Charbone Corporation

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2026, AND 2025

CHARBONE CORPORATION

Condensed Consolidated Interim Financial Statements
(Unaudited)

Six-month periods ended June 30, 2026, and 2025

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Charbone Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in Canadian dollars)

(Unaudited)

	June 30, 2026	December 31, 2025
ASSETS		
CURRENT ASSETS		
Cash	$ 1,816,856	$ 1,016,292
Accounts receivable (Note 4)	881,395	423,116
Prepaid expenses	273,384	97,954
Tax credit receivable	849,575	849,575
Inventory	15,400	-
	3,836,610	2,386,937
NON-CURRENT ASSETS		
Security deposits	33,268	33,832
Property, plant and equipment (Note 5)	12,433,845	8,925,000
Intangible assets (Note 6)	133,802	140,884
Right-of-use-assets (Note 7)	1,472,161	1,053,957
Restricted cash (Note 8)	189,865	183,130
	14,262,941	10,336,803
TOTAL ASSETS	$ 18,099,551	$ 12,723,740
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables (Note 10)	$ 5,841,507	$ 5,504,588
Current portion of convertible loan (Note 12)	594,290	
Current portion of lease obligations (Note 11)	284,954	192,043
Current portion of debentures (Note 12)	-	2,044,580
	6,720,751	7,741,211
NON-CURRENT LIABILITIES		
Share-based compensation liability	$ 16,977	$ -
Lease obligations (Note 11)	1,296,766	978,801
Convertible notes (Note 12)	1,756,718	1,596,223
Convertible loan (Note 12)	2,095,256	-
Embedded derivative (Note 12)	235,412	272,304
Long-term payables for property, plant and equipment	333,334	333,334
	5,734,463	3,180,662
TOTAL LIABILITIES	12,455,214	10,921,873
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	25,875,051	20,616,428
Contributed surplus (Note 14)	925,830	1,172,041
Warrants (Note 14)	1,671,246	705,742
Accumulated other comprehensive income	68,239	38,255
Equity component of the convertible instruments (Note 12)	1,309	3,600
Deficit	(22,897,338)	(20,734,199)
TOTAL SHAREHOLDERS' EQUITY	5,644,337	1,801,867
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 18,099,551	$ 12,723,740

Nature of operations and going concern (Note 1)

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

Charbone Corporation

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(in Canadian dollars, except number of shares)

(Unaudited)

	Three-month Period ended June 30, 2026	Three-month Period ended June 30, 2025	Six-month Period ended June 30, 2026	Six-month Period ended June 30, 2025
INCOME				
Gas income	$ 456,491	$ -	$ 632,684	$ -
Hydroelectricity income	-	-	-	5,067
Other income	-	22,747	68,585	22,747
	456,491	22,747	701,269	27,814
EXPENSES				
Operating expenses	425,857	-	646,569	-
General and administrative expenses (Note 15)	800,723	640,488	1,597,458	1,743,190
Depreciation of property, plant and equipment	93,884	43,272	179,206	87,611
Depreciation of right-of-use-assets	49,812	30,910	97,363	61,308
Amortization of intangible assets	5,974	5,971	11,894	12,165
Gain/loss on asset disposition	49,946	-	49,946	-
	1,426,196	720,641	2,582,436	1,904,274
OPERATING LOSS BEFORE THE FOLLOWING:	(969,705)	(697,894)	(1,881,167)	(1,876,460)
FINANCIAL (INCOMES) EXPENSES (Note 16)	133,716	(255,427)	281,972	(248,360)
NET LOSS BEFORE INCOME TAX	$ (1,103,421)	$ (442,467)	$ (2,163,139)	$ (1,628, 100)
Current income tax	-	2,075	-	4,228
	-	2,075	-	4,228
NET LOSS	(1,103,421)	(444,542)	(2,163,139)	(1,632,328)
OTHER COMPRENSIVE LOSS				
Item that may be reclassified subsequen to the statement of loss				
Foreign currency translation income (los	17,815	(30,038)	29,984	(30,628)
TOTAL COMPREHENSIVE LOSS	(1,085,606)	$ (474,580)	$ (2,133,155)	$ (1,662,956)
LOSS PER SHARE				
Basic	$ (0.004)	$ (0.004)	$ (0.008)	$ (0.014)
Diluted	$ (0.004)	$ (0.004)	$ (0.008)	$ (0.014)
Weighted average number of shares outstanding	$ 285,063,636	$ 114,493,154	$ 266,655,732	$ 121,733,477

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

Charbone Corporation

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(in Canadian dollars, except for per share data)

(Unaudited)

For the six-month periods ended June 30, 2025 and 2026

	Share capital		Contributed surplus	Warrant reserve	Equity component of the convertible debts	Deficit	Accumulated other Comprehensive income (loss)	Total shareholders' equity
	Number of shares	Class "A" Common shares						
	#	$	$	$	$	$	$	$
BALANCE AS AT DECEMBER 31, 2025	224,391,863	20,616,428	1,172,041	705,742	3,600	(20,734,199)	38,255	1,801,867
Private placement (Notes 13 and 14)	23,614,286	1,798,851	-	1,300,524	-	-	-	3,099,375
Share issue costs (Notes 13 and 14)	-	(306,947)	-	(220,368)	-	-	-	(527,315)
Warrants issued to brokers (Notes 13 and 14)	-	-	-	211,699	-	-	-	211,699
Equity conversion option of the convertible debenture	-	-	3,322	-	(3,322)	-	-	-
Equity conversion option of the secured convertible loan (Note 12)	-	-	-	-	1,031			1,031
Conversion of debentures (Note 12 and 13)	17,142,860	2,050,000	-	-	-	-	-	2,050,000
Issuance of units for payment to suppliers (Notes 13 and 14)	-	-	-	-	-	-	-	-
Warrants issued with debentures (Note 14)	-	-	-	-	-	-	-	-
Warrants exercised (Note 14)	4,958,000	1,716,719	(329,151)	(246,733)	-	-	-	1,140,835
Warrants expired	-	-	79,618	(79,618)	-	-	-	-
Share based compensation	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	(2,163,139)	-	(2,163,139)
Other comprehensive loss :								
Foreign currency translation	-	-	-	-	-	-	29,984	29,984
BALANCE AS AT JUNE 30, 2026	270,107,009	25,875,051	925,830	1,671,246	1,309	(22,897,338)	68,239	5,644,337

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

Charbone Corporation

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(in Canadian dollars, except for per share data)

(Unaudited)

For the six-month periods ended June 30, 2025 and 2026

	Share capital							
	Number of shares	Class "A" Common shares	Contributed surplus	Warrant reserve	Equity component of the convertible debenture	Deficit	Accumulated other Comprehensive income (loss)	Total shareholders' equity
	#	$	$	$	$	$	$	$
BALANCE AS AT DECEMBER 31, 2024	135,837,929	14,271,154	550,979	1,769,786	46,100	(18,058,083)	56,728	(1,363,336)
Private placement (Notes 13 and 14)	-	-	-	-	-	-	-	-
Share issue costs (Notes 13 and 14)	-	(8,529)	-	(2,306)	-	-	-	(10,835)
Warrants issued to brokers (Notes 14)	-	-	-	-	-	-	-	-
Equity conversion option of the convertible debenture	-	-	-	-	-	-	-	-
Issuance of units for payment to suppliers (Notes 13 and 14)	21,116,025	1,029,713	-	257,915	-	-	-	1,287,628
Warrants issued with debenture (Note 12)	-	-	-	16,316	-	-	-	16,316
Warrants exercised (Note 14)	11,502,433	729,721	29,303	(184,002)	-	-	-	575,022
Options exercised (Note 14)	-	-	1,372,832	(1,372,832)	-	-	-	-
Share based compensation	-	-	153,847	-	-	-	-	153,847
Net loss for the period	-	-	-	-	-	(1,632,328)	-	(1,632,328)
Other comprehensive income :								
Foreign currency translation	-	-	-	-	-	-	(30,628)	(30,628)
BALANCE AS AT JUNE 30, 2025	168,456,387	16,022,059	2,106,961	484,877	46,100	(19,690,411)	26,100	(1,004,314)

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

Charbone Corporation
CONSOLIDATED STATEMENT OF CASH FLOWS
(in Canadian dollars)

(Unaudited)

		Six-month period ended June 30, 2026		Six-month period ended June 30, 2025
OPERATING ACTIVITIES				
Net loss	$	(2,163,139)	$	(1,632,328)
Adjustments:				
Depreciation of property, plant and equipment		179,206		87,610
Effective interest on debentures, notes and loan (Note 12 and 16)		184,665		351,279
Depreciation of right-of-use-assets (Note 7)		97,363		61,308
Amortization of intangible assets		11,894		12,165
Interest on lease obligations (Notes 11 and 16)		16,199		11,858
Share based compensation (Note 14)		17,699		153,847
Unrealized loss on foreign exchange (Note 16)		107,308		(85,511)
Gain on derecognition of a lease		(1,252)		-
Fair value adjustment – embedded derivative (Note 12 and 16)		(45,072)		(30,205)
Fair value adjustment – RSU DSU (Note 14 and 16)		(722)		-
Gain on settlement of accounts payable (Note 16)		-		(296,073)
Income tax		-		4,228
Changes in non-cash working capital items (Note 19)		(2,144,399)		528,829
Cash flows used in operating activities		(3,740,250)		(832,993)
INVESTING ACTIVITIES				
Changes in advances to key management personnel		-		(16,943)
Security deposits		564		1,094
Additions of property, plant and equipment (Note 5)		(1,691,238)		(12,510)
		(4,947)		
Cash flows provided by (used in) investing activities		(1,695,621)		(28,359)
FINANCING ACTIVITIES				
Proceeds from issuance of units from private placement (Note 13)		3,099,375		-
Issuance of secured convertible loan (Note 12)		3,000,000		
Changes in short term loan		-		41,000
Convertible loan issuance costs (Note 12)		(423,694)		-
Issuance costs (Notes 13 and 14)		(315,616)		(10,835)
Payment of lease obligation (Note 11)		(165,020)		(120,484)
Interest paid on debentures (Note 12)		(64,974)		(92,782)
Exercise of warrants (Note 14)		1,140,835		575,022
Cash flows from financing activities		6,270,906		391,921
NET CHANGE IN CASH		835,035		(469,431)
EFFECT OF MOVEMENT IN EXCHANGE RATE ON CASH HELD		(34,471)		28,477
CASH (BANK INDEBTEDNESS), BEGINNING OF PERIOD		1,016,292		452,739
CASH (BANK INDEBTEDNESS), END OF PERIOD	**$**	1,816,856	**$**	11,785

Additional cash flow information is presented in Note 19.

Charbone Corporation
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2026 AND 2025
(in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Charbone Corporation's (the "Corporation") is an integrated industrial gases producer and distributor focused on the development and production of clean Ultra High Purity (UHP) hydrogen complimented by a growing industrial gases distribution platform.

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 1645, Boulevard Lionel-Boulet, Suite 304, Varennes, (Québec) J3X 1P7.

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standard ("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.

<u>Going Concern</u>

During the six-month period ended June 30, 2026, the Corporation generated a net loss of $2,163,139 (June 30, 2025 - $1,632,328) and negative cash flows from operating activities of $3,740,250 (June 30, 2025 - $832,993). As June 30, 2026, the Corporation has an accumulated deficit of $22,897,338 (December 31, 2025 - $20,734,199) and a working capital deficiency (current liabilities in excess of current assets) of $2,884,141 (December 31, 2025 - $5,354,274). The Corporation's current liabilities and expected level of expenses for the next 12 months exceed cash on hand as at June 30, 2026. 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.

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 August 27, 2026.

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, which are measured at fair value at date of issuance;
- equity-based share-based payment arrangements, which have been recorded at fair value at grant date pursuant to IFRS 2, Share-based Payment; and
- lease liabilities, which are measured at the present value of future lease payments.

2.3 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. MATERIAL ACCOUNTING POLICIES

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

The Corporation's subsidiaries as at June 30, 2026 are:

Name	Nature of services	June 30, 2026	December 31, 2025
Charbone Hydrogen Quebec (formely Charbone Hydrogen)	Green hydrogen producer	100 %	100 %
Charbone Systems Inc.	Sales and maintenance of hydrogen equipment	100 %	100 %
Charbone Hydrogen Manitoba Inc.	Green hydrogen producer	100 %	100 %
Charbone Hydrogen Nova Scotia	Green hydrogen producer	100 %	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 %	100 %
Charbone HoldCo, LLC	Holding company	100 %	100 %

3.2 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 three-month periods ended June 30, 2026 and June 30, 2025, 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 12 and 17)

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.

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 Corporation 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.

Charbone Corporation

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2026 AND 2025
(in Canadian dollars)

(Unaudited)

4. ACCOUNTS RECEIVABLE

	June 30, 2026	December 31, 2025
Trade receivable	$ 587,527	$ 186,750
Sales taxes receivable	179,586	190,669
Other receivables	114,282	45,697
	$ 881,395	$ 423,116

Charbone Corporation

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2026 AND 2025
(in Canadian dollars)

(Unaudited)

5. PROPERTY, PLANT AND EQUIPEMENT

As at June 30, 2026

		Office furniture	Computer equipment	Leasehold improvements	Equipment	Dams	Land	Building	Cylinders	Production plant	Hydrogen plant in construction	Total
COST												
Balance as at January 1, 2026	$	13,957	26,521	251,340	846,415	1,029,907	90,461	60,889	-	-	7,390,846	9,710,336
Additions		-	14,178	-	410,531	477,258	39,371	225,691	-	349,852	2,259,207	3,776,088
Disposition		-	-	-	-	-	-	-	(142,429)	-	-	(142,429)
Transfers		-	-	-	-	-	-	1,087,230	142,429	2,751,870	(3,981,529)	-
Tax credit for investments and innovation		-	-	-	-	-	-	-	-	-	-	-
Effect of movements in exchange rate		-	-	-	-	-	-	-	-	-	-	-
Impact of OCI - Stuwe		-	-	-	11,694	2,939	694	-	-	-	-	15,327
Impact of OCI - Wolf		-	-	-	18,666	34,357	2,631	2,239	-	-	-	57,893
Balance as at June 30, 2026		13,957	40,699	251,340	1,287,306	1,544,461	133,157	1,376,049	-	3,101,722	5,668,524	13,417,215
Balance as at January 1, 2026		11,716	23,984	220,594	464,406	55,250	-	9,387	-	-	-	785,337
Depreciation		1,264	2,670	30,746	20,541	30,731	-	19,652	1,484	72,118	-	179,206
Disposition		-	-	-	-	-	-	-	(1,484)	-	-	(1,484)
Effect of movements in exchange rate		-	-	-	-	-	-	-	-	-	-	-
Impact of OCI - Stuwe		-	-	-	11,695	-	-	-	-	-	-	11,695
Impact of OCI - Wolf		-	-	-	5,676	2,513	-	427	-	-	-	8,616
Balance as at June 30, 2026		12,980	26,654	251,340	502,318	88,494	-	29,466	-	72,118	-	983,370
CARRYING AMOUNT AS AT JUNE 30, 2026	$	977	14,045	-	784,988	1,455,967	133,157	1,346,583	-	3,029,604	5,668,524	12,433,845

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

Charbone Corporation
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2026 AND 2025
(in Canadian dollars)

(Unaudited)

As at December 31, 2025

		Office furniture	Computer equipment	Leasehold improvements	Equipment	Dams	Land	Hydrogen plant in construction	Building	Total
Cost										
Balance as at January 1, 2025	$	13,957	26,251	251,340	834,264	245,206	94,967	3,767,490	63,924	5,297,669
Additions		-	-	-	51,846	796,332	-	4,579,682	-	5,427,860
Dispositions		-	-	-	-	-	-	(41,348)	-	(41,348)
Tax credit for investments and innovation		-	-	-	-	-	-	(65,402)	-	(65,402)
Effect of movements in exchange rate		-	-	-	(39,696)	(11,631)	(4,506)	-	(3,034)	(58,867)
Balance as at December 31, 2025		13,957	26,251	251,340	846,414	1,029,907	90,461	8,240,422	60,890	10,559,912
Accumulated depreciation										
Balance as at January 1, 2025		8,294	18,169	158,330	409,250	26,689	-	-	6,658	628,020
Depreciation		2,792	5,815	62,264	73,310	30,451	-	-	3,105	177,737
Impairment		-	-	-	-	-	-	-	-	-
Dispositions		-	-	-	-	-	-	-	-	-
Effect of movements in exchange rate		-	-	-	(18,154)	(1,890)	-	-	(376)	(20,420)
Balance as at December 31, 2025		11,716	23,984	220,594	464,406	55,250	-	-	9,387	785,337
Carrying amount as at December 31, 2025	$	2,241	2,537	30,746	382,008	974,657	90,461	8,240,422	51,503	9,774,575

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

Charbone Corporation
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2026 AND 2025
(in Canadian dollars)

(Unaudited)

6. INTANGIBLE ASSETS

	June 30, 2026	December 31, 2025
Costs		
Balance at the beginning	$ 265,359	$ 278,568
Effect of movements in exchange rate	9,747	(13,209)
Balance at the end	275,106	265,359
Accumulated amortization and impairment		
Balance at the beginning	$ 124,475	$ 105,821
Amortization	11,894	24,129
Effect of movements in exchange rate	4,935	(5,475)
Balance at the end	141,304	124,475
Net book value at the end	$ 133,802	$ 140,884

Charbone Corporation

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2026 AND 2025
(in Canadian dollars)

(Unaudited)

7. RIGHT-OF-USE-ASSETS

		Office	Lands	Automobile	Total
Book value of assets					
Balance as at January 1, 2026		136,427	937,516	483,136	1,557,079
Addition of right-of-use assets		111,861	-	431,517	543,378
Revaluation of right-of-use assets (1)		-	16,841	-	16,841
Disposition of right-of-use assets		(136,427)	-	(53,407)	(189,834)
Balance as at June 30, 2026		111,861	954,357	861,246	1,927,464
Accumulated depreciation					
Balance as at January 1, 2026	$	125,299	155,942	221,881	503,122
Depreciation (2)		15,789	16,408	81,574	113,771
Disposition		(136,427)	-	(25,163)	(161,590)
Balance as at June 30, 2026		4,661	172,350	278,292	455,503
Net book value as at June 30, 2026	$	107,200	782,007	582,954	1,472,161

(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) Depreciation of right-of-use assets for the premises of $16,408 ($31,844 in 2025) are capitalized under the Hydrogen plant in construction in property, plant and equipment.

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		Office	Lands	Automobile	Total
Book value of assets					
Balance as at January 1, 2025	$	136,427	920,716	412,948	1,470,091
Addition of right-of-use assets		-	-	70,188	70,188
Revaluation of right-of-use assets [(1)]		-	16,800	-	16,800
Balance as at December 31, 2025		136,427	937,516	483,136	1,557,079
Accumulated depreciation					
Balance as at January 1, 2025	$	99,748	124,098	115,457	339,303
Depreciation [(2)]		25,551	31,844	106,424	163,819
Balance as at December 31, 2025		125,299	155,942	221,881	503,122
Net book value as at December 31, 2025	$	11,128	781,574	261,255	1,053,957

[(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)] Depreciation of right-of-use assets for the premises of $31,844 ($29,245 in 2024) are capitalized under the Hydrogen plant in construction in property, plant and equipment.

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8. RESTRICTED CASH

The restricted cash has been acquired in a business acquisition 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.

9. SHORT TERM LOAN

a) Financing agreement with Finexcorp

The Corporation is in a financing agreement with Finexcorp for a non-cumulative amount of up to $500,000 for advances on trade receivables, purchase orders and other receivables from the government and 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 up to 12 months.

As at June 30, 2026 and December 31, 2025, no amount had been drawn under this financing agreement.

10. TRADE AND OTHER PAYABLES

	June 30, 2026	December 31, 2025
Accounts payable and accrued liabilities	$ 4,891,441	$ 4,426,282
Short-term payables for property, plant and equipment	333,333	333,333
Accounts payable to a member of the management	132,803	386,261
Accrued Interest on debentures	483,930	358,712
	$ 5,841,507	$ 5,504,588

11. LEASE OBLIGATIONS

The following table presents the lease obligations of the Corporation:

	June 30, 2026	December 31, 2025
Balance, beginning of period	$ 1,308,763	$ 1,243,880
New lease obligations	311,301	70,188
Revaluation of lease obligation (Note 7)	16,841	16,800
Effective interest on lease obligations	9,391	21,344
Effective interest on lease obligations capitalized	16,979	69,536
Payments of lease liability, including related interest	(81,555)	(250,904)
Balance, end of period	$ 1,581,720	$ 1,170,844

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

		June 30, 2026
Maturity analysis – contractual undiscounted cash flows		
Less than one year	$	284,954
One to five years		536,100
More than five years		760,666
Total undiscounted lease obligations		1,581,720
Lease obligation balance, end of period		1,581,720
Current portion		284,954
Non-current portion	$	1,296,766

12. DEBENTURES, NOTES AND LOANS

i) Debentures

		June 30, 2026		December 31, 2025
Debentures, nominal value of $850,000 (December 31, 2025 - $2,050,000) 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 12%, payable in cash monthly, maturing in September 2026 [a)]	$	-	$	1,300,105
Total	$	-	$	1,690,119

A rollforward of the debentures was as follows:

		June 30, 2026		December 31, 2025
Balance, beginning of period	$	2,044,580	$	1,690,119
Conversion of nominal into shares		(2,050,000)		-
Debenture issued for cash		-		303,364
Equity component of convertible debenture		-		(3,600)
Adjustment modification		-		(16,316)
Issuance expenses		-		6984
Conversion of unpaid interests into nominal		-		(3,518)
Interest on debenture [(1)]		70,394		285,950
Interest paid		(64,974)		(174,133)
Interest converted into shares		-		(22,500)
Interest included in accounts payable and accruals		-		(22,040)
Balance, end of the period	$	-	$	2,044,580

[(1)] Interest on debenture of $70,394 are capitalized under the Hydrogen plant in construction in property, plant and equipment.

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

a) On September 30 2025, the Corporation issued new convertible debentures (the "Replacement debentures") by amending specific terms of the existing Company's secured convertible debenture originally issued in connection with private placements of debentures totaling $1,746,366 and an additional $303,634 received in cash by the Corporation. The previous convertible debentures of an amount of $400,000 and $1,346,000 were expiring on September 30, 2025 and October 31, 2025 respectively, bore interest at an annual interest rate of 12% and carried a conversion feature allowing the holder to convert the principal into Class A Share of the Corporation at a conversion price of $0.10 (Note 13 b) c) d)).

Terms of the Replacement debentures:

- Principal amount: $2,050,000
- Issue date: 30 September 2025
- Maturity date: 30 September 2026
- Interest rate: 12% per year, payable monthly
- Conversion price: $0.07 per Class A share
- Conversion feature: Holders may convert the outstanding principal into class A shares at any time prior to maturity.
- Security: $400,000 of the principal amount of the Replacement debenture is secured by same guarantees of the Finexcorp agreement . $1,650,000 of the principal amount of the Replacement amount is secured by Charbone Hydrogen Quebec Inc's assets.

The Corporation assessed whether the issuance of the Replacement debentures represented a modification or an extinguishment of the original financial liability. A quantitative comparison of the present value of the cash flows under the new terms versus the original terms, discounted at the original effective interest rate, indicated that the change does not exceed the 10% threshold used as an indicator of a substantial modification. Qualitative considerations were also assessed, including:

- Change to the conversion price
- Revised maturity
- Economic value of the embedded conversion option

On a qualitative basis, the Corporation concluded that the Replacement debentures represented a substantial modification of the original instrument. The original convertible debentures were derecognized, and the Replacement debentures was recognized at fair value. A loss on extinguishment of $6,984 was recognized in loss, representing the difference between the carrying amount of the extinguished liability and the fair value of the new liability component.

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 conversion option. The fair value of the liability component at inception was $2,046,400, determined using estimated future cash flows discounted using a market interest rate of 12,2%. The residual of $3,600, has been allocated to the conversion option of the convertible debenture (). Transaction costs totalling $3,518 were allocated to the host instrument and are amortized until maturity using the effective interest method.

During the six-month period ended June 30, 2026, holders exercised their conversion rights and converted all outstanding principal amount of convertible debentures into 29,285,714 common shares of the Corporation at a conversion price of $0.07 per class A shares. As a result, the entire carrying value of the related liability and equity components was reclassified to share capital. No gain or loss was recognized on conversion.

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ii) Notes

a) Host instrument

		June 30, 2026		December 31, 2025
Balance, beginning of period	$	1,596,233	$	1,544,599
Placement agent warrants		-		(31,220)
Interest on debenture [1]		222,705		410,052
Interest included in accounts payable and accruals		(123,990)		(251,480)
Foreign exchange		(61,780)		(75,728)
Balance, end of period	$	1,756,718	$	1,596,223

[1] Interest on debenture of $222,705 are capitalized under the Hydrogen plant in construction in property, plant and equipment.

b) Embedded derivative – Conversion option

		June 30, 2026		December 31, 2025
Balance, beginning of period	$	272,304	$	129,501
Fair value adjustment		(45,072)		151,307
Foreign exchange		8,180		(8,504)
Balance, end of period	$	235,412	$	272,304

On December 4, 2024, the Corporation announced the first closing of a US$ 6,000,000 in Convertible Notes. The first closing includes US$ 1,500,000 (CA$ 2,109,900) in gross proceeds through unsecured convertible notes with a 36-month term at a rate of 12% per annum, accrued until maturity or conversion and where the principal amount is convertible into common shares at a conversion price of the greater of A) $0.10 CAD (or USD equivalent) or B) a price per share representing a discount of 20% to i) the share price reserved for a capital raise conducted by the Issuer, ii) the Market Price at the time of Change of Control Notice or iii) the Market Price at the time of Maturity, per Common Share.

The Corporation paid a placement agent cash fee of $US 150,000 as well as 1,500,000 equity warrants for Common Shares, exercisable at an exercise price of CA$0.10 per Common Share or USD equivalent, expiring December 2029.

The convertible notes is a hybrid financial instrument. The conversion option was accounted for as an embedded derivative and classified as a liability as the conversion feature does not meet the criteria for equity classification. The fair value of the embedded derivative was US $88,000, determined using a variant of the basic Black-Scholes model considering the notes US dollar currency and the conversion scenarios probability. The residual value of US $1,412,000 was allocated to the host instrument and a 15.4% market interest rate was determined by the Corporation.

The fair value of the warrants issued to the placement agent as part of the financing was determined using a Black-Scholes model and were valued at US $65,564.

Transaction costs totalling US $346,670 (including the warrants issued to the placement agent) was allocated to the host instrument and are amortized until maturity using the effective interest method.

As the host instrument, accrued interests and embedded derivative are in US dollars, they will be adjusted at the closing US dollar rate at the end of each period, resulting in an unrealized gain or loss on foreign exchange.

(in Canadian dollars)

iii) Convertible loan

A rollforward of the loan was as follows:

	June 30, 2026	December 31, 2025
Balance, beginning of period	$ -	$ -
Convertible loan issued for cash	3,000,000	-
Equity component of convertible loan	(1,031)	-
Issuance expenses	(423,694)	-
Interest on loan	114,271	-
Balance, end of the period	$ 2,689,546	$ -

On April 29, 2026, the Corporation announced the first closing of a $10,000,000 convertible loan facility. The first closing includes $3,000,000 in gross proceeds through secured convertible loan with a 18-month term at a rate of 12% per annum, accrued daily and payable in cash four months following the closing date and every four months thereafter until maturity or conversion and where the principal amount is convertible into units at a conversion price of 0.15 for one common share of the Corporation and 0.3 warrant. The warrants are exercisable at a price of $0.195 for a period of 48 months. The principal amount of the first drawdown is repayable in cash in installments of 10% after six months, 20% after twelve months, and the remaining 70% at maturity, unless converted earlier in accordance with the agreement.

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 conversion option. The fair value of the liability component at inception was $2,998,969, determined using estimated future cash flows discounted using a market interest rate of 13.6%. The residual value has been allocated to the option of the convertible debenture (Note 14).

In relation with the first drawdown of the convertible loan facility, transaction costs totalling $423,694 was allocated to the host instrument and are amortized until maturity using the effective interest method.

(in Canadian dollars)

13. SHARE CAPITAL

Shares

		June 30, 2026		
		Number of shares		Carrying amount
Balance, beginning of period	#	224,391,863	$	20,616,428
Private placement [(1)]		23,614,286		1,798,851
Share issue costs [(1))]		-		(306,947)
Conversion of debentures into common shares (Note 12)		29,285,718		2,050,000
Warrants exercised (Note 14)		12,601,361		1,716,719
Balance, end of period	#	289,893,228	$	25,875,051

As at June 30, 2026 the Corporation's share capital consists of $289,893,228 fully paid Class A common shares, voting and participating. The Corporation has authorized an unlimited number of Class A common shares without par value.

(1) On January 12, 2025, the Corporation issued 23,614,286 units in a private placement for gross proceeds of $3,099,375 ($0.13125/unit), of which $1,798,851 is recognized in share capital and $1,300,524 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 $505,169 of which $293,196 is recognized against share capital and $211,973 against warrant reserve. The warrants are exercisable at a price of $0.18 per unit for a period of 24 months. In addition, the Corporation issued 1,889,143 compensation warrants exercisable at a price of $0.18 per unit 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, 2025		
		Number of shares		Carrying amount
Balance, beginning of year	#	135,837,929	$	14,271,154
Private placement [(6, 7)]		16,883,000		622,095
Acquisition of assets through the issuance of shares [(8)]		13,333,334		1,066,667
Share issue costs [(2, 3, 4, 5, 6, 7, 8)]		-		(50,692)
Issuance of units for payment to a supplier [(2, 3, 7, 8)]		25,808,733		1,294,165
Warrants exercised (Note 14)		32,428,867		3,393,079
Stock options exercised (Note 14)		100,000		19,960
Balance, end of year	#	224,391,863	$	20,616,428

As at December 31, 2025 the Corporation's share capital consists of 224,391,863 fully paid Class A common shares, voting and participating. The corporation has authorized an unlimited number of class A common shares without par value

(1) On February 12th 2025, the Corporation agreed with management to settle consulting fees payable totalling $310,000 through the issuance of 4,133,334 shares ($0,075/unit), of which $268,667 is recognized in share capital and $41,133 in a gain on settlement of accounts payable. Each unit represents one common share of the Corporation. The Corporation also incurred issue costs of $1,725 deducted from shareholders' equity.

(2) On June 2nd, 2025, the Corporation agreed with suppliers to settle payables totalling $1,273,702 through the issuance of 16,982,689 shares ($0,075/unit), of which $761,046 is recognized in share capital and $254,740 in a gain on settlement of accounts payable. Each unit represents one common share and one warrant of the Corporation. The Corporation also incurred issue costs of $9,110 deducted from shareholders' equity, of which 6,804 is recognized against share capital and $2,306 against warrant reserve.

(3) On September 4, 2025, the Corporation issued 7,699,666 units in a private placement for gross proceeds of $461,980 ($0.05/unit), of which $279,832 is recognized in share capital and $182,148 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 $33,610 of which $20,358 is recognized against share capital and $13,252 against warrant reserve. The warrants are exercisable at a price of $0.06 for a period of 24 months. In addition, the Corporation issued 287,040 Compensation warrants exercisable at a price of $0.06 per Unit for a period of 24 months.

(4) On October 3, 2025, the Corporation issued 9,183,334 units in a private placement for gross proceeds of $551,000 ($0.06/unit), of which $342,263 is recognized in share capital and $208,737 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 $18,945 of which $11,768 is recognized against share capital and $7,177 against warrant reserve. The warrants are exercisable at a price of $0.08 for a period of 24 months. In addition, the Corporation issued 369,333 compensation warrants exercisable at a price of $0.08 per Unit for a period of 24 months.

(5) On October 6, 2025, the Corporation has issued 13,333,334 common shares at $0.08 per share, representing $1,066,667 in equity consideration to Harnois Énergies Inc. as a part of the payment of the acquisition of hydrogen production and refueling assets. The Corporation also incurred issue costs of $6,000 deducted from shareholders' equity.

(6) On August 13, 2025, the Corporation agreed with suppliers to settle payables totalling $118,095 through the issuance of 500,000 shares ($0,06/unit), of which $30,000 is recognized in share capital and $88,095 in a gain on settlement of accounts payable. Each unit represents one common share of the Corporation. The Corporation also incurred issue costs of $1,150 recognized against share capital.

(7) On October 16, 2025, the Corporation agreed with suppliers to settle payables totalling $503,125 through the issuance of 4,192,708 shares ($0,12/unit), of which $234,452 is recognized in share capital and $166,454 in a gain on settlement of accounts payable. Each unit represents one common share and one warrant of the Corporation. The Corporation also incurred issue costs of $4,145 deducted from shareholders' equity, of which $2,887 is recognized against share capital.

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14. SHARE BASED PAYMENT AND WARRANTS

On April 29, 2026, The Corporation adopted the “Omnibus Equity Incentive Plan” (the “Plan”). All outstanding Options granted under the Predecessor Plan (the “Predecessor Options”) shall continue to be outstanding as awards granted under and subject to the terms of this Plan, provided however that that all options which have been granted under the Predecessor Plan remain in force in accordance with their existing terms. Under the Plan, the Corporation may grant equity-based and cash-settled awards ("Awards"), including Restricted Share Units ("RSUs") and Deferred Share Units ("DSUs"), to eligible participants.

The Plan Administrator may, from time to time, grant Awards to any participant. The conditions and the exercise price of each Awards are determined by Plan Administrator and shall be evidenced by an Award Agreement.

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 Awards 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. The maximum number of common shares reserved for issuance upon the exercise or settlement of Awards granted to insiders cannot exceed 10% of the number of common shares issued and the grant of Awards to insiders in a 12-month period.

Common share purchase options

Options must be exercised ten years after the grant date, unless a shorter period is otherwise determined by the Plan Administrator. 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:

		June 30, 2026		
		Number of options		Weighted average exercise price
Balance, beginning of period	#	8,900,000	$	0.2537
Granted		400,000		0.1500
Expired		(2,050,000)		0.6000
Exercised				
Balance, end of period	#	7,250,000	$	0.1500

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On June 22, 2026, the Corporation granted 400,000 options to acquire up to 400,000 common shares, at an exercise price of $0.15 per share, for a period of two year. 100% of the options were exercisable on grant date. A fair value of $32,537 has been calculated for that grant.

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

Number of common share purchase options		400,000
Weighted average share price at grant date	$	0.125
Exercise price	$	0.15
Risk-free interest rate	%	2.79
Expected volatility	%	138.28
Expected life (in years)		2.00
Expected dividend	%	0.00

The following table summarizes certain information on outstanding stock options as at June 30, 2026:

Options outstanding and exercisable		
Exercise price range	Number of options	Weighted average remaining contractual life
$		(in years)
0.6000	-	-
0.1500	7,250,000	0.69
	7,250,000	

Deferred share units

The Plan Administrator may fix, from time to time, a portion of the Director Fees that is to be payable in the form of Deferred share units ("DSUs"). The terms of each DSU are determined by the Plan Administrator.

Subject to certain conditions, each director may elect to receive up to 100% of the total fees payable for services as a director in the form of units. The value of a DSU is based on the trading price of the Corporation's common shares on the Toronto Stock Exchange Venture. On the settlement date, at the discretion of the Corporation, DSUs will be redeemed for (i) one fully paid and non-assessable Share issued from treasury, or (ii) a cash payment, or (iii) a combination of Shares and cash . Subject to certain limitations, the DSUs will be redeemed by the Corporation when the director ceases to serve as a director of the Corporation. For the purpose of redeeming units, the value of a DSU shall correspond to the fair market value of the Corporation's common shares on the date of redemption. As of June 30, 2026 the total number of DSUs outstanding under this plan was 2,960,000 (December 31st 2025 – nil) and expense related to granted DSUs amounted to $8,110 for the six-month period ended June 30, 2026.

Restricted share units

The Plan Administrator may, from time to time, grant Restricted share units ("RSUs") to any participant in respect of services rendered in the year of grant. The terms of each RSU are determined by the Plan Administrator.

The value of a RSU is based on the trading price of the Corporation's common shares on the Toronto Stock Exchange Venture. On the settlement date, at the discretion of the Corporation, for any RSU, each vested RSU will be redeemed for (i) one fully paid and non-assessable Share issued from treasury, or (ii) a cash payment, or (iii) a combination of Shares and cash. Subject to certain limitations, the RSUs will be redeemed by the Corporation any later than the final business day of the third calendar year following the year of grant. For the purpose of redeeming units, the value of a RSU shall correspond to the fair market value of the Corporation's common shares on the date of settlement. As of June 30, 2026, the total number of RSUs outstanding under this plan was 3,500,000 (December 31st 2025 – nil) and expense related to granted DSUs amounted to $9,589 for the six-month period ended June 30, 2026.

(in Canadian dollars)

Warrants

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

	June 30, 2026				
	Number of warrants		Weighted average exercise price		Fair value allocated
Balance, beginning of period	35,720,843	$	-	$	705,742
Private placement (Note 13[1])	23,614,286		0,18		1,300,524
Share issue costs (Note 13[1])	-		-		(220,368)
Issued to brokers (Note 13[1])	1,889,143		-		211,699
Exercised	(12,601,361)		0.09		(246,733)
Expired	(5,242,534)		0,10		(79,618)
Balance, end of period	43,380,377			$	1,671,246

During the six-month period ended June 30, 2026, 7,643,361 warrants were exercised for a cash consideration of $127,729.

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

		2026-01-12
Number of warrants		25,503,429
Weighted average share price at grant date	$	0.16
Exercise price	$	0.18
Risk-free interest rate	%	2.54
Expected volatility	%	158.02
Expected life (in years)		2.00
Expected dividend	%	0.00

The following table summarizes certain information on outstanding warrants as at June 30, 2026:

	Warrants outstanding and exercisable	
Exercise price range $	Number of warrants	Weighted average remaining contractual life (in years)
0.0800	11,574,333	1.23
0.1000	2,109,900	2.44
0.1400	4,192,708	0.30
0.1800	25,503,429	1.54
	43,380,370	

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15. GENERAL AND ADMINISTRATIVE EXPENSES

	Three-month period ended June 30, 2026	Three-month period ended June 30, 2025	Six-month period ended June 30, 2026	Six-month period ended June 30, 2025
Professional fees	$ 495,218	$ 351,524	$ 792,502	$ 875,334
Investors relationships and marketing	107,361	71,930	184,630	168,350
Salaries, fringe benefits and board members	(36,389)	92,748	86,478	279,149
Travel expenses	45,564	17,593	103,309	63,448
Meals, entertainment, and other business development expenses	6,635	4,351	13,406	11,112
Share based compensation	17,699	-	17,699	153,847
Other expenses	164,635	102,342	399,434	191,950
	$ 800,723	$ 640,488	$ 1,597,458	$ 1,743,190

16. FINANCIAL EXPENSES

	Three-month period ended June 30, 2026	Three-month period ended June 30, 2025	Six-month period ended June 30, 2026	Six-month period ended June 30, 2025
Gain on derecognition of a lease	$ -	$ -	$ (1,253)	$
Interest on debentures	120,396	61,659	185,210	139,144
Interest and bank fees	(517)	718	4,895	5,504
Interest on lease obligations	9,392	5,709	16,200	11,857
Interest on short term debt	-	2,456	-	4,560
Realized loss/(gain) on foreign exchange	14,107	(382)	15,406	2,364
Fair value adjustment on embedded derivative	(71,543)	16,433	(45,072)	(30,205)
Unrealized loss/(gain) on foreign exchange	62,603	(87,280)	107,308	(85,511)
Gain on settlement of account payable (Notes 13)	-	(254,740)	-	(296,073)
Fair value adjustment on share-based compensation	(722)	-	(722)	-
	$ 133,716	$ (255,427)	$ 281,972	$ (248,360)

(in Canadian dollars)

17. 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 and, advances to key management personnel, without interest and no specific repayment. As at June 30, 2026, the Corporation believes it was not exposed to any significant credit risk.

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, as at June 30, 2026 and December 31, 2025:

June 30, 2026		Carrying amount	Contractual cash flow	Less than 1 year	More than 2 years
Trade and other payables	$	6,174,841	6,174,841	6,174,841	-
Secured convertible loan		2,689,546	3,540,000	2,640,000	900,000
Convertible note		1,756,718	2,515,170	-	2,515,170
Lease obligation, including current portion		1,581,720	-	-	-
	$	12,202,825	12,230,011	8,814,841	3,415,170

December 31, 2025		Carrying amount	Contractual cash flow	Less than 1 year	More than 2 years
Trade and other payables	$	5,837,922	5,837,922	5,837,922	-
Debentures		2,044,580	2,234,500	2,234,500	-
Convertible note		1,569,223	2,796,024	-	2,796,024
Lease obligation, including current portion		1,170,844	2,092,912	272,768	1,820,144
	$	10,649,569	12,961,358	8,345,190	4,616,168

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

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

A 1% change in the interest rate of the debentures would have an impact of approximately $51,099 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 June 30, 2026 and December 31, 2025, assets and liabilities denominated in foreign currency, as stated in Canadian dollars, are as follows:

June 30, 2026

		United States dollars		Swiss franc		Euro		Canadian dollars
Cash	$	480,804	₣	-	€	-	$	688,616
Accounts payables		1,755,841		52,474		6,932		2,598,527
Notes (nominal value)		1,500,000		-		-		2,131,500

December 31, 2025

		United States dollars		Swiss franc		Euro		Canadian dollars
Cash	$	16,447	₣	-	€	-	$	22,570
Accounts payables		1,053,377		132,516		6,945		1,683,999
Notes (nominal value)		1,500,000		-		-		2,055,900

A hypothetical strengthening of 1% of the US dollar, Swiss franc and Euro against the Canadian dollar would have an impact of approximately $45,861 ($37,202 for the year ended December 31, 2025) on the Corporation's consolidated statement of loss and comprehensive loss on an annual basis.

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, and a Black-Scholes pricing model to determine the value of warrants to be issued in the case of a conversion.

At the date of issuance, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option.

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.

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18. 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 June 30, 2026, the amounts due to key management personnel directly or indirectly through their management companies and included in the accounts payable and accrued liabilities is $132,803 (as at December 31, 2025 - $350,177).

The key management compensation includes amounts incurred for the following:

	Three-month period ended June 30, 2026	Three-month period ended June 30, 2025	Six-month period ended June 30, 2026	Six-month period ended June 30, 2025
Professional fees	$ 81,250	$ 72,500	$ 162,500	$ 295,000
Salaries and fringe benefits and board meetings	17,839	102,608	191,303	256,358
Share-based compensation	-	-	-	153,847
Total	$ 99,089	$ 175,108	$ 353,803	$ 705,205

19. SUPPLEMENTAL CASH FLOW INFORMATION

	six-month period ended June 30, 2026	six-month period ended June 30, 2025
Supplemental cash flow information		
Net changes in non-cash working capital items:		
Accounts receivable	$ (508,779)	$ (7,098)
Inventory	(15,400)	-
Prepaid expenses	(124,930)	(10,088)
Accounts payable and accrued liabilities	(1,717,230)	546,015
	$ (2,366,339)	$ 528,829

Non-cash transactions in 2026:

- During the six-month period ended June 30, 2026, $385,592 of property, plant and equipment acquisitions remained included in accounts payable and accrued liabilities as at June 30, 2026 (December 31, 2025 – $3,859,440).
- As at June 30, 2026, interest on lease obligation of $16,942 and depreciation of right-of-use assets of $8,033 capitalized in property, plant and equipment;