SPARQ SYSTEMS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

(Expressed in Canadian dollars)

Independent Auditor's Report

To the Shareholders of Sparq Systems Inc.:

Opinion

We have audited the consolidated financial statements of Sparq Systems Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2024 and December 31, 2023, and the consolidated statements of loss and comprehensive loss, changes in shareholders' (deficiency) equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

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

Basis for Opinion

We conducted our audits 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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated 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 2 in the consolidated financial statements, which indicates that the Company had a net loss and negative cash flows from operating activities during the year ended December 31, 2024 and, as of that date, had a deficit. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company'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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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, we have determined the matters described below to be the key audit matters to be communicated in our report.

Inventory

Key Audit Matter Description

Inventory comprises raw materials and finished goods and is carried at the lower of cost and net realizable value. In estimating net realizable value, the Company gathers data related to fluctuations in inventory levels, planned sales, obsolescence, future selling prices and costs to sell. As a result of management's analysis, the Company has determined that a provision for inventory obsolescence is required. Due to the level of estimation involved in determining the inventory obsolescence, we have determined that inventory valuation is a key audit matter.

Audit Response

We responded to this matter by performing procedures in relation to inventory valuation. Our audit work in relation to this included, but was not restricted to, the following:

- Obtained an understanding of the Company's controls and tested the design and implementation of those controls, including those related to management's process for developing the estimates used in the determination of net realizable value and the inventory obsolescence provision.
- Obtained support for selling prices to assess the accuracy of the provision for inventory obsolescence and considered the nature of inventory items in relation to planned product versions.
- Recalculated specific selling prices and costs to sell of items to assess the accuracy of the provision. Agreed a sample of inventory costs to selling prices.
- Performed analytical procedures for assessment of trends in the type of inventory being held.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated 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 consolidated 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 Company’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 Company’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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 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 independent auditor's report is Brad Frampton.

Calgary, Alberta

MNP LLP

April 25, 2025

Chartered Professional Accountants

SPARQ SYSTEMS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

As at:	**Note**	**December 31, 2024**	**December 31, 2023**
		$	$
Assets			
Current Assets			
Cash and cash equivalents		6,944,918	287,832
Accounts and other amounts receivable	4	1,744,495	164,091
Inventory	5	2,298,049	3,437,942
Prepaid expenses and deposits		82,458	83,011
Total current assets		11,069,920	7,246,760
Property, plant and equipment	6	758,488	418,961
Total assets		**11,828,408**	**4,391,837**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		179,139	1,795,772
Lease liability – current portion	8	150,584	27,887
Derivative liability	7	-	59,649
Loan payable	7	-	454,849
Total current liabilities		329,723	2,338,157
Lease liability	8	284,403	37,667
Total liabilities		614,126	2,375,824
Shareholders' Equity			
Share Capital	9	38,957,068	26,462,308
Contributed Surplus	9,11	8,476,570	6,577,322
Warrants	7,9	458,605	-
Deficit		(36,677,961)	(31,023,617)
Total shareholders' equity		11,214,282	2,016,013
Total liabilities and shareholders' equity		**11,828,408**	**4,391,837**

Going concern (Note 2(e))
Commitments and contingencies (Note 14)

Approved on behalf of the Board of Directors:

“Praveen Jain”, Director

“Nishith Goel”, Director

SPARQ SYSTEMS INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

(Expressed in Canadian dollars)

	Note	2024	2023
Revenue		**1,654,865**	**189,976**
Cost of sales	5	**1,782,492**	**1,346,377**
Gross margin		**(127,627)**	**(1,156,401)**
Expenses			
Research and development	12	1,135,322	1,228,830
Sales and marketing		86,799	94,171
General and administration		2,122,944	1,895,210
Depreciation of property and equipment	6	215,177	109,804
Stock-based compensation	11	1,966,191	332,488
Total expenses		5,526,433	3,660,503
Loss before other income (expenses)		**(5,654,060)**	**(4,816,904)**
Other income (expense)			
Loss on derecognition of Bonus Warrants	7	(183,287)	-
Interest and accretion	7,8	(145,273)	(20,370)
Interest income		32,802	58,049
Foreign exchange gain		295,474	17,190
Investment tax credits		-	(5,325)
		(284)	49,544
Net loss and comprehensive loss for the year		**(5,654,344)**	**(4,767,360)**
Basic and diluted loss per share		(0.05)	(0.06)
Weighted average shares outstanding	10	101,666,878	82,444,752

SPARQ SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIENCY) EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

(Expressed in Canadian dollars)

	Note	Number of Shares	Common Shares $	Contributed Surplus $	Warrants $	Deficit $	Total $
Balance, December 31, 2022		**82,444,752**	**26,462,308**	**2,298,658**	**3,946,176**	**(26,256,257)**	**6,450,885**
Stock-based compensation	11	-	-	332,488	-	-	332,488
Expiry of warrants	9	-	-	3,946,176	(3,946,176)	-	-
Net loss for the year		-	-	-	-	(4,767,360)	(4,767,360)
Balance, December 31, 2023		**82,444,752**	**26,462,308**	**6,577,322**	-	**(31,023,617)**	**2,016,013**
Stock-based compensation	11	-	-	1,966,191	-	-	1,966,191
Private placement financing	9	30,889,720	12,355,888	-	-	-	12,355,888
Issue costs – cash	9	-	(904,658)	-	-	-	(904,658)
Issue costs - equity	9	625,000	(458,605)	-	458,605	-	-
Recognition of Bonus Warrants	7	-	-	-	242,936	-	242,936
Exercise of Bonus Warrants	7&9	1,000,000	647,936	-	(242,936)	-	405,000
Conversion of loan	7	1,775,640	710,256	-	-	-	710,256
Exercise of options	9	199,996	143,943	(66,943)	-	-	77,000
Net loss for the year		-	-	-	-	(5,654,344)	(5,654,344)
Balance, December 31, 2024		**116,935,108**	**38,957,068**	**8,476,570**	**458,605**	**(36,677,961)**	**11,214,282**

SPARQ SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

(Expressed in Canadian dollars)

	Note	2024	2023
		$	$
Operating activities:			
Net loss for the year		**(5,654,344)**	**(4,767,360)**
Items not involving cash			
Depreciation expense	6	215,177	109,803
Interest and accretion	7,8	145,273	20,369
Loss on derecognition of Bonus Warrants		183,287	-
Stock-based compensation	11	1,966,191	332,488
Changes in non-cash working capital:			
Accounts and other amounts receivable		(1,580,404)	129,886
Investment tax credits recoverable		-	330,000
Inventory		1,139,893	(1,726,301)
Prepaid expenses and deposits		553	240,604
Accounts payable and accrued liabilities		(1,616,633)	879,616
Cash flow used in operating activities		**(5,201,007)**	**(4,450,895)**
Investing activities			
Acquisition of equipment	6	(101,680)	(294,179)
Cash flow used in investing activities		**(101,680)**	**(294,179)**
Financing activities:			
Loan proceeds	7	168,750	500,000
Lease payments	8	(125,628)	(14,621)
Repayment of loan	7	-	(40,000)
Proceeds from private placement	9	12,339,309	-
Issue costs	9	(904,658)	-
Proceeds from exercise of stock options	9	77,000	-
Proceeds from exercise of Bonus Warrants	9	405,000	-
Cash flow from financing activities		**11,959,773**	**445,379**
Net increase (decrease) in cash and cash equivalents		**6,657,086**	**(4,299,695)**
Cash and cash equivalents at beginning of the year		**287,832**	**4,587,527**
Cash and cash equivalents at end of the year		**6,944,918**	**287,832**

1. Nature of business

Sparq Systems Inc. (formerly SPARQ Corp.) (the "**Company**") was incorporated under the *Business Corporations Act* (Ontario) on November 13, 2018. The address of the Company's registered and head office is 945 Princess Street, Box 212, Kingston, Ontario K7L 0E9. The common shares are listed for trading on the TSX Venture Exchange (the "**TSXV**") under the symbol "SPRQ". The common shares are also quoted for trading on the OTCQB under the symbol "SPRQF" and on the Frankfurt Stock Exchange under the symbol "M26".

The Company designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications. The Company has developed a proprietary photovoltaic ("**PV**") solution called the Quad; the Quad inverter optimizes four PV modules with a single microinverter, simplifying design and installation, and lowering cost for solar power installations when compared to existing market offerings.

2. Basis of presentation, measurement, and consolidation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board ("**IASB**") and interpretations of the IFRS Interpretations Committee. These consolidated financial statements were authorized for issue by the Board of Directors of the Company on April 25, 2025.

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and share-based compensation transactions which have been measured at fair value.

c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its majority-owned subsidiary, SPARQ Systems India Private Limited ("**SPARQ India**"), which was incorporated under the laws of India. Inter-company transactions and balances between the Company and SPARQ India have been eliminated on consolidation. SPARQ India has a reporting date of December 31.

Profit or loss and other comprehensive loss of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

d) Functional and presentation currency

The functional currency of the Company and its subsidiaries is determined using the currency of the primary economic environment in which each entity operates. The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar.

e) Going concern assumption

These consolidated financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2024, the Company had a deficit of $36,677,961 (2023 - $31,023,617) and, for the year then ended, incurred a net loss of $5,654,344 (2023 - $4,676,360) and negative cash flows from operating activities of $5,201,007 (2023 – $4,450,895). The Company has used debt and equity financing from both related and unrelated sources to supplement its operations and will continue to be reliant on additional debt and/or equity financing in order to fully develop its business plan.

Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will be able to generate sufficient returns from operations.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the Company generating revenue and debt and/or equity financing sufficient to fund its cash flow needs.

These circumstances indicate the existence of material uncertainty that casts significant doubt on the ability of the Company to meet its business plan and its obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported expenses and the classifications used in the consolidated statement of financial position. Such differences in amounts could be material.

3. Material accounting policy information

a) Revenue recognition

The Company has adopted all of the requirements of IFRS 15 Revenue from Contracts with Customers (“**IFRS 15**”). IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The Company derives revenue from the sale of hardware, including microinverters and their associated peripherals. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company’s activities as described below.

Revenue from hardware sales is recognized when the hardware is shipped, and when all significant contractual obligations have been satisfied. The customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer’s acceptance of the products. Once products are delivered to the Company’s customers, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Revenue from contracts with customers is recognized as earned, based on the Company's performance obligation according to specific terms of the contract. Foreseeable losses, if any, are recognized in the year in which the loss is determined.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term deposits that are readily convertible into a known amount of cash.

c) Warranty provision

The Company provides a warranty on its hardware devices against defects in material and workmanship for a period of 12 years from the date of purchase. The Company's obligation during the warranty period is to either replace or repair a defective unit, at its sole option. Estimated costs associated with the repair or replacement are included in the Company's direct cost of sales.

d) Inventory

Inventory is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs. Cost is determined by the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition. The costs of conversion include direct material and labour costs, and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

Inventory is written down to its net realizable value when the cost of inventory is estimated to be unrecoverable due to obsolescence, damage, or declining selling prices. The Company makes estimates related to obsolescence, future selling prices, seasonality, customer behaviour, and fluctuations in inventory levels.

e) Property and equipment

Property and equipment are recorded at cost, net of accumulated depreciation and any accumulated impairment losses. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the depreciable asset using the following terms and methods:

Computer software	-	straight line basis over 1 year
Computer equipment	-	straight line basis over 3 years
Furniture and fixtures	-	straight line basis over 5 years
Equipment	-	straight line basis over 5 years
Leasehold improvements	-	straight line basis over the life of the lease
Right-of-use assets	-	straight line basis over the life of the lease

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate. An item of equipment is de-recognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in net loss and comprehensive loss in the year the asset is derecognized.

f) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the financial instrument. Financial assets are de-recognized when the contractual rights to receive cash flows from the financial asset expire and financial liabilities are de-recognized when obligations under the contract expire, are discharged or cancelled. The Company's financial assets, which include cash and cash equivalents, and accounts and other amounts receivable are classified as amortized cost. The Company's financial liabilities, which include accounts payable and accrued liabilities, and loan payable are classified as amortized cost.

Financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method if both of the following conditions are met and they are not designated as FVTPL:

i. the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

ii. the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. All financial assets not classified as amortized cost as described above are measured at FVTPL.

Financial liabilities are initially measured at fair value, less any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method.

Financial assets and financial liabilities are measured at fair value using a valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy of a particular asset or liability depends on the inputs used in the valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally derived (unobservable). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs based on a company's own assumptions about market participant assumptions using the best information available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

- Level 2 - Valuations based on quoted inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

g) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit ("**CGU**") exceeds its recoverable amount. The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

h) Foreign currency translation

Monetary assets and liabilities denominated in currencies other than functional currencies are translated into functional currencies at the rate of exchange in effect at the consolidated statement of financial position date. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction date exchange rate. Foreign currency gains and losses resulting from translation are reflected in net loss and comprehensive loss for the year.

i) Taxes

Taxes are comprised of current and deferred tax. Income tax is recognized in the statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in shareholders' (deficiency) equity, in which case the income tax is also recognized directly in shareholders' (deficiency) equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the consolidated statements of financial position dates and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable the assets can be recovered.

j) Stock-based compensation

The Company records stock-based compensation related to stock options ("**Options**') granted using the estimated fair value of the Options at the date of grant. The estimated fair value is expensed as benefits over the year in which the Option holder unconditionally becomes entitled to the award.

The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related services and non-market performance conditions at the vesting date. The corresponding charge is to contributed surplus. Any consideration paid on the exercise of Options is credited to common shares.

The Company estimates the fair value of Options using the Black-Scholes valuation model. This model requires the Company to make estimates and assumptions, including, among other things, estimates regarding the length of time a recipient of Options will retain vested Options before exercising them, the estimated volatility of the price of the Company's common shares and the number of Options that will be forfeited prior to vesting. Changes in these estimates and assumptions can materially affect the determination of the fair value of stock-based compensation and, consequently, the related amount recognized in the Company's consolidated statements of loss and comprehensive loss.

Compensation costs for the issuance of deferred share units ("**DSUs**") are measured at fair value based on the market price of the Company's common shares on the date of issuance and recognized in the Company's consolidated statements of loss and comprehensive loss.

For equity-settled share-based payment transactions, the Company measures the goods and services received, and the corresponding increase in equity, directly, at the fair value of goods and services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it measures their value by reference to the fair value of the equity instrument granted. Transactions measured by reference to the fair value of the equity instrument granted have their fair values re-measured each vesting and reporting date until fully vested.

k) Government assistance

The Company recognizes government assistance received, or estimated government assistance to be received, when there is reasonable assurance that the Company has complied and will continue to comply with all relevant conditions stipulated in funding arrangements. Assistance related to the acquisition of equipment is deducted from the cost of the related assets, while assistance related to current operations is recognized in the consolidated statement of loss and comprehensive loss.

l) Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year Diluted loss per share is determined by adjusting the loss attributed to shareholders and the weighted average number of common shares outstanding for the effects of all Options outstanding that may add to the total number of common shares to the extent that they are not anti-dilutive.

m) Research and development expenditures

Expenditures on research are expensed as incurred. Research activities include formulation, design, evaluation and final selection of possible alternatives, products, processes, systems or services. Development expenditures are expensed as incurred unless the Company can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) its intention to complete the intangible asset and use or sell it; (iii) its ability to use or sell the intangible asset; and, (iv) how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and, (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

n) Leases

The Company assesses at inception of a contract, whether the 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 for a period of time, the Company assesses whether the customer has the following through the period of use:

- the right to obtain substantially all of the economic benefits from use of the identified asset; and
- the right to direct the use of the identified asset.

Where the Company is a lessee in a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the lease commencement date, the Company recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Company, and an estimate of the costs to be incurred by the Company in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Company measures all right-of-use assets by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use assets are depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset.

The estimated useful life of the right-of-use assets are determined on the same basis as those of property and equipment. The determination of the depreciation period is dependent on whether the Company expects that the ownership of the underlying asset will transfer to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability are comprised of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Company under a residual value guarantee, the exercise price of a purchase option that the Company is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Company exercising an option to terminate the lease. After the commencement date, the Company measures the lease liability at amortized cost using the effective interest method.

The Company remeasures the lease liability when there is a change in the lease term, a change in the Company's assessment of an option to purchase the underlying asset, a change in the Company's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On re-measurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognized the lease payments associated with these leases of $nil (2023 - $35,615) as an expense for the year ended December 31, 2024.

o) Share capital

Common shares are classified as equity. The share capital presents the amounts received upon issuance of common shares. Incremental costs directly attributed to the issuance of common shares are recognized as a deduction from the proceeds in equity in the year in which the transaction occurs.

p) Significant accounting judgments, estimates and assumptions

Estimated useful lives and depreciation of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Valuation of deferred tax assets

Deferred tax assets, including those arising from tax loss carryforwards, require management to assess the likelihood that the Company will generate sufficient taxable income in future years in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future years. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Going concern risk assessment

The assessment of the Company's ability to continue as a going concern and meet its liabilities for the ensuing year involves significant judgment based on expectation of future events that are believed to be reasonable under the circumstances.

Fair value of stock options

Stock-based compensation expense is measured by reference to the fair value of the Options at the date at which they are granted. Estimating fair value for granted Options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the Option, volatility, dividend yield, interest rate, and rate of forfeitures and making assumptions about them. Expected volatility is estimated using price history of comparable companies that are publicly listed over the expected life of the Options granted.

Expected credit losses

The Company's accounts receivables are typically short-term in nature, with the exception of holdbacks and the Company recognized an amount equal to the lifetime expected credit losses ("**ECLs**"). The Company measures ECLs based on historical experience and forecasted economic conditions. The amount of the ECLs is sensitive to changes in future circumstance and economic conditions.

Valuation of inventory

The Company's inventory is valued at the lower of average cost or net realizable value and management makes an estimate for any item that cannot be sold. If realization of inventory values differ from estimates, future earnings would be affected.

q) New accounting standards

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods commencing on or after January 1, 2024. Many are not applicable or do not have a significant impact to the Company and have been excluded. The adoption of the following did not have a significant impact:

- Amendment to IAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction - This amendment requires entities to recognize deferred tax for transactions that result in equal taxable and deductible temporary differences (effective for annual periods beginning on or after January 1, 2024).

- Amendment to IAS 1 – Presentation of Financial Statements (effective from the annual period beginning on or after January 1, 2024) – These narrow-scope amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

r) Standards, amendments and interpretations not yet effective

There are new accounting standards and amendments to accounting standards and interpretations that are effective for annual periods beginning on or after January 1, 2025, that have not been applied in preparing the consolidated financial statements for the year ended December 31, 2024. Except as disclosed below, these standards and interpretations are not expected to have a material impact on the Company's consolidated financial statements.

On May 30, 2024, the IASB issued amendments to IFRS 9 and IFRS 7 Classification and Measurement of Financial Instruments. These amendments clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system; add new disclosures for certain instruments with contractual terms that can change cash flows, such as some instruments with features linked to the achievement of environment, social and governance targets; and update the disclosures for equity instruments designated at fair value through other comprehensive income. These amendments apply to annual reporting periods beginning on or after January 1, 2026. Earlier application is permitted. The Company is currently assessing the impact and efforts related to the amendments to IFRS 9 and IFRS 7.

(Expressed in Canadian dollars)

On April 9, 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements to improve reporting of financial performance. IFRS 18 replaces IAS 1 Presentation of Financial Statements. It carries forward many requirements from IAS 1. IFRS 18 applies to annual reporting periods beginning on or after January 1, 2027. Earlier application is permitted. The key new concepts introduced in IFRS 18 relate to: (i) the structure of the statement of profit or loss; (ii) required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements; and (iii) enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes. The Company is currently assessing the impact and efforts related to adopting IFRS 18.

4. Accounts receivable

		2024		2023
Accounts receivable	**$**	**1,683,260**	$	146,400
Sales tax receivable		**61,235**		17,691
	$	**1,744,495**	$	164,091

5. Inventory

		2024		2023
Finished goods	**$**	**203,837**	$	1,684,665
Raw materials		**2,274,864**		2,002,047
		2,478,701		3,686,712
Provision		**(180,652)**		(248,770)
	$	**2,298,049**	$	3,437,942

Inventory expensed in cost of sales during the year ended December 31, 2024 was $1,782,492 (2023 - $257,283). During the year ended December 31, 2024, inventory provision related to obsolescence of $147,121 has been expensed within cost of sales (2023 - $116,475). Inventory was impaired to the lower of cost or net-realizable-value resulting in impairment expense of $nil recognized within cost of sales (2023 - $972,619).

(Expressed in Canadian dollars)

6. Property and equipment

	Equipment	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	Right of use asset	Total
	$	$	$	$	$	$	$
Cost							
Balance, December 31, 2022	**516,442**	**27,027**	**71,034**	**8,850**	**23,154**	**-**	**646,507**
Additions	278,069	-	4,370	11,740	-	76,109	370,288
Balance, December 31, 2023	**794,511**	**27,027**	**75,404**	**20,590**	**23,154**	**76,109**	**1,016,795**
Additions	72,711	-	15,944	13,025	-	453,024	554,704
Balance, December 31, 2024	**867,222**	**27,027**	**91,348**	**33,615**	**23,154**	**529,133**	**1,571,499**
Accumulated depreciation							
Balance, December 31, 2022	**394,010**	**24,863**	**59,582**	**8,433**	**1,142**	**-**	**488,030**
Depreciation	72,660	440	5,821	5,842	12,765	12,276	109,804
Balance, December 31, 2023	**466,670**	**25,303**	**65,403**	**14,275**	**13,907**	**12,276**	**597,834**
Depreciation	88,466	440	7,486	13,215	2,361	103,209	215,177
Balance, December 31, 2024	**555,136**	**25,743**	**72,889**	**27,490**	**16,268**	**115,485**	**813,011**
Net book value							
Balance, December 31, 2023	**327,841**	**1,724**	**10,001**	**6,315**	**9,247**	**63,833**	**418,961**
Balance, December 31, 2024	**312,086**	**1,284**	**18,459**	**6,125**	**6,886**	**413,648**	**758,488**

7. Loans

On November 27, 2023, the Company entered into an unsecured loan agreement with an arm's length party for a principal amount of $500,000 (the "**November 2023 Loan**"). The November 2023 Loan bears interest at a rate of 12% per annum and the principal and accrued interest on the November 2023 Loan are payable on the later of: (i) May 27, 2024; and (ii) the date on which the Company completes an equity or debt financing. The proceeds of the November 2023 Loan were used for the Company's working capital requirements and other general corporate purposes.

In connection with the November 2023 Loan, the lender was issued warrants to purchase up to 1,000,000 common shares (each, a "**Bonus Warrant**"). Each Bonus Warrant entitles the holder to purchase one (1) common share in the capital of the Company at a price per share equal to the greater of: (i) $0.15; and (ii) the closing trading price of the common shares on the first date that the Company announces a proposed equity or debt financing. The Bonus Warrants are exercisable for a period of one year from the date of their issuance. The Bonus Warrants were considered a cost of issuance. The conversion feature of the Bonus Warrants meets the definition of a derivative liability instrument because the conversion rate is variable and therefore does not meet the fixed-for-fixed criteria outlined under IFRS. As a result, the conversion feature is required to be recorded as a derivative liability at fair value and marked-to-market each period with the changes in fair value each period being charged or credited to income. The Bonus Warrants were allocated an estimated fair value of $59,649 using the Monte Carlo pricing model. On May 6, 2024, in accordance with the terms of the Bonus Warrants, the exercise price of each Bonus Warrant was deemed to be $0.405 per share, as this was the Market Price (as defined in the policies of the TSXV) on the first date prior to the Company announcing a proposed financing. Since the fixed-for-fixed criteria was met, the derivative liability was derecognized, and the Bonus Warrants were recognized as equity.

During the year ended December 31, 2024, the Company received an additional $168,750 in loans (together with the November 2023 Loan, the "**Loans**") with the same terms and conditions as the November 2023 Loan. During the year ended, 2024, interest and accretion charged on the Loans was $86,658 (2023 - $14,498). On June 10, 2024, the Company settled the Loans (comprised of $668,750 in principal and $41,506 in interest) in full by issuing an aggregate of 1,775,640 common shares at a deemed issuance price of $0.40 per common share.

(Expressed in Canadian dollars)

8. Lease liability

Balance, December 31, 2022	$ -
Additions	76,109
Lease interest	4,067
Lease payments	(14,622)
Balance, December 31, 2023	65,554
Lease interest	42,036
Addition	453,024
Lease payments	(125,628)
Balance, December 31, 2024	$ 434,987
Allocated as:	
Current	$ 150,584
Long Term	$ 284,403

On August 1, 2023, the Company entered into a 31 month lease for office space. The term of the lease will expire on February 27, 2026, with no further options to renew at the current terms. Under the lease, the Company is required to pay a monthly base rent of $2,924. At the commencement of the lease, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 13.57%, which was estimated to be Company's incremental borrowing rate in Canada.

On January 1, 2024, the Company finalized a lease for office space. The term of the lease will expire on December 31, 2027. Under the lease, the Company is required to pay a monthly base rent of $12,931, with an annual increase of 2.5%. At the commencement of the lease, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 13.50%, which was estimated to be Company's incremental borrowing rate in Canada.

9. Share capital

Authorized

An unlimited number of common shares.

Issued

As at December 31, 2024, 116,935,108 (2023 - 82,444,752) common shares were issued and outstanding.

All common shares previously subject to escrow have been released.

On May 31, 2024, the Company closed the first tranche of a brokered private placement of common shares (the "**Offering**") by issuing 11,938,745 common shares at a price of $0.40 per common share for aggregate gross proceeds of $4,775,498. Pollitt & Co. Inc. (the "**Agent**") was engaged as the sole agent and bookrunner for the Offering to offer the common shares on a best efforts agency basis. In connection with the closing of the first tranche of the Offering, the Agent received: (i) a cash commission of $239,212; and (ii) 361,442 compensation warrants (each, a "**Compensation Warrant**") exercisable at $0.40 per common share for a period of two years from the closing of the first tranche of the Offering.

(Expressed in Canadian dollars)

On June 7, 2024, the Company closed the second tranche of the Offering by issuing 18,950,975 common shares at a price of $0.40 per common share for aggregate gross proceeds of $7,580,390 (for a total of $12,355,888 for both tranches). In connection with the closing of the second tranche of the Offering, the Agent received: (i) a cash commission of $450,823; (ii) 1,107,059 Compensation Warrants exercisable at $0.40 per common share for a period of two years from the closing of the second tranche of the Offering; and (iii) a corporate advisory fee of $250,000 which was satisfied through the issuance of 625,000 common shares. The expenses of the Offering totalled $214,622. The net proceeds of the Offering are intended to be used for working capital and general corporate purposes.

The Compensation Warrants issued in connection with the first tranche and second tranche of the Offering were allocated an estimated fair value of $458,605, using the Black-Scholes option pricing model with the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 4.26%, an expected dividend yield of 0%, an expected stock price volatility of 166%, and an expected life of two years.

During the year ended December 31, 2024, 1,000,000 common shares were issued on the exercise of 1,000,000 Bonus Warrants at $0.405 per Bonus Warrant for proceeds of $405,000. The Bonus Warrants had a recorded value of $242,936, which was re-allocated from warrants to share capital on the exercise.

During the year ended December 31, 2024, 199,996 common shares were issued on the exercise of 199,996 Options at $0.385 per share for proceeds of $77,000. The Options had a recorded value of $66,943, which was re-allocated from contributed surplus to share capital on the exercise.

Warrants

	Number of Warrants	Weighted average exercise price
	#	$
Balance, December 31, 2022	**20,000,000**	**0.75**
Expired	(20,000,000)	(0.75)
Granted (note 7)	1,000,000	0.15
Balance, December 31, 2023	**1,000,000**	**0.15**
Exercise price of Bonus Warrants became fixed (note 7)	-	0.405
Exercise of Bonus Warrants	(1,000,000)	(0.405)
Granted	1,468,501	0.40
Balance, December 31, 2024	**1,468,501**	**0.40**

As at December 31, 2024 the Company had the following warrants outstanding:

Number of Warrants Outstanding	Exercise Price ($)	Expiry Date	Remaining Life (years)
361,442	0.40	05/31/2026	1.42
1,107,059	0.40	06/07/2026	1.44
1,468,501			

10. Loss per share

Loss per share is calculated by dividing loss by the weighted average number of common shares outstanding during the year. In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding Options, warrants and other convertible instruments. In periods where a net loss is reported all outstanding Options, warrants and other convertible instruments are excluded from the calculation of diluted loss per share, as they are all anti-dilutive.

(Expressed in Canadian dollars)

11. Stock-based compensation

The Company has an omnibus equity incentive plan (the "**Omnibus Plan**") which provides for a wide range of incentive awards, including Options, DSUs, restricted share units ("**RSUs**"), performance share units ("**PSUs**") and other share-based awards ("**Other Share-Based Awards**", and together with Options, DSUs, RSUs, PSUs, "**Awards**") to attract, retain and motivate Employees, Directors, Officers and Consultants of the Company (as such terms are defined in the Omnibus Plan). The Omnibus Plan is a "rolling up to 10% and fixed up to 10%" Security Based Compensation Plan, as defined in Policy 4.4 - Security Based Compensation of the TSXV. The Omnibus Plan is a: (a) "rolling" plan pursuant to which the number of common shares that are issuable pursuant to the exercise of Options granted under the Omnibus Plan shall not exceed 10% of the issued and outstanding common shares as at the date of any Option grant; and (b) "fixed" plan under which the number of common shares that are issuable pursuant to all Awards other than Options granted under the Omnibus Plan and under any other security based compensation arrangement, in aggregate is a maximum of 8,244,475 common shares, in each case, subject to adjustment as provided in the Omnibus Plan and any subsequent amendment to the Omnibus Plan. Shareholders approved the initial adoption of the Omnibus Plan at the Company's annual and special meeting held on June 1, 2022.

The following details all Options and DSUs granted under the Omnibus Plan during the years ended December 31, 2024 and 2023. No RSUs, PSUs or Other Share-Based Awards have been issued as of the date hereof.

Stock options

	Number of Options	Weighted average exercise price
	#	$
Balance, December 31, 2022	**6,312,000**	**0.47**
Granted (i)	180,000	0.18
Balance, December 31, 2023	**6,492,000**	**0.46**
Granted (ii)	4,624,702	0.41
Granted (iii)	200,000	0.71
Balance, December 31, 2024	**11,316,702**	**0.45**

(i) On April 20, 2023, 180,000 Options were granted to the employees of the Company with an exercise price of $0.18. 150,000 of the Options expire five years from the date of grant, and the remaining 30,000 Options expire four years from the date of grant. Options issued were allocated an estimated fair value of $28,838 using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 3.51%, an expected dividend yield of 0%, an expected stock price volatility of 130%, and an expected life of five years.

(ii) On June 28, 2024, 4,624,702 Options were granted to directors, officers and employees of the Company with an exercise price of $0.41. The Options are exercisable for a period of five years and vested immediately upon grant. The Options were allocated an estimated fair value of $1,711,133 using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 3.15%, an expected dividend yield of 0%, an expected stock price volatility of 145%, and an expected life of five years.

(iii) On October 18, 2024, 200,000 Options were granted to a director of the Company with an exercise price of $0.75. The Options are exercisable for a period of five years and vested immediately upon grant. The Options were allocated an estimated fair value of $127,544 using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 3.09%, an expected dividend yield of 0%, an expected stock price volatility of 143%, and an expected life of five years.

(Expressed in Canadian dollars)

The underlying expected stock price volatility for the calculation of the fair value of the Options is based on historical data of similar companies, as the Company has limited historical data itself on which it could be based. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the Options.

The Options have various vesting terms. In total, $1,966,191 (2023 – $332,488) of stock-based compensation expense relating to Options was included in the statements of loss and comprehensive loss for the year ended December 31, 2024, and credited to contributed surplus.

As at December 31, 2024 the Company had the following Options outstanding:

Number of Options Outstanding	Exercise Price ($)	Expiry Date	Number of Options Exercisable	Weighted Average Remaining Life (years)
112,000	0.25	8/9/2029	112,000	4.61
5,025,000	0.50	12/31/2026	5,025,000	2.00
275,000	0.50	02/24/2027	275,000	2.15
400,000	0.385	11/22/2027	183,330	2.90
500,000	0.285	12/01/2027	125,000	2.92
30,000	0.18	04/20/2027	16,250	2.31
150,000	0.18	04/20/2028	60,000	3.31
4,624,702	0.41	06/28/2029	4,624,702	4.50
200,000	0.75	10/18/2029	200,000	4.90
11,316,702			10,621,282	3.20

**The weighted average exercise of the Options is $0.45 (December 31, 2023 - $0.46).*

DSUs

Under the Omnibus Plan, the Company will redeem vested DSUs, subject to earlier expiration or cancellation in accordance with the Omnibus Plan by either (in the sole discretion of the board of directors of the Company): (i) issuing common shares from treasury; (ii) delivering common shares acquired on the open market; (iii) making a lump sum payment equal to the value of the issuable number of common shares; or (iv) any combination thereof. On the date of grant, the DSUs are recognized at their fair value based on the price of the common shares on that date.

On November 30, 2023, 550,817 DSUs were granted to employees of the Company. The DSUs vested on November 30, 2024. On the date of grant the DSUs had a fair value of $0.11 per DSU and are being expensed over their vesting period. As at December 31, 2024, all 550,817 DSUs were issued and outstanding. In total, $55,540 (2023 - $5,050) of stock-based compensation expense relating to DSUs was included in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2024 and credited to contributed surplus.

12. Related party transactions

(a) During the year ended December 31, 2024, the Company was charged $350,000 (2023 - $300,000) for consulting services provided by PE Consultants Inc., an entity which is controlled by Praveen Jain, the Chief Executive Officer of the Company. These expenses have been recorded in research and development and general and administrative expenses. As at December 31, 2024, $nil (2023 – $131,500) of this amount is included in accounts payable and accrued liabilities.

(b) During the year ended December 31, 2024, the Company was charged $36,000 (2023 - $36,000) for consulting services provided by CFO Advantage Inc., an entity which is controlled by Kyle Appleby, the Chief Financial Officer of the Company. These expenses have been recorded in general and administrative expenses. As at December 31, 2024, $3,000 (2023 – $22,170) of this amount is included in accounts payable and accrued liabilities.

(Expressed in Canadian dollars)

(c) On June 16, 2022, the Company signed a manufacturing agreement (the "**Manufacturing Agreement**") with Ti-Lane Precision Electronic Company Limited ("**Ti-Lane**") to manufacture turn-key Q1200 microinverters for the Company on a high volume basis at Ti-Lane's facility based in GuangDong Province, China. The Manufacturing Agreement had an initial term of three years and was mutually terminated by the Company and Ti-Lane on November 30, 2024. Ti-Lane is a shareholder in the Company and is controlled by Baojun (Robbie) Luo, one of the Company's directors. During the year ended December 31, 2024, the Company was charged $1,119,758 (2023 - $1,620,677) by Ti-Lane for manufacturing services. As at December 31, 2024, $2,345 (2023 - $700,346) of this amount is included in accounts payable and accrued liabilities.

(d) Transactions with related parties are incurred during the course of normal operations and initially recorded at fair value. Key management includes directors and officers of the Company. Compensation awarded to key management was comprised of the following for the years ended December 31, 2023 and 2022:

		2024		2023
Short-term compensation	**$**	**386,000**	$	**336,000**
Share-based payments		**1,409,479**		**-**
Total	**$**	**1,795,479**	$	**336,000**

13. Taxes

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

		2024		2023
Net Income (Loss) before recovery of income taxes	**$**	**(5,654,344)**	$	(4,767,360)
Expected income tax (recovery) expense	**$**	**(1,498,401)**	$	(1,263,350)
Non-deductible for tax purposes		**1,549**		587
Stock based compensation		**521,041**		88,109
Other		**(29,730)**		81,831
True-up		**-**		5,341
Tax benefits not recognized		**1,005,541**		1,087,482
Income tax (recovery) expense	**$**	**-**	$	-
The Company's income tax (recovery) is allocated as follows:				
Current tax (recovery) expense	**$**	**-**	$	-
Deferred tax (recovery) expense		**-**		-
	$	**-**	$	-

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

As at December 31, 2024 and 2023, the Company had unrecognized deductible temporary differences as follows:

		2024		2023
Non-capital losses carried forward	**$**	**20,759,763**	$	16,608,990
Equipment		**1,154,746**		697,938
Share issuance costs		**1,187,679**		774,104
SR&ED and ITCs		**4,207,582**		4,207,582
Loan payable		**-**		2,547
Right-of-use asset		**-**		1,722
	$	**27,309,770**	$	22,292,883

(Expressed in Canadian dollars)

The Company's unused deductible SR&ED expenditures can be carried forward to reduce taxable income in future years. The Company's non-capital losses that may be used to reduce taxable income in future years with expiry between 2035-2044 and SR&ED tax credits will expire between 2030-2035 that may be used to reduce future provincial income tax payable. The Company's Canadian non-capital income tax losses expire as follows:

2035	**2,838,423**
2036	**2,131,899**
2037	**403,622**
2038	**921,672**
2039	**529,839**
2040	**505,971**
2041	**1,228,259**
2042	**3,396,734**
2043	**4,652,571**
2044	**4,150,773**
	$ **20,759,763**

14. Commitments and contingencies

Commitments

On July 31, 2013, the Company entered into a licensing agreement (the "**PARTEQ Agreement**") with PARTEQ Research and Development Innovations for commercial rights to certain power generation, conversion, and switching technologies used in its products. Pursuant to the terms of the PARTEQ Agreement, the Company is obligated to pay 1% of specified net sales generated from the sale of products using the licensed technology.

Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As at December 31, 2024 and 2023, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

The Company has received a payment demand from one of its suppliers with respect to a prior purchase order. The total amount of the demand is approximately $1.38 million although management of the Company is of the belief that the supplier is in default of the purchase order and therefore the Company does not have an obligation to make such payment. No provision has been recorded with respect to this demand.

15. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

a) Credit risk

Credit risk is the risk of a potential loss to the Company if one party of a financial instrument fails to meet its contractual obligations. The maximum credit exposure as at December 31, 2024 and 2023 relates to the carrying amount of cash and cash equivalents and accounts receivable. To reduce credit risk, all significant cash balances are placed with major financial institutions. Therefore, credit risk is low.

(Expressed in Canadian dollars)

The Company provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent credit losses which, once they materialize, are consistent with management's forecasts. The Company does not normally require a guarantee. As at December 31, 2024, 99% of the Company's accounts receivables were comprised of outstanding balances from customers (2023 - 89%).

The Company's expected credit loss allowance is estimated using historical loss information, current industry conditions and payment practices, as well as reasonable and supportable forecasts of future economic conditions. Credit risk is assessed based on days outstanding and utilizes both internal credit assessments and publicly available credit information. As a result, the allowance reflects anticipated effects caused by recent market deterioration. As at December 31, 2024, the current expected credit loss allowance was $Nil (2023 - $Nil).

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the effective management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity at all times to settle obligations and liabilities when due. The Company has the following contractual obligations:

	Less than 1 year	**1 to 3 years**	**Total**	**Carrying**
	$	**$**	**$**	**value**
Accounts payable and accrued liabilities	179,139	-	179,139	179,139
Lease liability	150,584	284,403	434,987	434,987
December 31, 2024	**329,723**	**284,403**	**614,126**	**614,126**

	Less than 1 year	**1 to 3 years**	**Total**	**Carrying**
	$	**$**	**$**	**value**
Accounts payable and accrued liabilities	1,795,772	-	1,795,772	1,795,772
Lease liability	35,091	40,940	76,031	65,554
Loan payable	530,000	-	530,000	454,849
December 31, 2023	**2,360,863**	**40,940**	**2,401,803**	**2,316,175**

c) Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The loan payable provides for a fixed annual interest rate and therefore exposes the Company to the risk of fair value variation due to interest rate variation because this financial asset is recognized at amortized cost. The other financial assets and liabilities of the Company do not represent interest risk because they do not bear interest. The Company does not use financial derivatives to decrease its exposure to interest risk.

(Expressed in Canadian dollars)

d) Tariff uncertainty

In early 2025, the United States government announced plans to impose a 25% tariff on most Canadian imports. These tariffs, initially set to take effect on February 4, 2025, were subsequently postponed and partially came into effect on March 4, 2025. Additional tariffs took effect on April 2, 2025. The Canadian government then announced retaliatory tariffs on imports from the United States as well as non-tariff measures.

Due to the current macroeconomic uncertainty relating to the threat of tariffs on aluminum and other materials and the Canadian government's retaliatory tariffs, the Company has been engaging with policymakers and carefully reviewing procurement strategies to mitigate the potential operational and economic impact these changes may have. While the extent of the impact cannot be quantified at this time, these measures may have an adverse effect on the Company's operations.

e) Foreign exchange risk

The Company is exposed to foreign exchange risk from various currencies, primarily the US dollar. Foreign exchange risk arises from sales and purchase transactions as well as recognized financial assets and liabilities that are denominated in a currency other than the Canadian dollar, which is the functional currency of the Company.

The Company's primary objective in managing its foreign exchange risk is to preserve sales values and cash flows and reduce variations in performance. Although management monitors exposure to such fluctuations, it does not employ any external hedging strategies to counteract the foreign currency fluctuations.

The following amounts were denominated in foreign currency:

	Currency	December 31, 2023	December 31, 2024
Cash	US Dollar	$ 53,573	$ 3,868,986
Accounts Receivable	US Dollar	$ 110,684	$ 1,169,825
Accounts Payable	US Dollar	$ 560,962	$ 2,956

On December 31, 2024, an increase of 1% in the value of US dollar will result in a gain of $28,689 (2023 - $535) in the value of cash, $11,698 (2023 - $1,106) in accounts receivable and loss of $30 (2023 - $5,609) in accounts payable. Similarly, a decrease of 1% in the value of US dollar will have similar effects but in opposite direction.

16. Capital management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders. The Company considers the items included in shareholders' equity of $11,214,282 as capital, as at December 31, 2024 (2023 - $2,016,013). The Company manages the capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the Company's business. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator.