2)	7,864,650	2,979,493
Conversion of the interest on debenture (4)	548,838	207,925
Private placement (3)	11,270,000	4,269,109
Share issue costs (3)	-	(642,984)
Unit issued to brokers (3)	250,000	94,701
Issuance of units for payment to a supplier (4)	62,445	24,407
Exercise of stock options (5)	252,000	96,206
Private placement (6)	5,351,669	544,762
Share issue costs (6)	-	(22,389)
Balance as at December 31, 2022	52,734,952	10,158,513

As at December 31, 2022 the Corporation's share capital consists of 52,299,277 fully paid Class A common shares, voting and participating and 435,675 shares for which the consideration was to be received, for a total of $52,281 included in the other receivable as at December 31, 2022. Theses subscriptions to be received have been received in January 2023. The Corporation has authorized an unlimited number of Class A common shares without par value. In connection with the Amalgamation, the following common share transactions were undertaken by the Corporation:

- On April 21, 2022, all outstanding common shares of Charbone Corporation were exchanged on a one-for-one basis for common shares of the Corporation.

- As described in note 1, the reverse split was completed on April 21, 2022 and is reflected retrospectively in these consolidated financial statements.

(1) The fair value of the assumed consideration paid by the Corporation to Orletto amounts to $2,559,245, representing the assumed issuance of 6,300,000 common shares and 630,000 stock options to the existing shareholders of Orletto at the date of the reverse acquisition after considering a consolidation of 0.9265 for each share of Orletto and assuming a fair value per share post-consolidation of $0.38, being the price of the common shares in the Private Placement. The total value attributed to the common share purchase options is $172,515.

(2) On April 20, 2022, in connection with the Amalgamation, $4,038,501 of debentures were converted into units at a price of $0.30 per unit. Each unit represents one common share of the Corporation and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Corporation at a price of $0.40 for a period of 3 years following the date of issuance. The total value attributed to the warrants in the transactions detailed above is $1,059,008. The assumptions used to estimate the fair value of the warrants using the Black-Scholes option pricing model are presented in Note 16.

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15. SHARE CAPITAL (cont'd)

Shares (cont'd)

(3) On April 21, 2022, in connection with the Amalgamation, Charbone Corporation issued 11,270,000 units in a private placement for gross proceeds of $4,508,000 which $4,269,109 is recognized in share capital and $238,891 in the warrant reserve. In relation with the private placement, the Corporation incurred share issue costs, deducted from shareholders' equity, of $684,964 of which $642,984 is recognized against share capital and $41,980 against warrant reserve. The Corporation also incurred costs of $100,000 relating to issuance of 250,000 common shares and 125,000 warrants granted as corporate finance fee, as well as, $81,707 related to the fair value of the 901,600 eighteen-months compensation options granted to the agents. The warrants are exercisable at a price of $0.60 per share and compensation options are exercisable at a price of $0.40 per share, both for a period of 18 months.

(4) On April 28, 2022, the Corporation issued 548,838 units at a price of $0.40 per units to settle some of the interest owed on the principal of the Charbone Debenture in the amount of $219,559. The Corporation also issued 62,447 units at a price of $0.40 to settle an account payable with its supplier in the amount of $24,978. Each unit represents one common share of the Corporation and a half of a warrant. Each full warrant entitles the holder to purchase one additional common share of the Corporation at a price of $0.60 for a period of 18 months following the date of issuance. The total value attributed to the warrants in the transactions detailed above is $12,205.

(5) On May 24, 2022, a holder of 126,000 options exercised his right for the 126,000 common shares. On October 12, 2022, a second holder of 126,000 options exercised his right for the 126,000 common shares. The common shares were issued at an exercise price of $0.107937 for a total consideration of $13,600.

(6) On December 15 and 29, 2022, the Corporation issued respectively 4,384,969 units and 966,700 units in a private placement for gross proceeds of $642,200 of which $544,762 is recognized in share capital and $97,438 in the warrant reserve. Each unit represents one common share of the Corporation and one warrant. In relation with the private placement, the Corporation incurred share issue costs, deducted from shareholders' equity, of $28,074 of which $22,389 is recognized against share capital and $5,685 against warrant reserve. The Corporation also incurred costs of $105 relating to issuance of 3,200 warrants granted as corporate finance fee. The warrants are exercisable at a price of $0.20 per for a period of 24 months.

The common shares entitle the holders thereof to one vote per share. The holders of the common shares are entitled to receive dividends as declared from time to time. Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation, the holders of the common shares are entitled to receive the remaining property of the Corporation upon its dissolution, liquidation or winding-up.

	December 31, 2021	
	Number of shares	Carrying amount
Balance at beginning of year	20,222,969	$ 316
Shares issuance - Class A shares (1)	612,381	220,237
Balance as at December 31, 2021	20,835,350	220,553

(1) Shares issued as consideration for services rendered by a third party between July and September 2021. These services were recognized in the statement of loss and comprehensive loss as at December 31, 2021.

The accompanying notes form an integral part of these consolidated financial statements.

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16. SHARE BASED PAYMENT

Common share purchase options

The Corporation adopted Orletto's stock option plan (the "Plan") wherein the Board of Directors may from time to time grant options to its directors, administrators, employees and consultants to acquire common shares. The conditions and the exercise price of each option are determined by the Board of Directors.

The Plan states that the maximum number of common shares in the capital of the Corporation which may be reserved for issuance under the Plan is 10% of the common shares outstanding at the date of the grant. In a 12-month period, the maximum number of common shares reserved for the granting of options to a single owner may not exceed 5% of the common shares outstanding and common shares reserved for consultants or eligible person responsible of investors' relations may not exceed 2% of the common shares outstanding. Options must be exercised ten years after the grant date, unless a shorter period is otherwise determined by the Board of Directors. The maximum number of common shares reserved for issuance upon the exercise of options granted to insiders cannot exceed 10% of the number of common shares issued and the grant of options to insiders in a 12-month period.

The exercise price of each option is determined by the Board of Directors and cannot be lower than the market value of the common shares on the grant date.

A summary of changes in the Corporation's share purchase options is as follows:

	December 31, 2022	
	Number of options	Weighted average exercise price
Balance, beginning of year	-	$ -
Re-issuance of grants to former Orletto Shareholders	630,000	0.1079
Granted	4,251,600	0.5576
Exercised	(252,000)	(0. 1079)
Balance, December 31, 2022	4,629,600	0.5209
Options exercisable at December 31, 2022	4,629,600	0.5209

During the second quarter, the Corporation granted a total of 1,531,600 options to agents and existing shareholders of Orletto at the date of the reverse acquisition of which, 252,000 options have been exercised as of December 31, 2022.

During the third quarter, the Corporation granted a total of 3,350,000 options to members of the Board, key management personal and employees.

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16. SHARE BASED PAYMENT (cont'd)

Common share purchase options (cont'd)

The fair value of stock options are estimated using the Black-Scholes option pricing model assumptions at their respective grant dates:

Number of common share purchase options		901,600			630,000			3,350,000
Weighted average share price at grant date	$	0.38		$	0.38		$	0.22 to 0.28	
Exercise price	$	0.40		$	0.1079		$	0.60	
Risk-free interest rate		2.56	%		2.56	%		2.94 to 3.30	%
Expected volatility		51.00	%		50.00	%		52.35	%
Expected life (in years)		1.5			1			5	
Expected dividend		0.00	%		0.00	%		0.00	%

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

		Options outstanding and exercisable	
Exercise price range	Number of options	Weighted average remaining contractual life	Weighted average exercise price
$		(in years)	$
0.1079	378,000	0.3041	0.1079
0.4000	901,600	0.8055	0.4000
0.6000	3,350,000	4..6778	0.6000

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16. SHARE BASED PAYMENT(cont'd)

Warrants

Outstanding purchase warrants, entitling their holders to subscribe to an equivalent number of common shares, were as follows:

	December 31, 2022		
	Number of warrants	Weighted average exercise price	Fair value allocated
Balance at beginning of year	-	$ -	$ -
Private placement (Note 15[3])	5,635,000	0.6000	238,891
Share issue costs (Note 15[3])	-	-	(41,980)
Issued to brokers (Note 15[3])	125,000	0.6000	5,299
Issued upon conversion of debentures (Note 15[2])	7,864,650	0.4000	1,059,008
Issued upon settlement of the interest on debentures in units (Note 15[4])	274,419	0.6000	11,634
Issued for payment to a supplier (Note 15[4])	31,224	0.6000	571
Private placement (Note 15[6])	5,351,669	0.200	97,438
Share issue costs (Note 15[6])	-	-	(5,685)
Issued to brokers (Note 15[6])	3,200	0.200	106
Issued with debentures (Note 14)	3,000,000	0.600	17,200
Share issue costs (Note 14)	-	-	(1,551)
Balance as at December 31, 2022	22,285,162		1,380,931

The fair value of warrants are estimated using the Black-Scholes option pricing model with the following weighted average assumptions at their respective grant dates :

Number of warrants		13,930,293			5,354,869	
Weighted average share price at grant date	$	0.38		$	0.11	
Exercise price	$	0.40 to 0.60		$	0.20	
Risk-free interest rate		2.50 to 2.56	%		3.68 to 4,01	%
Expected volatility		51.00 to 52.09	%		62.65 to 66.24	%
Expected life (in years)		1.5 to 3			2	
Expected dividend		0.00	%		0.00	%

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16. SHARE BASED PAYMENT(cont'd)

Warrants

The following table summarizes certain information on outstanding warrants as at December 31, 2022 :

Warrants outstanding and exercisable			
Exercise price range	Number of warrants	Weighted average remaining contractual life	Weighted average exercise price
$		(in years)	$
0.4000	7,864,650	2.30.68	0.4000
0.6000	6,065,643	0.8056	0.6000
0.2000	5,354,869	1.9659	0.2000

17. GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
Professional fees including related to business acquisition	$ 2,876,115	$ 926,589
Travel expenses	298,112	151,557
Meals, entertainment and other business development expenses	46,199	32,284
Investors relationships and marketing	310,433	6,503
Share based compensation	180,948	-
Salaries, fringe benefits and amounts paid to board members	178,130	3,161
Other expenses	317,343	165,488
	$ 4,207,280	$ 1,285,582

(in Canadian dollars)

18. FINANCIAL EXPENSES

	2022	2021
Interest on debentures	$ 129,566	$ 213,202
Change in the fair value of the debentures	69,394	1,609,712
Interest on short term debt	41,773	16,372
Realized loss on foreign exchange	16,743	9,294
Interest and bank fees	6,822	-
Interest on lease obligations	3,959	10,671
Unrealized loss (gain) on foreign exchange	3,111	(11,362)
Gain on settlement of account payable	(2,783)	-
Interest on promissory notes	-	1,541
Write-off of an advance to a company under common control	-	10,000
	$ 268,585	$ 1,859,430

19. FINANCIAL INSTRUMENTS

The Corporation is exposed to various financial risks that result from both its operations and its investment activities. Financial risk management is carried out by the Corporation's management.

Credit risk

Credit risk is the risk that the Corporation could experience a loss as a result of a counter-party being unable to meet its financial commitments. The Corporation is exposed to credit risk primarily through its accounts receivable, excluding the sales taxes receivable, advances to key management personnel, without interest and no specific repayment terms and its advance to a company under common control, without interest and no specific repayment terms.

Because the advances have no specific repayment terms, they are deemed repayable on demand and as such the contractual period is very short. The expected credit loss is based on a probability weighted scenario between two mutually exclusive scenarios: either the counter-party can pay today if demanded or it cannot.

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19. FINANCIAL INSTRUMENTS (cont'd)

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due.

Refer to Note 1, for additional discussion related to the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern.

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

December 31, 2022		Carrying amount	Contractual cash flow	Less than 1 year	2 to 5 years
Trade and other payables	$	2,363,991	2,363,991	2,363,991	-
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
	$	4,454,601	5,690,339	2,507,845	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

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19. FINANCIAL INSTRUMENTS (cont'd)

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 bore 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 of the debenture would have an impact of approximately $12,134 on the Corporation's statements of loss and comprehensive loss and cash flows 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.

The Corporation realizes purchases in foreign currency. Consequently, some assets and liabilities are exposed to foreign exchange fluctuations. As at December 31, 2022 and 2021, assets and liabilities denominated in foreign currency, as stated in Canadian dollars, are as follows:

December 31, 2022

	United States dollars	Euro	Canadian dollars
Cash	$ 1,049	$ -	$ 1,420
Accounts payables	3,759	22,640	38,050

December 31, 2021

	United States dollars	Euro	Canadian dollars
Cash	$ 880	$ -	$ 1,115
Accounts payables	7,858	11,527	26,551

A hypothetical strengthening of 1% of the US dollar and Euro against the Canadian dollar would have an impact of approximately $137 ($277 for the year ended December 31, 2021) on the Corporation's consolidated statement of loss and comprehensive loss on an annual basis.

(in Canadian dollars)

19. FINANCIAL INSTRUMENTS (cont'd)

Fair value

When measuring the fair value of an asset or a liability, the Corporation uses observable market data as much as possible. Fair values are categorized 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, bank indebtedness, accounts receivable, advances to key management personnel, trade and other payables, short term loan 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 debentures were classified as Level 3 financial liabilities that were valued using unobservable inputs to the valuation methodology which are significant to the measurement of the fair value. Level 3 financial liabilities consist of the financial liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

The fair value of the debentures at inception is determined using a discounted cashflow valuation technique using a risk adjusted discount rate, combined to the probability of the conversion of the debentures, including the achievement of a conversion event as defined in Note 14 a) and a Black-Scholes pricing model to determine the value of warrants to be issued in the case of a conversion.

The fair value of debentures are estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

		October 7, 2022			April 20, 2022			December 31, 2021	
Weighted average share price at grant date	$	0.21		$	0.38		$	0.40	
Exercise price		0.60			0.40			0.40	
Risk-free interest rate		4.05	%		2.56	%		0.23	%
Expected volatility		56.76	%		52.09	%		52.09	%
Expected life (in years)		2.00			3.00			3.00	
Expected dividend		0.00	%		0.00	%		0.00	%

(in Canadian dollars)

19. FINANCIAL INSTRUMENTS (cont'd)

Capital management

The Corporation's objective in managing capital is to ensure sufficient liquidity to develop its technologies and commercialize its services, finance its general and administrative expenses and those related to its debt reimbursement. The Corporation is not exposed to external requirements by regulatory agencies regarding its capital.

Since its inception, the Corporation has financed its liquidity needs primarily through issuance of debentures, promissory notes and share capital.

The capital management objectives are to raise sufficient funds through debt and equity in order to meet its business plan and the start-up of its operations. The Corporation defines capital to include shareholders' equity as well as certain financial liabilities, comprised of promissory notes and debentures.

Currently, the Corporation's general policy on dividends is to retain funds to finance the Corporation's growth.

20. RELATED PARTIES

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

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20. RELATED PARTIES (cont'd)

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 15). 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.

21. COMMITEMENTS AND GUARANTEES

In connection with credit card lines and the letter of credit required for the lease of the corporate office, the Corporation made deposits to the bank of $15,000 and $64,000, respectively. These deposits are secured by a universal mortgage and will be reimbursed when the obligations of each are extinguished.

The Corporation's commitments are for contracts that do not meet the definition of a lease under IFRS 16 or have applied the exemption for short-term leases.

	Service contracts	Lease
December 2023	$ 220,000	$ 12,000

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.

22. INCOME TAXES

The reconciliation of the income tax provision, calculated using the combined federal and Québec statutory tax rate with the provision of income taxes per the financial statements, is as follows:

	2022	2021
Net loss before income taxes	$ (7,383,537)	$ (4,031,243)
Expected recovery (26.5%)	1,956,637	1,068,279
Adjustment for the following items:		
Non-deductible expenses and others	833,720	55
Unrecognized variation of temporary differences	78,456	601,854
Unrecognized losses carryforward	1,044,460	466, 370
	$ 1,956,637	$ 1,068,279

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22. INCOME TAXES (cont'd)

	2022	2021
Components of deferred tax expense in the statements of loss and comprehensive loss		
Origination and reversal of temporary differences	$ (78,456)	$ (601,854)
Unrecognized variation of temporary difference	78,456	601,854
	$ -	$ -

As at December 31, 2022, available temporary differences for which no deferred tax assets were recorded are as follows:

	Federal	Provincial	US
Property, plant and equipment	$ (43,975)	$ (43,975)	$ -
Financing costs	1,437,326	1,437,326	-
Non-capital losses	6,169,412	5,986,435	186,025
Deferred income taxes	$ 7,562,763	$ 7,379,786	$ 186,025

As at December 31, 2022, the Corporation has non-capital losses for which no deferred tax assets were recorded and that can be carried over the following years:

	Federal	Provincial	US
2038	$ 50,254	$ 50,254	-
2039	253,188	252,962	$ -
2040	496,437	496,383	-
2041	1,846,533	1,835,972	88,477
2042	3,573,254	3,401,118	97,548
	6,219,666	6,036,689	186,025

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23. SUPPLEMENTAL CASH FLOW INFORMATION

	2022	2021
Supplemental cash flow information		
Net changes in non-cash working capital items:		
Account receivable	$ (456)	$ (208,965)
Prepaid expenses	(47,935)	(8,787)
Accounts payable and accrued liabilities	436,093	1,798,328
Deferred revenue	(12,254)	-
	$ 375,448	$ 1,580,576

Non-cash transactions:

- As at December 31, 2022, reassessment of and changes in the assumptions for the valuation of the right-of-use asset and the lease obligation that generated a revaluation of $301,945.
- As at December 31, 2022, in relation with the valuation of the right-of-use asset and the lease obligation, a reclassification of $66,170 of the interest on lease liability and depreciation of right-of-use assets of capitalized in property, plant and equipment against the accounts payable and accrued liabilities;
- Interest on unpaid lease obligation of $5,049 in trade and other payable as at December 31, 2021 has been reclassified;
- Property, plant and equipment included in accounts payable and accrued liabilities of $197,508 as at December 31, 2021 and $381,098 as at December 31, 2022;
- As at December 31, 2022, interest on lease liability of $59,384 and depreciation of right-of-use assets of $42,580 capitalized in property, plant and equipment.
- As at December 31, 2022, the conversion of $4,038,501 of debentures by the issuance of equity units for an amount of $2,979,493 in shares and $1,059,008 in warrants.
- As at December 31, 2022, the payment of interest on debentures for $219,559 by the issuance of equity units for an amount of $207,925 in shares and $11,634 in warrants.
- As at December 31, 2022, the payment of an account payable in the amount of $24,978 through the issuance of equity units for an amount of $24,407 in shares and $571 in warrants.
- As at December 31, 2022, a new leases agreement generating right of use asset and lease obligation of $53,675.
- As at December 31, 2022, the unpaid lease obligation included in accounts payable and accrued liabilities of $62,718;
- As at December 31, 2022, the unpaid interest on debenture included in accounts payable and accrued liabilities of $39,666;
- As at December 31, 2022, the issuance of equity in connection with the reverse acquisition of Orletto Capital II inc. (Note 5) for $2,386,730 in shares and $172,515 in warrants.
- As at December 31, 2022, equity units and stock options issued to brokers in connection with the private placement for respectively $94,701 in shares, $5,299 in warrants, $81,707 in stock option;
- As at December 31, 2022, conversion of stocks options into shares for $69,006;
- As at December 31, 2022, uncashed share subscription in connection with the December 2022 private placement of $52,281.

24. SUBSEQUENT EVENTS

On January 17, 2023, the Corporation 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 Tower Kleber (the ''TKLP) and Black River (the ''BRLP'') Limited Partnerships, 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 a non refundable 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 the receipt by the Corporation of satisfactory financing.

On January 20, 2023, the Corporation closed a third and final tranche of its private placement financing of units of the Corporation (the "Offering") for gross proceeds of $555,400. At the Closing Date, the Corporation 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 Corporation 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.

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.