



HPQ Silicon Inc.
(Formerly HPQ Silicon Resources Inc.)

Consolidated Financial Statements (unaudited)
As at March 31, 2023

(in Canadian dollars)

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HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)
Consolidated Statements of Financial Position (unaudited)
As at March 31, 2023 and December 31, 2022
(in Canadian dollars)

	Notes	March 31, 2023 \$	December 31, 2022 \$
ASSETS			
Current			
Cash		1,256,526	1,143,902
Marketable securities	6	2,086,541	710,403
Goods and services tax receivable		281,235	1,047,106
Investment tax credits receivable	10	165,412	207,101
Installments to a subcontractor	7	-	890,000
Deposit on contract	26	593,000	1,286,000
Prepaid expenses and other		311,514	267,281
		<u>4,694,228</u>	<u>5,551,793</u>
Non-current			
Property and equipment	10	3,364,904	3,839,058
Intangible assets	11	11,928,581	11,866,770
Royalties' receivable	8	152,954	146,273
Right-of-use assets		25,755	28,331
Investment accounted for using the equity method	12	168,868	180,014
		<u>15,641,062</u>	<u>16,060,446</u>
Total assets		<u><u>20,335,290</u></u>	<u><u>21,612,239</u></u>
LIABILITIES			
Current			
Payable to a subcontractor and other trade payables	13	4,047,207	3,969,320
Due to directors	14	100,000	100,000
Royalties payable	11	365,933	354,578
Current portion of lease liabilities		11,427	11,371
		<u>4,524,567</u>	<u>4,435,269</u>
Non-current			
Due to directors, officers and a company owned by a director, without interest (effective rate of 3.1% in 2022 and 2021)	14	812,436	827,052
Lease liabilities		13,463	16,997
Royalties payable	11	1,908,516	1,814,251
		<u>2,734,415</u>	<u>2,658,300</u>
Total liabilities		<u><u>7,258,982</u></u>	<u><u>7,093,569</u></u>
EQUITY			
Share capital	15	55,059,557	54,865,457
Contributed surplus		3,795,725	3,782,159
Accumulated other comprehensive income		24,993	16,991
Deficit		(45,929,062)	(44,270,333)
Equity attributable to owners		<u>12,951,213</u>	<u>14,394,274</u>
Non-controlling interests	22	125,095	124,396
Total equity		<u><u>13,076,308</u></u>	<u><u>14,518,670</u></u>
Total liabilities and equity		<u><u>20,335,290</u></u>	<u><u>21,612,239</u></u>

The accompanying notes are an integral part of the consolidated financial statements.
These consolidated financial statements were approved and authorized for issue by the Board of Directors on May 29, 2023.

ON BEHALF OF THE BOARD

(s) Patrick Levasseur _____ Director
(s) Bernard J. Tourillon _____ Director

HPQ-Silicon Resources Inc.
Consolidated Statements of Net Loss (unaudited)
As at March 31, 2023 and 2022
(in Canadian dollars)

	Notes	2023	2022
		\$	\$
Expenses			
Salaries and employee benefits expense	16.1	135,252	128,826
Other operating expenses	18	217,749	192,150
Research and development costs		1,044,989	-
Amortization of intangible assets	11	173,811	137,489
Amortization of property and equipment	10	476,219	156,000
Operating loss		<u>2,048,020</u>	<u>614,465</u>
Other income (expenses)			
Finance (loss) income	19	515,217	(29,034)
Finance costs	19	(114,081)	(110,166)
Share of loss from equity-accounted investment		(10,606)	(11,402)
Adjustment of ownership in equity-accounted investment		(540)	20 366
		<u>389,990</u>	<u>(130,236)</u>
Net loss		<u>(1,658,030)</u>	<u>(744,701)</u>
Net loss attributable to:			
Owners of the Company		(1,659,047)	(744,701)
Non-controlling interests	25	1,017	-
		<u>(1,658,030)</u>	<u>(744,701)</u>
Loss per share attributable to owners			
Basic and diluted loss per share	22	<u>(0.00)</u>	<u>(0.00)</u>

The accompanying notes are an integral part of the consolidated financial statements.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)
Consolidated Statements of Comprehensive Loss (unaudited)

As at March 31, 2023 and 2022
(in Canadian dollars)

	Notes	<u>2023</u>	<u>2022</u>
		\$	\$
Net loss		(1,658,030)	(744,701)
Other comprehensive income item that will subsequently be reclassified to net earnings:			
Exchange difference resulting from the conversion of a foreign subsidiary		8,002	-
Comprehensive loss		<u>(1,650,028)</u>	<u>(744,701)</u>
Comprehensive loss attributable to:			
Owners of the Company		(1,651,045)	(744,701)
Non-controlling interests	22	<u>1,017</u>	<u>-</u>
		<u>(1,650,028)</u>	<u>(744,701)</u>

The accompanying notes are an integral part of the consolidated financial statements.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)

Consolidated Statements of Changes in Equity (unaudited)

As at March 31, 2023 and 2022

(in Canadian dollars)

	Notes	Equity attributable to owners					Non-controlling interests	Total shareholders' equity
		Share capital	Contributed surplus	Deficit	Accumulated Other comprehensive	Total		
		\$	\$	\$	\$	\$		
Balance at January 1 st 2022		49,858,704	3,516,870	(35,043,329)	-	18,332,245	-	18,332,245
Exercise warrants	15.2	730,760	(87,200)	-	-	643,560	-	643,560
Exercise options	16.2	115,456	(54,456)	-	-	72,000	-	72,000
		50,704,920	3,386,214	(35,043,329)	-	19,047,805	-	19,047,805
Net income and total comprehensive loss for the period		-	-	(744,701)	-	(744,701)	-	(744,701)
Balance at March 31, 2022		<u>50,704,920</u>	<u>3,386,214</u>	<u>(35,788,030)</u>	<u>-</u>	<u>18,303,104</u>	<u>-</u>	<u>18,303,104</u>
Balance at January 1 st 2023		54,865,457	3,782,159	(44,270,333)	16,991	14,394,274	124,396	14,518,670
Exercise warrants	15.2	150,000	-	-	-	150,000	-	150,000
Common share issuance for the settlement of accounts payable	15.1	44,100	13,566	-	-	57,666	-	57,666
		55,059,557	3,795,725	(44,270,333)	16,991	14,601,940	124,396	14,726,336
Net income for the period		-	-	(1,659,047)	-	(1,659,047)	1,017	(1,658,030)
Total comprehensive for the period		-	-	-	8,002	8,002	-	8,002
Balance at March 31, 2023		<u>55,059,557</u>	<u>3,795,725</u>	<u>(45,929,380)</u>	<u>24,993</u>	<u>12,950,895</u>	<u>125,413</u>	<u>13,076,308</u>

The accompanying notes are integral part of the consolidated financial statements.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)
Consolidated Statements of Cash Flows (unaudited)
As at March 31, 2023 and 2022
(in Canadian dollars)

	Notes	2023	2022
		\$	\$
OPERATING ACTIVITIES			
Net loss		(1,658,030)	(744,701)
Non-cash items			
Amortization of intangible assets		178,811	137,489
Amortization of property and equipment		476,219	156,000
Depreciation of right-of-use assets		2,869	-
Net change in fair value of marketable securities		(476,138)	40,000
Share of loss from equity-accounted investment		10,606	11,402
Adjustment of ownership in equity-accounted investment		540	(20,366)
Accretion revenues – royalties receivable		(6,681)	-
Change in fair value of royalties receivable		-	(9,534)
Accretion expenses – due to directors, officers and a company owned by a director		8,461	8,203
Accretion expenses – royalties payable		105,620	101,963
Interest income on royalties receivable		(6,250)	-
Changes in working capital items	21	2,264,774	398,338
Cash flows used for operating activities		<u>895,801</u>	<u>78,794</u>
INVESTING ACTIVITIES			
Additions to property and equipment		-	(9,428)
Additions to intangible assets		(51,749)	-
Purchase of investments in a subcontractor		(900,000)	-
Tax credits received		41,689	-
Cash flows used for investing activities		<u>(910,060)</u>	<u>(9,428)</u>
FINANCING ACTIVITIES			
Proceeds from exercise of warrants		150,000	643,560
Proceeds from exercise of options		-	72,000
Repayment of dues to directors		(23,077)	-
Repayment of lease liabilities		(3,771)	-
Issuance cost of units		-	-
Cash flows provided by financing activities		<u>123,152</u>	<u>715,560</u>
Net change in cash		108,893	784,926
Effect of exchange difference on cash		3,731	-
Cash, beginning of the year		1,143,902	2,672,696
Cash, end of the year		<u>1,265,526</u>	<u>3,457,622</u>

For additional cash flows information refer to Note 21.

Cash operations

Interests received from operating activities	26,148	1,432
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The accompanying notes are an integral part of the consolidated financial statements.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)

Notes to Consolidated Financial Statements (unaudited)

As at March 31, 2023
(in Canadian dollars)

1. NATURE OF OPERATIONS

HPQ-Silicon Inc. (“HPQ” or the “Company”) specializes in the development of technologies related to the transformation of quartz into silicon materials and its derivatives.

During the Annual General Meeting held on June 30, 2022, the shareholders approved the change of the name of the company from HPQ-Silicon Resources Inc. to HPQ-Silicon Inc. This change came to effect on July 4, 2022.

As a result of the pending change in activity, the Company will focus on the innovation of silicon solutions and related technology and will longer focus on the exploration and evaluation of quartz properties. The pending change in activity has suspended substantive expenditures on further exploration for an evaluation of mineral resources in the properties owned by the Company. As part of its exit strategy from mining activities, the Company has committed to a plan to sell certain mining rights and as a result has classified the related exploration and evaluation assets as held for sale and was concluded on August 30, 2022. An impairment test was performed as at December 31, 2021 on the properties owned by the Company. Refer to Note 8.

2. GOING CONCERN AND STATEMENT OF COMPLIANCE WITH IFRS

The consolidated financial statements of the Company have been prepared in accordance with IAS 34 interim financial reporting and the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has not yet generated income or positive cash flows from its operations. As at March 31, 2023, the Company has an accumulated deficit of \$45,929,380 (\$44,270,333 as at December 31, 2022). As the Company is still in its development phase and will now focus on the innovation of silicon solutions and related technology, the Company will likely continue to operate at a loss until the technology can be commercialized, and the Company will require additional financing in order to fund future operations and expansion plans. The Company does not expect to generate revenue from product sales unless and until it successfully completes development of its silicon solutions, which may take a number of years and is subject to significant uncertainty. Until such time that it can generate significant revenue from product sales, if ever, the Company expects to finance its operations through a combination of public or private equity or debt financings or other sources. The Company currently has no committed sources of financing available. While the Company has been successful in securing financing in the past, raising additional funds is dependent on a number of factors outside the Company’s control, and as such there is no assurance that it will be able to do so in the future. The ability of the Company to meet its commitments and discharge its liabilities as they become due and become profitable is dependent on the successful completion of the development of its technology and its commercial production, its ability to raise additional funding to finance these activities and the continued financial support of shareholders and lenders. The conditions mentioned above indicate the existence of a material uncertainty that may cast a significant doubt as to the Company’s ability to continue as a going concern.

The carrying amounts of assets, liabilities, revenues and expenses presented in the consolidated financial statements and the classification used in the statement of financial position have not been adjusted as would be required if the going concern assumption was not appropriate. Those adjustments could be material.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)

Notes to Consolidated Financial Statements (unaudited)

As at March 31, 2023
(in Canadian dollars)

2. GOING CONCERN AND STATEMENT OF COMPLIANCE WITH IFRS (continued)

There is a significant business relationship and economic dependence with the subcontractor, PyroGenesis Canada Inc. (PyroGenesis or subcontractor), which is a shareholder of HPQ. HPQ does business with PyroGenesis for its research and development activities involving the plasma-based process, the latter is a company that develops plasma reactors in a closed-loop furnace. Under agreements with the Company or its subsidiaries, PyroGenesis provides engineering services and assembles the equipment and the Company pays the costs upon presentation of invoices for the work performed. In the event that the work carried out achieves the intended objectives, the Company may be required to pay royalties. The Company continues its other activities with its European partners. The assets acquired with the subcontractor, PyroGenesis, are described in Note 10 and 11.

3. GENERAL INFORMATION

HPQ is incorporated under the *Canada Business Corporations Act*. The address of the registered office and its principal place of business is 3000 Omer-Lavallée Street, office 306, Montreal, Quebec, Canada. HPQ shares are listed on the TSX Venture Exchange.

4. SUMMARY OF ACCOUNTING POLICIES

4.1 Overall considerations

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarized below.

4.2 Principle of consolidation

The Company's consolidated financial statements include the accounts of the parent company and the subsidiaries it controls. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where the Company's interest in a subsidiary is less than 100%, the Company recognizes non-controlling interests. All intercompany balances, transactions, income, expenses, profits, and losses, including unrealized gains and losses have been eliminated on consolidation. When the Company ceases to have control; any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture, or financial asset.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)

Notes to Consolidated Financial Statements (unaudited)

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4. SUMMARY OF ACCOUNTING POLICIES (continued)

4.2 Principle of consolidation (continued)

The following table presents detailed information on the subsidiaries held by the Company at the end of the financial reporting period.

Name	Principal activities	Country of incorporation	Percentages held by the Company
HPQ Nano Silicon Powders Inc. (HPQ Nano)	Manufacture of silicon nanoscale materials	Canada	100%
HPQ Silica Polvere Inc. (HPQ Polvere)	Manufacture of Fumed Silica	Canada	100%
NOVACIUM S.A.S. (Novacium)	Research and development of products made of silicon and its derivatives	France	20%

With regard to Novacium, since June 7, 2022, the Company exercises control through the holding of a preferred share granting it a right of veto over decisions that have a significant impact on the relevant activities of this subsidiary.

4.3 Investment in associate

The associate is an entity over which the Company is able to exert significant influence, but which is not a subsidiary. Investments in the associate are initially recognized at cost and subsequently accounted for using the equity method.

The carrying amount of interest in an associate is increased or decreased to recognize the Company's share of the profit or loss of the associate adjusted where necessary to ensure consistency with the accounting policies of the Company.

When the Company's share of the associated company's losses is equal to or greater than its interest in the partnership, the Company ceases to recognize its share in subsequent losses. Additional losses are provisioned, and a liability is recognized if the Company has a legal or constructive obligation or made payments on behalf of the associated Company.

4.4 Functional and presentation currency

The Company and its subsidiaries each determine their functional currency based on the currency of the primary economic environment in which they operate. Transactions denominated in a currency other than the functional currency of the entity are translated at the exchange rate in effect on the transaction date. Related exchange differences are included in each entity's net income for the period in which they arise.

The Company's foreign operation is translated into the Company's presentation currency for inclusion in the consolidated financial statements. Monetary and non-monetary assets and liabilities denominated in foreign currencies of the foreign operation are translated at the exchange rate prevailing at the end of the reporting period. Income and expenses are converted at the exchange rates in effect on the transaction date. The related exchange difference is included in other comprehensive income, and the cumulative difference is presented in accumulated other comprehensive income. Amounts previously recognized in accumulated other comprehensive income are recognized in profit or loss when a reduction in the net investment occurs.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)

Notes to Consolidated Financial Statements (unaudited)

As at March 31, 2023
(in Canadian dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

4.5 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and liabilities are initially measured at fair value adjusted for transaction costs, if applicable.

Financial assets are derecognized when the contractual rights to cash flows from a financial asset expire, or when a financial asset and substantially all risks and rewards are transferred. A financial liability is derecognized in the event of termination, extinction, cancellation or expiration.

The classification of financial instruments under IFRS 9 is based on the entity's business model and the characteristics of the contractual cash flows of the financial asset or liability.

Classification and initial valuation of financial assets

Financial assets are classified into one of the following categories:

- Amortized cost;
- Fair value through profit or loss ("FVTPL");

All income and expenses relating to financial assets recognized in profit or loss are presented in finance costs or financial income.

Subsequent measurement of financial assets

Financial assets are measured at amortized cost if they meet the following conditions:

- They are held according to an economic model whose objective is to hold financial assets in order to collect the contractual cash flows;
- The contractual terms of the financial assets give rise to cash flows that correspond solely to repayments of principal and interest payments on the principal outstanding.

After initial recognition, they are measured at amortized cost using the effective interest rate method. Royalties receivable are included in this category of financial instruments.

Financial assets that are held in a different economic model other than "holding for the purpose of collection" or "holding for the purpose of collection and sale" are classified in the FVTPL category.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)
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4. SUMMARY OF ACCOUNTING POLICIES (continued)

Financial assets at fair value through profit or loss (“FVTPL”)

The class includes the marketable securities of a quoted company as an equity investment.

Assets in this category are measured at fair value and gains or losses are recognized in net income. The fair value of financial assets in this category is determined based on transactions in an active market or by applying a valuation technique when there is no active market.

Impairment of financial assets

The impairment provisions in IFRS 9 use more forward-looking information, the expected credit loss model, which replaces the IAS 39 loss model.

The recognition of credit losses is no longer dependent on the identification of a credit loss event by the Company. Rather, it must take into account an expanded range of information for assessing credit risk and assessing expected credit losses, including past events, current circumstances, and reasonable and justifiable forecasts that affect expected recoverability of future cash flows of the financial instrument.

The estimate of expected credit losses is determined at each reporting date to reflect changes in credit risk since the initial recognition of the related financial asset.

Classification and measurement of financial liabilities

The Company’s financial liabilities include trade payables and other payables (excluding salaries and personnel expenses), royalties payable, due to directors and officers (current and non-current liabilities), and to a corporation owned by a director (excluding salaries and personnel expenses).

4.6 Basic and diluted loss per share

Basic loss per share is calculated by dividing the loss attributable to common equity holders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting loss attributable to common equity holders of the Company, and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares which include share options, brokers’ warrants, brokers’ units and warrants. Dilutive potential common shares shall be deemed to have been converted into common shares at the average market price at the beginning of the period or, if later, at the date of issue of the potential common shares.

4.7 Investment tax credits receivable

The Company is entitled to a refundable tax credit for scientific research and experimental development tax credits. The tax credits are recognized as a reduction of the cost of assets acquired and on estimates made by management. The Company records these tax credits when there is reasonable assurance with regards to collections and assessments and that the Company will comply with the conditions associated to them. Adjustments required, if any, are reflected in the year when such assessments are received.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)

Notes to Consolidated Financial Statements (unaudited)

As at March 31, 2023
(in Canadian dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

4.8 Property and equipment

Property and equipment are held at cost less accumulated amortization and accumulated impairment losses. Cost includes all costs incurred initially to acquire or construct an item of property and equipment.

Amortization is recognized on a straight-line basis to reduce the cost to its estimated residual value, with a constant charge over the useful life of the asset.

Equipment and leasehold improvements are amortized on a straight-line basis over a period of 3 to 10 years and equipment under construction will be amortized on a straight-line basis over a period of 3 to 10 years when they are ready for use.

The amortization expense for each period is recognized in profit or loss. The residual value, amortization method and useful life of each asset are reviewed at least at each financial year-end.

The carrying amount of an item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property and equipment is included in profit or loss when the item is derecognized.

4.9 Intangible assets

Patents and intellectual property are intangible assets measured at historical cost less accumulated amortization and accumulated impairment losses, if any. The cost of patents consists of the cost of patent applications. The cost of intellectual property is initially comprised of the acquisition cost. Amortization is calculated on a straight-line basis over the estimated useful life of the patent and intellectual property, which is valued at 17 and 21 years, respectively. The amortization period and amortization method are reviewed annually and adjusted prospectively as required.

4.10 Impairment of assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level.

Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, an asset or cash-generating unit is reviewed for impairment, with the exception the equipment under construction and intangible assets that are not yet ready for use.

Intangible assets that are not yet ready for use must be tested for impairment annually.

An impairment loss is recognized for the amount by which the asset's (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

An impairment loss is recognized in profit or loss for the amount by which the assets or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use.

An impairment charge is reversed if the assets or cash-generating unit's recoverable amount exceeds its carrying amount.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)

Notes to Consolidated Financial Statements (unaudited)

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(in Canadian dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

4.11 Provisions and contingent liabilities

Provisions are recognized when present legal or constructive obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. No provision was recognized in the consolidated statements of financial position at March 31, 2023 and December 31, 2022.

4.12 Income taxes

Tax expenses recognized in profit or loss comprises the sum of deferred tax and current tax not recognized directly in equity.

Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the liability method.

Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax liabilities are generally recognized in full, although IAS 12 "Income Taxes" specifies limited exemptions. As a result of these exemptions, the Company does not recognize deferred tax on temporary differences relating to goodwill, or to its investments in subsidiaries.

4.13 Equity

Share capital represents the amount received on the issue of shares. If shares are issued when share options, brokers' warrants, brokers' units or warrants are exercised, the share capital account also comprises the compensation costs or the value of the stock options, brokers' options, warrants or brokers' warrants previously recorded as contributed surplus.

Unit placements

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to the shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

Other elements of equity

Contributed surplus includes charges related to share options, brokers' units, warrants and brokers' warrants until such options and warrants are exercised. When they are cancelled or expired, the related compensation cost is transferred to Deficit. When options and warrants are exercised, the related compensation cost is transferred to share capital.

Deficit includes all current and prior period retained profits or losses, plus issuance costs, net of any underlying income tax benefit from these issuance costs and compensation related to options and warrants cancelled or expired, transferred from contributed surplus.

HPQ Silicon Inc. (Formerly HPQ Silicon Resources Inc.)

Notes to Consolidated Financial Statements (unaudited)

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(in Canadian dollars)

4. SUMMARY OF ACCOUNTING POLICIES (continued)

4.14 Equity-settled share-based payments

The Company operates an equity-settled share-based payment plan for its eligible directors, officers, employees and consultants. The Company's plan does not feature any option for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measured the fair value of the services rendered by reference to the fair value of the equity instruments granted.

All equity-settled share-based payments (except brokers' warrants, brokers' units and brokers' options) are ultimately recognized as an expense in profit or loss or capitalized as exploration and evaluation assets, depending on the nature of the payment with a corresponding credit to Contributed surplus, in equity. Equity-settled share-based payments to brokers, in respect of an equity financing are recognized as issuance costs of the equity instruments with a corresponding credit to contributed surplus, in equity.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment was made to any expense recognized in the prior period if share options ultimately exercised are different to that estimated on vesting.

4.15 Segmental reporting

The Company presents and discloses segmental information based on information that is regularly reviewed by the chief operating decision maker, i.e. the Chairman and the Board of Directors. The Company has determined that there was only one operating segment, being the sector of the transformation of quartz into silicon materials and derivative products.

4.16 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

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4. SUMMARY OF ACCOUNTING POLICIES (continued)

4.16 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company (continued)

IAS 1, Disclosure of Accounting Policies

In February 2021, the IASB issued amendments to IAS 1 to require entities to disclose its material accounting policies instead of its significant accounting policies.

This amendment is applicable to the Company beginning January 1, 2023. The adoption of this amendment is not expected to have a significant impact on the Company's financial statements.

IAS 8, Definition of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8 to replace the definition of a change in accounting estimate. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

This amendment is applicable to the Company beginning January 1, 2023. The adoption of this amendment is not expected to have a significant impact on the Company's financial statements.

IAS 12, Deferred Tax Related to Assets and Liabilities Arising From a Single Transaction

In May 2021, the IASB issued amendments to IAS 12 to require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

This amendment is applicable to the Company beginning January 1, 2023. The adoption of this amendment is not expected to have a significant impact on the Company's financial statements.

5. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

5.1 Significant management judgments

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the consolidated financial statements.

Determination of control, joint control or significant influence over a business

The Company must make judgments when assessing the level of control and influence it exercises over its holdings, considering in particular the way in which decisions concerning the relevant activities of the holding company are taken, the protective nature or substantial rights held by other holders and the Company's ability to influence the returns of the investee.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meets its liabilities for the ensuing year, and to fund planned and contractual scientific research and experimental development, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances. See Note 2 for more information.

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5. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

5.2 Assumptions and estimation uncertainty

Information about estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below. Actual results may be substantially different.

Investment tax credits receivable

The calculation of the Company's refundable tax credit of scientific research and experimental development tax credits involves a degree of estimation and judgment with respect to certain items whose tax treatment cannot be finally determined until a notice of assessment has been issued by the relevant taxation authority and payment has been received. Differences arising between the actual results following final resolution of some of these items and the assumptions made could necessitate adjustments to the refundable tax credit, refundable tax credit for scientific research and experimental development, property and equipment and income tax expense in future periods. See Note 4.7 for more information.

Impairment of assets

Determining if there are any internal or external facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving significant judgment and a number of estimates and assumptions (see Note 4.10).

When an indication of an impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or the cash-generating units must be estimated.

In assessing impairment, the Company must make some estimates and assumptions regarding future circumstances. Estimates and assumptions may change if new information becomes available. If, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

Impairment of property and equipment and intangible assets

In assessing impairment, management estimates the recoverable amount of each cash-generating asset or unit based on future cash flows and uses an interest rate to discount them. The uncertainty in the estimates is related to assumptions about future operating results and the determination of an appropriate discount rate. As at December, 2022, the Company recorded a write-off of \$574,909 of property and equipment and an impairment of \$1,321,272 on intangible assets.

6. MARKETABLE SECURITIES

The Company holds shares and warrants in various public companies. During the period ended March 31, 2023, these shares and warrants were valued at fair market value, resulting in a gain of \$476,138 (loss of \$508,053 as at December 31, 2022).

Shares of various public companies are classified as FVTPL and are recorded at fair value using quoted market prices as at March 31, 2023 and are therefore classified as Level 1 within the fair value hierarchy.

The warrants in various public companies are classified as FVTPL and are recorded at fair value using a Black-Scholes pricing model with observable inputs and are therefore classified as Level 2 within the fair value hierarchy.

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6. MARKETABLE SECURITIES (continued)

The following table summarizes the information on marketable securities for the periods presented:

	March 31, 2023	December 31, 2022
	\$	\$
Balance at January 1 st	710,403	666,000
Acquisition of securities through disposition of assets held for sale (a)	-	292,456
Acquisition (b)	900,000	260,000
Change in fair market value	476,138	(508,053)
	<u>2,086,541</u>	<u>710,403</u>

- (a) During the month of August 2022, the Company received 3,000,000 units consisting of one common share and one-half of one warrant from Québec Innovatrice Materials Corp. (QIMC) (formerly Québec Silica Resources Inc.), a public company, sold 27 claims from the Ronceveaux property and 36 claims from the Martinville property. The shares were issued at \$0.07 per share and each full warrant is exercisable at \$0.15 for a period of 3 years expiring on August 31, 2025. The fair value was estimated using the Black-Scholes model as follows: share price \$0.07, risk-free interest rate – 1.65%, expected life of warrants– 3 years, volatility rate – 417% and dividend rate – 0%.

The Company held 3,000,000 common shares as at March 31, 2023 (2021- 3,000,000) and the quoted price of QIMC shares was \$0.04 as at March 31, 2023 (\$0.045 as at December 31, 2022).

For the variation of warrants, the Company held 1,500,000 warrants that are exercisable at a price of \$0.15 per share. The fair value of warrants was valued at \$59,444 as at March 31, 2023 (2022 – \$67,395) and was estimated using the Black-Scholes model with the following assumptions: share price \$0.04, risk-free interest rate 3.78%, expected life of warrants 2.42 years, volatility rate 360% and a dividend rate 0%. (2022 - share price \$0.045, risk-free interest rate 4.03%, expected life of warrants 2.67 years, volatility rate 406% and a dividend rate 0%).

- (b) During the month of October 2022, the Company acquired 200,000 units consisting of one common share and one warrant of PyroGenesis Canada Inc. for a total value of \$260,000. Each warrant is exercisable at a price of \$1.75 over a period of 2 years expiring on October 19, 2024. During the month of October 2022, the Company acquired 200,000 units consisting of one common share and one warrant of PyroGenesis Canada Inc. for a total value of \$260,000. Each warrant is exercisable at a price of \$1.75 over a period of 2 years expiring on October 19, 2024. The Company held 1,300,000 common shares as at March 31, 2023 (2022 - 400,000).

For the variation of warrants, the Company held 1,100,000 warrants (2022 – 200,000) that are exercisable at an average price of \$1.34 per share (2022 - \$1.75). The fair value of the warrants was valued at \$503,097 as at March 31, 2023 (2022 – \$96,008) and was estimated using the Black-Scholes model with the following assumptions: share price \$1.08, risk-free interest rate 3.78%, expected life of warrants 1.87 years, volatility rate 90% and dividend rate 0% (2022 - share price \$1.03, risk-free interest rate 4.03%, expected life of warrants 1.8 years, volatility rate 117% and dividend rate 0%).

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7. INSTALLMENTS TO A SUBCONTRACTOR

This amount represents the balance of the installment made by the company, on September 28, 2022, to a subcontractor in the amount of \$2,650,000 to be used for acquisition and works anticipated in the near future. This amount is conditional and must be returned to the company in the event the planned work and transaction are not agreed upon by the parties before December 31, 2022. This amount was received as of March 31, 2023.

8. ROYALTIES RECEIVABLE

During 2021, the Company received 166,667 shares of the capital stock of GBF as a settlement of a royalty receivable from GBF of \$50,000. As a result of the exchange, the Company recognized an increase of \$9,770 in its investment of BGF and a loss of \$40,230.

On June 23, 2022, an addendum was signed to modify initial terms of the agreement. The NSR payments for each subsequent year have been replaced with 10% annual interest, the \$250,000 royalty is non-transferable and the due date is December 31, 2025 including unpaid interest. As at December 31, 2022, the balance of interest receivable is \$25,000.

	March 31, 2023	December 31, 2022
	\$	\$
Balance, beginning	146,273	211,864
Change in fair value	-	19,068
	<u>146,273</u>	<u>230,932</u>
Derecognition of royalties	-	(230,932)
Addition of a royalty receivable	-	133,772
Accretion charge	6,681	12,501
Balance, end	<u><u>152,954</u></u>	<u><u>146,273</u></u>

The fair value of the royalties' receivable was estimated using a present value technique, immediately prior to the modification date. The revalued fair value of \$230,932 was estimated based on the probability of cash outflows over a four-year period at 18%, which is the interest rate for similar financial instruments. Undiscounted cash inflows are \$250,000 and reflect management's estimate of the timing of royalty repayment.

During the last year, the Company derecognized the royalty receivable of \$230,932 and with the new agreement revalued the royalty in the amount of \$133,772, calculated based on estimated cash flows under the addendum over a period of 3.5 years discounted at a rate of 18%. Undiscounted cash inflows are \$250,000 and reflect management's estimate of the timing of royalty payment. The change in royalty resulted in a loss of \$97,160 which was recorded in net income during the period.

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9. ASSETS HELD FOR SALE

In December 2021, following its decision to cease its mineral exploration activities, the Company made a commitment to sell its Ronceveaux and Martinville properties. As at December 31, 2021, the Properties of Ronceveaux and Martinville were presented in the statement of financial position at the lower of fair value less costs to sell and their carrying amount.

For assets and liabilities to be classified as held for sale, IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, requires cash-generating units to be available for immediate sale in their present condition and for the sale to be highly probable.

Following a decision by the Company's executive officers to dispose of Ronceveaux properties and Martinville Properties, the related exploration and evaluation assets were classified as held for sale. Accordingly, the related assets and liabilities were measured at fair value less costs of disposal. Estimates and assumptions were used by Management in measuring these assets at their fair value less costs to dispose.

The fair value of assets held for sale was determined by discounting the excess amount spent on work, reported to the Ministère de l'Énergie et des Ressources naturelles, that may be applied in the six subsequent claim renewal periods. In addition, to determine fair value, comparable market transactions were analyzed and standard valuation methods were used. The methodologies used to determine fair value use Level 3 data inputs based on the fair value hierarchy disclosed in Note 19.

This resulted in an impairment charge of \$1,164,595 as at December 31, 2021. The Ronceveaux and Martinville properties had negligible income or expenditures given it was classified as an exploration and evaluation property and all expenditures were capitalized.

On August 30, 2022, the Company completed the sale of its quartz properties to Québec Silica Resources Inc ("QTZ"), now known as QIMC, in consideration of 3,000,000 units composed of one common share and one-half of one warrant issued by QTZ. Each full warrant entitles the holder to subscribe for one common share at a price of \$0.15 per share for 36 months following closing of the transaction. The value of the transaction is \$292,456 which was recorded as an investment. A recovery of exploration and evaluation assets of \$91,494 has been recorded in net loss during the year.

Prior to the sale in 2022, the Company held a 100% interest in 27 claims for the Ronceveaux property acquired by staking and a 100% interest in 36 claims for the Martinville property acquired by staking.

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10. PROPERTY AND EQUIPMENT

Property and equipment of the Company are composed of leasehold improvements, equipment and equipment under construction. The carrying amount is set out as follows:

	Leasehold improvements	Equipment	Total
	\$	\$	\$
Gross carrying amount			
Balance at January 1, 2023	344,000	5,063,215	5,407,215
Effect of foreign exchange	-	2,029	2,029
Balance at March 31, 2023	<u>344,000</u>	<u>5,065,244</u>	<u>5,409,244</u>
Accumulated depreciation			
Balance at January 1, 2023	114,667	1,453,490	1,568,157
Depreciation	28,667	447,552	476,219
Effect of foreign exchange		(36)	(36)
Balance at March 31, 2023	<u>143,334</u>	<u>1,901,006</u>	<u>2,044,340</u>
Carrying amount at March 31, 2023	<u>200,666</u>	<u>3,164,238</u>	<u>3,364,904</u>

	Leasehold improvements	Equipment	Equipment under construction	Total
	\$	\$	\$	\$
Gross carrying amount				
Balance at January 1, 2022	344,000	4,240,000	503,335	5,087,335
Acquisition from subcontractor	-	890,715	79,285	970,000
Investment tax credits	-	(67,500)	(7,711)	(75,211)
Write-off	-	-	(574,909)	(574,909)
Balance at December 31, 2022	<u>344,000</u>	<u>5,063,215</u>	<u>-</u>	<u>5,407,215</u>
Accumulated depreciation				
Balance at January 1, 2022	-	-	-	-
Depreciation	114,667	1,453,490	-	1,568,157
Balance at December 31, 2022	<u>114,667</u>	<u>1,453,490</u>	<u>-</u>	<u>1,568,157</u>
Carrying amount at December 31, 2022	<u>229,333</u>	<u>3,609,725</u>	<u>-</u>	<u>3,839,058</u>

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10. PROPERTY AND EQUIPMENT (continued)

In fiscal 2022, management wrote off the equipment under construction held by its subsidiary, HPQ Nano Powders of Silicon Inc., *PUREVAP*TM NSiR Gen1.5, due to the fact that the equipment design did not meet its intended purpose. *PUREVAP*TM NSiR Gen1.5 aimed to transform high-purity silicon into spherical nano silicon wires and powders. Even after final adjustments, the problem of oxygen contamination of the final material remained and the technical feasibility of the project was no more. The total carrying amount of the equipment under construction was therefore written off, i.e. \$574,909.

11. INTANGIBLE ASSETS

Fumed Silica

On June 30, 2021, the Company acquired intellectual property for the production of fumed silica materials. Pursuant to the purchase agreement, the Company is committed to pay to the seller the greater of an annual royalty equal to 10% of net revenues, excluding the samples (as defined in the agreement) generated from the exploitation of the acquired technology or the minimum amounts per the agreement. Also, the seller is being granted the right to convert, at any time and at its sole discretion, its royalties into a 50% equity stake of HPQ Polvere. An amount of \$3,300,000 paid in cash was recorded as the cost of intellectual property.

The minimum annual royalty amounts owed when there is income under this new agreement are as follows:

	\$
2023	50,000
2024	100,000
2025	150,000
2026 and after	200,000

PUREVAPTM NSiR

On August 18, 2020, the Company acquired from PyroGenesis the *PUREVAP*TM NSiR technology for the fabrication of nano silicon materials. Pursuant to the purchase agreement, the Company is committed to pay to the seller the greater of an annual royalty equal to 10% of net revenues (as defined in the agreement) generated from the exploitation of the acquired technology or the minimum amounts per the agreement. Also, the seller is being granted the right to convert, at any time and at its sole discretion, its royalties into a 50% equity stake of HPQ Nano.

The minimum annual amounts under this new agreement are as follows:

	\$
2023	150,000
2024 and after	200,000

The intellectual property, was recognized upon acquisition for a total amount of \$2,400,000, paid in cash. The related liability, royalties payable, of \$864,013 calculated based on estimated cash flows under the agreement over a period of 25 years at a discounted rate of 18%, was also recorded to intellectual property.

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11. INTANGIBLE ASSETS (continued)

PUREVAP™ QRR

On July 29, 2016, the Company acquired PUREVAP™ QRR technology from PyroGenesis for the transformation of quartz into silicon metal of high purity. Pursuant to the purchase agreement, the Company is committed to pay to the seller the greater of an annual royalty equal to 10% of net revenues (as defined in the agreement) generated from the exploitation of the acquired technology or the minimum annual amounts per the agreement. An addendum was signed on December 8, 2019 for the cancellation of the amounts payable for the years 2019 and 2020 and the modification of the minimum amounts for 2020 and 2021. A gain of \$350,000 on the modification of the initial agreement was recognized during the fiscal 2019.

The minimum annual amounts under this new agreement are as follows:

	\$
2023 and after	250,000

The intellectual property and its related liability, royalties payable, were recognized upon acquisition for a total amount of \$815,427 and were calculated based on estimated cash flows under the agreement over a period of 20 years at a rate of 22%. The amount of \$50,000 recorded as a deposit in 2015 was reversed at the cost of the intellectual property. In 2016, an amount of \$1,000,000 paid in cash was recorded at the cost of the intellectual property.

Management uses its judgment to estimate the amount of royalties payable under the QRR PUREVAP™ and NSiR PUREVAP™ technology acquisition agreement. Estimation uncertainty is related to net revenue assumptions and the determination of a suitable discount rate.

The following table shows the distribution of royalty payments to be paid according to PUREVAP™ technology as at March 31, 2023:

	QRR	NSiR	Total
	\$	\$	\$
Current	233,094	132,839	365,933
Non-current	950,322	958,194	1,908,516
	<u>1,183,416</u>	<u>1,091,033</u>	<u>2,274,449</u>

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10. INTANGIBLE ASSETS (continued)

The following table shows the distribution of royalty payments to be paid according to PUREVAP™ technology as at December 31, 2022:

	QRR	NSiR	Total
	\$	\$	\$
Current	227,459	127,119	354,578
Non-current	893,319	916,932	1,814,251
	<u>1,124,778</u>	<u>1,044,051</u>	<u>2,168,829</u>

CARBON EMISSION REDUCTION PROCESS:

On November 10, 2022, the company acquired from PyroGenesis, in consideration of \$3,600,000, the technology relating to carbon emission reduction for the production of Silicon. In accordance with the purchase agreement, the company agreed to make the payment thereof no later than June 30, 2023.

The Company's intangible assets include patents and intellectual property. The carrying amount is as follows:

	Patents	Intellectual property	Total
	\$	\$	\$
Gross carrying amount			
Balance at January 1, 2023	891,218	12,029,440	12,920,658
Acquisitions	232,816	-	232,816
Effect of foreign exchange	2,315	-	2,315
Balance as at March 31, 2023	<u>1,126,349</u>	<u>12,029,440</u>	<u>13,155,789</u>
Accumulated depreciation			
Balance at January 1, 2023	85,724	967,564	1,053,288
Depreciation	15,294	158,517	173,811
Effect of foreign exchange	109	-	109
Balance as at March 31, 2023	<u>101,127</u>	<u>1,126,081</u>	<u>1,227,208</u>
Carrying amount at March 31, 2023	<u>1,024,622</u>	<u>10,903,359</u>	<u>11,928,581</u>

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11. INTANGIBLE ASSETS (continued)

	Patents	Intellectual property	Total
	\$	\$	\$
Gross carrying amount			
Balance at January 1, 2022	547,991	10,005,249	10,553,240
Acquisitions	342,627	3,600,000	3,942,627
Impairment	-	(1,575,809)	(1,575,809)
Balance as at December 31, 2022	<u>890,618</u>	<u>12,029,440</u>	<u>12,920,658</u>
Accumulated depreciation			
Balance at January 1, 2022	42,619	654,183	696,802
Depreciation	43,105	567,918	611,023
Impairment	-	(254,537)	(254,537)
Balance as at December 31, 2022	<u>85,724</u>	<u>967,564</u>	<u>1,053,288</u>
Carrying amount at December 31, 2022	<u>804,894</u>	<u>11,061,876</u>	<u>11,866,770</u>

In the last quarter of fiscal 2022, management recorded an impairment for the full carrying amount of \$1,575,809, on the process acquired from Apollon Solar SAS due to the fact that HPQ could not demonstrate the economic value of this specific application used to produce porous silicon in the short term. As the end of the year, HPQ made the strategic decision to focus on the production of silicon in micro-powder, rather than porous silicon. The Company sees better financial opportunities in micro-powder market.

An amount of \$173,811 (\$261,023 as at December 31, 2022) is presented in Amortization of intangible assets.

12. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

On March 31, 2023, the Company holds the 4.55% (4.73% as at December 31, 2022) voting and equity interest in BGF. The investment is accounted for using the equity method since December 2018. Although the Company holds less than 20% of the voting rights, it has concluded that it exercises significant influence over it, in particular because of the representation it has on the Board of Directors. As at March 31, 2023, the fair value of the investment amounts to \$136,656 (\$167,024 as at December 31, 2022).

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12. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD (continued)

The aggregate amount of the associate can be summarized as follows:

	January 31, 2023	October 31, 2022
	\$	\$
Current assets	620,756	746,971
Non-current assets	3,858,695	3,731,141
Current liabilities	274,755	179,946
Non-current liabilities	145,207	142,133
Net and total loss of comprehensive income	228,143	600,222

A reconciliation of the summarized financial information with the carrying value of the investment is as follows:

	January 31, 2023	October 31, 2022
	\$	\$
Total net assets	4,479,451	4,156,033
Contributed surplus not attached to ordinary shareholders	<u>(351,571)</u>	<u>(351,571)</u>
	4,127,880	3,804,462
Portion of the interest held by the Company	4.55%	4.73%
	<u>168,868</u>	<u>180,014</u>

The Company has not incurred any contingent liabilities or other commitments relating to its investment in this associate.

During 2021, the Company received 166,667 shares of the capital stock of GBF as a settlement of a royalty receivable from GBF of \$50,000. As a result of the exchange, the Company recognized an increase of \$9,770 in its investment of BGF and a loss of \$40,230.

During the period ended March 31, 2023, BGF issued shares for the closing of a private placement and exercise of warrants. Those issuances decreased the Company's ownership from 4.73% to 4.55%.

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13. TRADE AND OTHER PAYABLES

	March 31, 2023	December 31, 2022
	\$	\$
Trade accounts	209,678	168,426
Payable to a subcontractor	3,727,613	3,699,434
Salaries payable	25,000	60,294
Other	84,916	41,166
	<u>4,047,207</u>	<u>3,969,320</u>

14. DUE TO DIRECTORS, OFFICERS AND A COMPANY OWNED BY A DIRECTOR

The Company owes to directors, officers and a company owned by a director some salaries and remuneration for a nominal value of \$912,314 (2022: \$935,391). The Company has obtained confirmation for said nominal value of \$812,314 in debts (effective rate of 3.1%) (2021: \$835,391, effective rate of 3.1%), that they will not request payment thereof prior to 12 months plus one day following March 31, 2023. These amounts are classified as non-current liabilities. The remaining amount of \$100,000 (2022: \$100,000) has been classified as current liabilities and presented as due to the directors.

15.1 Share capital

The authorized share capital of the Corporation consists of an unlimited number of common shares without par value. They are voting, participating and eligible to receive the dividends.

	March 31, 2023	December 31, 2022
	Number of shares	Number of shares
Shares issued at the beginning	351,998,770	334,792,358
Private placements (b)	-	6,800,000
Issuance for the payment of accounts payable (a) (c)	180,000	-
Exercise of warrants	1,500,000	7,506,412
Exercise of options	-	2,900,000
Total shares issued and full paid at the end	<u>353,678,770</u>	<u>351,998,770</u>

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15.1 Share capital (continued)

(a) On August 27, 2021, the Company settled a trade account payable of \$42,375 by the issuance of 50,091 common shares. No profit or loss was recorded on this transaction.

(b) On May 2, 2022, the Company completed a private financing for an amount of \$3,604,000. The Company issued 6,800,000 units to PyroGenesis consisting of one common share and one warrant. Each full warrant entitles the holder thereof to subscribe an equivalent number of common shares of the Company at a price of \$0.60 per share, during a period of 24 months following the closing of the financing. An amount of \$340,000 was attributable to the warrants.

(c) On February 21, 2023, the Company settled a trade account payable of \$44,100 by the issuance of 180,000 units. Each unit consists of one common share and one warrant. Each warrant entitles the holder thereof to acquire one common share of the Company at a price of \$0.32 per share for 24 months following the closing date of the transaction. An amount of \$13,566 was granted to warrants and no profit or loss was recorded on this transaction.

During the period ended March 31, 2023, 1,500,000 common shares were issued following the exercise of warrants. The weighted average share price at the date of exercise was \$0.10 per share.

During the year ended December 31, 2022, 7,506,412 common shares were issued following the exercise of warrants. The weighted average share price at the date of exercise was \$0.14 per share.

During the year ended December 31, 2022, 2,900,000 common shares were issued following the exercise of options. The weighted average share price at the date of exercise was \$0.12 per share.

15.2 Warrants

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

	March 31, 2023		December 31, 2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Balance, beginning of reporting year	23,494,600	0.33	24,201,012	0.20
Granted	180,000	0.32	6,800,000	0.60
Exercised	(1,500,000)	0.10	(7,506,412)	0.14
Balance, end of reporting period	22,174,600	0.35	23,494,600	0.33

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15.2 Warrants (continued)

The weighted fair value of \$0.076 of the warrants granted for the settlement of account payable was determined using the Black-Scholes model based on the following weighted average assumptions:

	2023
Average share price at date of grant	\$0.245
Expected dividend yield	0%
Expected weighted volatility	67.0%
Average risk-free interest rate	4.24%
Expected average life	2.0 years
Average exercise price at date of grant	\$0.32

Outlined below are the outstanding warrants which could be exercised for an equivalent number of common shares:

Expiration date	March 31, 2023		December 31, 2022	
	Number	Exercise price \$	Number	Exercise price \$
April 2023	6,800,000	0.10	8,300,000	0.10
May 2023	4,394,600	0.10	4,394,600	0.10
September 2023	4,000,000	0.61	4,000,000	0.61
May 2024	6,800,000	0.60	6,800,000	0.60
February 2025	180,000	0.32	-	-
	<u>22,174,600</u>	<u>0.35</u>	<u>23,494,600</u>	<u>0.33</u>

16. EMPLOYEE REMUNERATION

16.1 Salaries and employee benefits expense

Salaries and employee benefits expense are analyzed below:

	As at March 31,	
	2023	2022
	\$	\$
Salaries and benefits	51,459	78,298
Management fees	93,750	56,250
Salaries and benefits recovered	(9,957)	(6,384)
	<u>135,252</u>	<u>128,826</u>

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16.2 Share-based payments

Under this option plan, the Directors may grant options to its Directors, Employees and Consultants or of those of its subsidiaries. The maximum number of shares to be granted under the Plan is 19,100,000 (19,100,000 as at December 31, 2022). As at March 31, 2023, 16,485,000 remained exercisable (16,485,000 as at December 31, 2022).

The Directors fix the exercise price of an option granted under the plan which cannot be lesser than the last closing price of the Corporation's shares as quoted by the TSX Venture Exchange at the end of the day preceding the one on which an option is granted, less the applicable discount as defined by the TSX Venture Exchange. The options can be exercisable for a maximum of ten years. Options are non-assignable and non-transferable except by will or the laws of succession. Upon the death of an option holder, the option may be exercised by the legal heirs or personal representatives of the option holder for a period not exceeding one year from the option holder's death provided that nothing in the foregoing shall have the effect of extending the Term of an option beyond its original expiry date. Options granted to an option holder who is a Director, Employee, Consultant or Management Company Employee shall expire at no later than a period of 12 months after the option holder ceases to be part of at least one of those categories, by reason other than the option holder's death.

No more than 5% of the shares issued by the Company may be granted to any individual in any 12-month period (unless the Company has obtained disinterested shareholder approval). No more than 2% of the shares issued by the Company may be granted to any one Consultant, in any 12-month period. No more than an aggregate of 2% of the shares issued by the Company may be granted to Persons providing Investor Relations Activities, during a 12-month period, calculated at the date the option was granted. Options granted to Consultants providing Investor Relations activities must vest gradually over 12 months with no more that ¼ of the options vesting in any three-month period. No accelerated acquisition of such options granted to those consultants shall be permitted if not approved by the Exchange. Options granted to an option holder who is providing Investor Relations activities shall terminate on expiry of a period not in excess of 30 days following the date that the option holder ceases to be provide such services. The number of Options granted to insiders, within a 12-month period may not exceed 10% of the issued Shares of the resulting issuer. The number of shares reserved for issuance under the Plan granted to insiders may not exceed 10% of the issued shares of the Company.

The Company's share options are as follows for the reporting periods presented:

	March 31, 2023		December 31, 2022	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding, beginning of reporting year	16,485,000	0.67	17,885,000	0.61
Granted	-	-	1,500,000	0.31
Exercised	-	-	(2,900,000)	0.12
Outstanding and exercisable, end of reporting period	<u>16,485,000</u>	<u>0.67</u>	<u>16,485,000</u>	<u>0.67</u>

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16.2 Share-based payments (continued)

The table below summarizes the information related to outstanding share options as at March 31, 2023:

Outstanding options		
Number of options	Weighted average exercise price \$	Weighted average remaining contractual life (years)
800,000	0.28	1.51
700,000	0.35	4.12
9,650,000	0.55	0.72
5,335,000	1.00	3.72
<u>16,485,000</u>	<u>0.67</u>	<u>1.51</u>

The table below summarizes the information related to outstanding share options as at December 31, 2022:

Outstanding options		
Number of options	Weighted average exercise price \$	Weighted average remaining contractual life (years)
800,000	0.28	1.76
700,000	0.35	4.37
9,650,000	0.55	0.97
5,335,000	1.00	3.97
<u>16,485,000</u>	<u>0.67</u>	<u>1.76</u>

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16.2 Share-based payments (continued)

The weighted fair value of the granted options of \$0.161 as at December 2022 was determined using the Black-Scholes option pricing model based on the following weighted average assumptions:

	2022
Average share price at date of grant	\$0.31
Expected dividend yield	0%
Expected weighted volatility	72.0%
Average risk-free interest rate	2.74%
Expected average life	3.4 years
Average exercise price at date of grant	\$0.31

The underlying expected volatility was determined by reference to historical data of the Company's shares over the expected average life of the options. No special features inherent to the options granted were incorporated into measurement of fair value.

In total, an amount of \$242,070 as at December 31, 2022 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) were included in profit or loss and credited to contributed surplus, therefore \$164,721 as professional and consultation fees and \$77,349 as research and development expenses.

17. FAIR VALUE MEASUREMENT

17.1 Financial instruments measured at fair value

The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy levels are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs for the assets or liabilities that are not based on observable market data.

The fair value of the marketable securities in a quoted company was estimated based on the market price at the closing date. Marketable securities in a quoted company measured at fair value in the consolidated statement of financial position as at March 31, 2023 and December 31, 2022 are classified as Level 1 and warrants are classified as Level 2.

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17.2 Financial instruments measured at amortized cost for which a fair value is disclosed

The fair value of royalties' receivable, due to directors, officers and a company owned by a director and royalties payable was estimated using an analysis of discounted cash flows with an interest rate for similar financial instruments.

The fair value royalties' receivable in the current term as well as the royalties payable in the current term approximate the book value at the end of the period.

The fair value of royalties' receivable in the non-current term, due to directors, officers and a company owned by a director and royalties payable in the non-current term is \$152,954, \$827,052 and \$1,768,829 respectively (\$146,273, \$827,052 and \$1,814,251 respectively as at December 31, 2022). See Notes 8, 14 and 11 for methods of assessing fair values.

Financial instruments are classified in Level 2 of the fair value hierarchy except for royalties' receivable and royalties' payable which are classified in Level 3 of the fair value hierarchy.

18. OTHER OPERATING EXPENSES

Other operating expenses are detailed as follows:

	March 31,	
	2023	2022
	\$	\$
Professional and consultation fees	165,674	149,111
Travelling expenses	3,854	-
Office expenses	30,375	11,381
Information to shareholders and registration fees	17,954	25,091
Bank charges	1,537	868
Loss (gain) on exchange rate	(17)	7,265
Administrative expenses recovered	(1,628)	(1,566)
	<u>217,749</u>	<u>192,150</u>

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19. FINANCE INCOME AND FINANCE COSTS

Finance income consists of the following for the reporting periods presented:

	March 31,	
	2023	2022
	\$	\$
Net change in fair value of marketable securities in a quoted company	476,138	(40,000)
Change in fair value of royalties' receivable	6,681	-
Accretion revenues - royalties receivable	-	9,534
Interest income	32,298	1,432
	<u>515,217</u>	<u>(29,034)</u>

Finance costs consists of the following for the reporting periods presented:

	March 31,	
	2023	2022
	\$	\$
Accretion expenses- royalties payable	(105,620)	(101,963)
Accretion expenses- due to directors, officers and companies owned by a director	(8,461)	(8,203)
	<u>(114,081)</u>	<u>(110,166)</u>

20. INCOME (LOSS) PER SHARE

The calculation of basic loss per share is based on the loss for the period divided by the weighted average number of outstanding shares during the period. In calculating the diluted loss per share, dilutive potential common shares such as warrants, brokers' warrants, brokers' units, share options and the convertible debenture have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Notes 16.2 and 17.2.

Both the basic and diluted loss per share have been calculated using the loss as the numerator, i.e. no adjustment to the loss was necessary in 2023 and 2022.

	March 31,	
	2023	2022
Net loss	\$(1,658,030)	\$(744,701)
Weighted average number of outstanding shares	353,372,030	339,149,969
Basic and diluted loss per share	\$(0.00)	\$(0.00)

See Note 27 for share capital transactions after March 31, 2023.

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21. ADDITIONAL INFORMATION – CASH FLOWS

The changes in working capital items are detailed as follows:

	As at March 31,	
	2023	2022
	\$	\$
Goods and services tax receivable	765,871	507,663
Prepaid expenses and other	(37,983)	(72,622)
Deposit on contract	693,000	-
Installments to a subcontractor	890,000	-
Trade and other payables	(46,114)	-
	<u>2,264,774</u>	<u>398,338</u>

Non-cash balance sheet transactions are detailed as follows:

	As at March 31,	
	2023	2022
	\$	\$
Trade and other payables included in intangible assets	3,729,009	47,679
Issuance of shares for payment of an account payable included in intangible assets	44,100	-
Issuance of equity instruments for issuance for payment of an account payable included in intangible assets	13,556	-

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22. NON-WHOLLY-OWNED SUBSIDIARY

	March 31, 2023	December 31, 2022
Proportion of ownership interests and voting rights held by non-controlling interests	80%	80%
Net earnings allocated to non-controlling interests for the year	255	123,299
Non-controlling interests	1,017	124,396

Summarized financial information of the subsidiary that has non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

	As at March 31, 2023	As at December 31, 2022
	\$	\$
Summary Statements of Net Loss and Comprehensive Loss		
Income	349,248	660,885
Expenses	347,976	506,761
Comprehensive income	<u>1,272</u>	<u>154,124</u>
Comprehensive income attributable to:		
Owners of the Company	255	30,825
Non-controlling interests	<u>1,017</u>	<u>123,299</u>
	<u>1,272</u>	<u>154,124</u>
Summary Statements of Cash Flows		
Cash flows from operating activities	4,261	199,349
Cash flows used in investing activities	-	(65,610)
Cash flows from financing activities	-	1,372
Net change in cash and cash equivalents	<u>4,261</u>	<u>135,111</u>
Summary Statement of Financial Position		
Current assets	201,262	181,183
Non-current assets	<u>60,041</u>	<u>60,390</u>
	<u>261,303</u>	<u>241,573</u>
Current liabilities	104,815	78,438
Non-current liabilities	-	-
Net asset	156,488	163,135
Equity attributable to owners	31,354	31,099
Non-controlling interests	125,413	124,396
Foreign currency translation adjustment	<u>(279)</u>	<u>7,640</u>
	<u>261,303</u>	<u>241,573</u>

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23. RELATED PARTY TRANSACTIONS

The Company's related parties include key management and companies held by a director or an officer, as described below.

Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

23.1 Transactions with key management personnel

Key management personnel of the Company are members of the Board of Directors and officers. Key management personnel remuneration includes the following expenses:

	As at March 31,	
	2023	2022
	\$	\$
Short-term employee benefits		
Salaries and employee benefits expense	25,857	54,133
Management fees ⁽¹⁾	93,750	56,250
Total remuneration	<u>119,607</u>	<u>110,383</u>

⁽¹⁾ Paid to a company owned by a director.

Trade and other payables include an amount of \$NIL due to a company owned by a director (\$52,716 as at December 31, 2022).

On March 31, 2023, due to directors, officers and a company owned by a director totalled \$912,436 (\$927,052 as at December 31, 2022).

24. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern, to increase the value of the assets of the business, and to provide an adequate return to owners of the Company.

These objectives will be achieved by technological development related to the transformation of quartz into silicon materials.

The Company monitors capital on the basis of the carrying amount of equity.

The Company is not exposed to any externally imposed capital requirements

The Company finances its technology development activities related to the transformation of quartz into silicon materials primarily by seeking additional capital either through private placements or public placements. When funding conditions are not optimal, the Company can sign option agreements or other agreements to be able to continue its exploration and evaluation activities or can slow down its activities until funding conditions improve.

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25. FINANCIAL INSTRUMENT RISKS

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company risk management is coordinated in close cooperation with the Board of Directors. The Company's risk management focuses on actively securing the Company's short-term to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes.

25.1 Market risk

The most significant financial risks to which the Company is exposed are described below.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Company is exposed to other price risk.

Other price risk sensitivity

The Company was exposed to fluctuations in the market prices of its marketable securities in a quoted company and derivative financial liability. The maximum risk to which the shares and derivative financial liability were exposed is equal to their fair value.

If the quoted share price for the shares had changed by $\pm 15\%$ as at March 31, 2023 ($\pm 15\%$ as at December 31, 2022), the profit or loss and equity would have changed by \$363,900 (\$106,500 as at December 31, 2022).

25.2 Credit risk

Credit risk is the risk that another party to a financial instrument fails to meet its obligations and, therefore, leads the Company to incur a financial loss.

The Company's maximum exposure to credit risk is limited to the carrying value of cash and royalties' receivable for an amount of \$1,409,480 as at March 31, 2023 (\$1,290,175 as at December 31, 2022).

The credit risk for the deposit on contract and the royalties' receivable is considered limited. The Company continuously monitors default of counterparts. No impairment loss has been recognized in the periods presented.

The credit risk for cash is considered negligible, since the counterpart is a reputable bank with high quality external credit ratings.

25.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations with financial liabilities that are settled by cash or another financial asset.

Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources such as private and public investments for a sufficient amount.

Over the period, the Company has financed its working capital requirements and acquisitions of property and equipment and intangible assets through private placements.

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25. FINANCIAL INSTRUMENT RISKS (continued)

25.3 Liquidity risk (continued)

The following table sets out the contractual maturities of the Company's financial liabilities:

	March 31, 2023	December 31, 2022
	\$	\$
Less than a year		
Trade payables and other accounts payable	319,594	269,886
Payable to a subcontractor	3,727,613	3,699,434
Lease liabilities	11,427	11,371
Royalties payable RRQ Purevap™	250,000	250,000
Royalties payable NRSi Purevap™	150,000	150,000
Total	<u>4,458,634</u>	<u>4,380,691</u>
Between one and 5 years		
Lease liabilities	17,542	23,379
Royalties payable RRQ Purevap™	1,000,000	1,000,000
Royalties payable NRSi Purevap™	800,000	750,000
	<u>1,817,542</u>	<u>1,750,000</u>
More 5 years		
Royalties payable RRQ Purevap™	2,250,000	2,500,000
Royalties payable NRSi Purevap™	3,600,000	2,000,000
	<u>5,850,000</u>	<u>4,500,000</u>

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash.

26. CONTINGENCIES AND COMMITMENTS

The Company is partially financed through the issuance of flow-through shares and, and is engaged in realizing mining exploration work, under the terms of the tax rules regarding this type of financing.

These tax rules also set deadlines for carrying out the exploration work, which must be performed no later than the first of the following dates:

- Two years following the flow-through financings;
- One year after the Company has renounced the tax deductions relating to the exploration work.

However, there is no guarantee that the Company's exploration expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard.

Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

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26. CONTINGENCIES AND COMMITMENTS (continued)

In 2016, the Company entered into agreements with subscribers whereby the Company had to incur \$1,245,000 of Canadian Exploration Expenses (“CEE”) before December 31, 2017. The Company had incurred \$919,296 in CEE before December 31, 2017 and an approximate balance of \$293,000 of CEE renounced to the investors had not been incurred as at December 31, 2017 and was used for other purposes than exploration expenses. The maximal contingency for the Company, in relation to non-compliance with its obligations with subscribers, is approximately \$220,000. As at February 28, 2018, the Company had produced the reduction forms related to the amount of \$293,000 in CEE renounced to the investors and that had not been incurred as at December 31, 2017. As at March 31, 2023, an amount of \$17,321 pertaining to part XII.6 taxes is included in trade payable accounts.

As at March 31, 2023, in addition to the royalties’ payable mentioned in Note 11, the Company was committed to pay an amount of \$877,021, consisting of \$593,000 for testing on the Purevap™ QRR which to date has been paid and \$284,021 for the fumed silica project.

27. SUBSEQUENT EVENT

Subsequent to period end, 6,800,000 warrants were issued for a total amount of \$680,000 in cash.