Providing tomorrow's necessities

ARIANNE PHOSPHATE INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2026 AND 2025

(IN CANADIAN DOLLARS)

(UNAUDITED AND UNREVIEWED BY THE COMPANY'S INDEPENDENT AUDITORS)

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(IN CANADIAN DOLLARS)

	AS AT JUNE 30, 2026 (UNAUDITED)	AS AT DECEMBER 31, 2025 (AUDITED)
	$	$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	883,734	2,084,216
Receivables and other current assets	152,666	213,260
Sales taxes receivable	182,091	50,563
Deferred transaction costs	-	21,227
	1,218,491	2,369,266
NON-CURRENT ASSETS		
Investment property – Outfitters	163,225	174,087
Right-of-use assets	58,913	70,695
Property and equipment (Note 3)	63,286,249	63,242,279
TOTAL ASSETS	**64,726,878**	**65,856,327**
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	251,334	246,358
Lease liabilities	25,665	26,781
Convertible debenture and embedded derivatives (Note 5)	4,819,402	4,140,100
Credit line and embedded derivatives (Note 4)	-	25,952,462
	5,096,401	30,365,701
NON-CURRENT LIABILITIES		
Credit line and embedded derivatives (Note 4)	22,754,797	294,623
Lease liabilities	45,053	53,839
Deferred income taxes	3,702,929	3,702,929
TOTAL LIABILITIES	**31,599,180**	**34,417,092**
EQUITY		
Capital stock (Note 7)	98,433,563	93,934,776
Warrants (Note 8)	1,670,553	8,468,851
Contributed surplus	27,143,155	18,620,461
Deficit	(94,119,573)	(89,584,853)
TOTAL EQUITY	**33,127,698**	**31,439,235**
TOTAL LIABILITIES AND EQUITY	**64,726,878**	**65,856,327**

GOING CONCERN (NOTE 1)

The accompanying Notes are an integral part of these consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:

(s) *Siva J. Pillay*, Director   (s) *Marco Gagnon*, Director

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE SIX MONTHS ENDED JUNE 30, 2026 AND 2025
(IN CANADIAN DOLLARS)

	2026	2025
	$	$
EXPENSES		
Salaries and benefits	349,691	376,608
Share-based compensation (Note 8)	70,060	73,670
Professional and consultant fees	319,360	124,795
Management fees	50,010	-
Registration and listing fees	49,589	56,177
Communications and investors relation	90,374	94,915
Promotion, representation, and travel	25,562	34,463
Direct application projects and prefeasibility study	157,155	465,629
Insurance	32,433	34,802
Rent and office expenses	16,641	32,817
Depreciation of property and equipment and right-of-use assets	16,176	11,364
Bank charges	378	1,178
OPERATING LOSS	**1,177,429**	**1,306,418**
OTHER EXPENSES (INCOME)		
Finance costs (Note 6)	3,304,500	5,614,434
Foreign exchange loss (gain)	(4,708)	150
Net loss of investment property – Outfitter	33,707	54,331
	3,333,499	(5,668,915)
LOSS BEFORE INCOME TAXES	**4,510,928**	**6,975,333**
Deferred income taxes recovery	-	-
NET AND COMPREHENSIVE LOSS	**4,510,928**	**6,975,333**
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	0.02	0.03
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	222,568,379	208,332,413

The accompanying Notes are an integral part of these consolidated financial statements.

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2026 and 2025
(IN CANADIAN DOLLARS, EXCEPT FOR NUMBER OF SHARES)

	CAPITAL STOCK	CAPITAL STOCK	WARRANTS	CONTRIBUTED SURPLUS	DEFICIT	TOTAL EQUITY
	common shares	$	$	$	$	$
BALANCE AS AT JANUARY 1, 2026	213,714,811	93,934,776	8,468,851	18,620,461	(89,584,853)	31,439,235
Net and comprehensive loss	-	-	-	-	(4,510,928)	(4,510,928)
Share-based compensation	-	-	-	70,060	-	70,060
Share issuance	10,000,000	2,500,000	-	-	-	2,500,000
Stock options exercise	120,000	40,617	-	(16,217)	-	24,400
Warrants issued	-	-	1,670,553	-	-	1,670,553
Warrants cancellation	-	-	(8,468,851)	8,468,851	-	-
Debt conversion	7,539,515	1,958,170	-	-	-	1,958,170
Share issuance expense	-	-	-	-	(23,792)	(23,792)
BALANCE AS AT JUNE 30, 2026	**231,374,326**	**98,433,563**	**1,670,553**	**27,143,155**	**(94,119,573)**	**33,127,698**
BALANCE AS AT JANUARY 1, 2025	202,890,210	92,256,963	8,416,000	18,437,707	(89,616,239)	29,494,431
Net and comprehensive loss	-	-	-	-	(6,975,333)	(6,975,333)
Share-based compensation	-	-	-	73,670	-	73,670
Warrants issued	-	-	52,851	-	-	52,851
Debt conversion	10,824,601	1,677,813	-	-	-	1,677,813
Share issuance expense	-	-	-	-	(10,791)	(10,791)
BALANCE AS AT JUNE 30, 2025	**213,714,811**	**93,934,776**	**8,468,851**	**18,511,377**	**(96,602,363)**	**24,312,641**

The accompanying Notes are an integral part of these consolidated financial statements

ARIANNE PHOSPHATE INC.

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2026 AND 2025
(IN CANADIAN DOLLARS)

	2026	2025
	$	$
OPERATING ACTIVITIES		
Net income (loss)	(4,510,928)	(6,975,333)
Adjustments for:		
Share-based payments	70,060	73,670
Depreciation – Investment property - Outfitters	10,862	10,424
Depreciation – Property and equipment and right-of-use assets	16,176	11,364
Finance costs	3,320,957	5,667,438
Changes in non-cash working capital items		
Receivables and other current assets	60,594	(79,784)
Sales taxes receivable	(131,528)	1,468
Deferred transaction costs	21,227	-
Accounts payable and accrued liabilities	(76,829)	80,809
CASH FLOWS USED IN OPERATING ACTIVITIES	**(1,219,409)**	**(1,209,944)**
INVESTING ACTIVITIES		
Acquisition of property and equipment	33,441	(2,500)
Acquisition of property and equipment - Outfitter	-	(69,756)
CASH FLOWS USED IN INVESTING ACTIVITIES	**33,441**	**(72,256)**
FINANCING ACTIVITIES		
Share issuance expenses	(23,792)	(10,791)
Repayment of lease liabilities	(15,122)	(15,194)
Stock options exercised	24,400	-
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	**(14,514)**	**(25,985)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(1,200,482)**	**(1,308,185)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,084,216	4,479,865
CASH AND CASH EQUIVALENTS, END OF YEAR	**883,734**	**3,171,680**
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest received	16,457	49,698
Interest paid	5,220	958
Interest on credit line paid in shares	1,958,170	1,677,813
Acquisition of property and equipment not yet paid	82,614	2,562

The accompanying Notes are an integral part of these consolidated financial statements.

1. STATUTE OF INCORPORATION, NATURE OF ACTIVITIES AND GOING CONCERN

Arianne Phosphate Inc. ("the Company") was incorporated under Part IA of the *Companies Act* (Quebec) and was continued under the *Business Corporations Act* (Quebec) (QBCA). The Company is engaged in the development of its Lac à Paul phosphate property located in Quebec, Canada. The Company has a Regulation 43-101 compliant technical report for its mineral reserve and resource estimate and for a feasibility study on the Lac à Paul property. In October 2018, management determined that the technical feasibility and commercial viability of the Lac à Paul property had been established and accordingly, the development phase for the Lac à Paul property has commenced.

The Company's shares are listed on the TSX Venture Exchange (symbol DAN), on the Frankfurt exchange (symbol JE9N) and on the OTCQB Market (OTCQB) (symbol DRRSF). The registered office of the Company is located at 901 Talbot boulevard, Suite 302, Chicoutimi, Quebec, Canada G7H 6N7.

Although management has taken steps to verify titles of mining properties in which the Company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliant with regulatory requirements.

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. For the period ended June 30, 2026, the Company recorded a net loss of $4,510,928 (2025 – loss of $6,975,333) and has an accumulated deficit of $94,119,573 as at June 30, 2026 (2025 – $89,584,853). In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and pay general and administration costs.

As at June 30, 2026, the Company had a negative working capital of $3,877,910 (negative working capital of $27,996,435 in 2025). The working capital includes the convertible debenture of $4,819,402 as at June 30, 2026, even if the repayment is due in 2027 because the convertible option is a derivative and not an equity item. Management estimates that the working capital will not be sufficient to meet the Company's obligations and budgeted operating and development expenditures for the next 12 months. These circumstances are indicative of the existence of material uncertainties that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Subsequent to the end of the period, warrants were exercised for a total of $1,282,418.48.

Any funding shortfall may be met in the future in a number of ways including, but not limited to, the issuance of new equity, debt financing or securing capital from potential partners. While management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available to the Company or that they will be available on terms which are acceptable to the Company. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in the consolidated financial statements.

These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. These condensed consolidated interim financial statements should be read in conjunction with the Company annual consolidated financial statements for the year ended December 31, 2025, which have been prepared in accordance with IFRS Accounting Standards.

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's annual consolidated financial statements for the year ended December 31, 2025.

The Board of Directors approved these condensed consolidated interim financial statements on August 31, 2026.

(IN CANADIAN DOLLARS)

3. PROPERTY AND EQUIPMENT

	TOOLS AND EQUIPMENT	COMPUTER EQUIPMENT	ROLLING EQUIPMENT	LAND	MINERAL PROPERTY UNDER DEVELOPMENT	TOTAL
COST	**$**	**$**	**$**	**$**	**$**	**$**
AS AT DECEMBER 31, 2024	21,743	17,243	37,635	1,096,415	61,993,111	63,166,147
Acquisition	-	-	-	-	132,101	132,101
AS AT DECEMBER 31, 2025	21,743	17,243	37,635	1,096,415	62,125,212	63,298,248
Acquisition	-	-	-	-	48,364	48,364
AS AT JUNE 30, 2026	**21,743**	**17,243**	**37,635**	**1,096,415**	**62,173,576**	**63,346,612**
ACCUMULATED DEPRECIATION						
AS AT DECEMBER 31, 2024	15,485	13,938	22,571	-	-	51,994
Depreciation	1,564	(2,293)	4,704	-	-	3,975
AS AT DECEMBER 31, 2025	17,049	11,645	27,275	-	-	55,969
Depreciation	782	1,260	2,352	-	-	4,394
AS AT JUNE 30, 2026	**17,831**	**12,905**	**29,627**	**-**	**-**	**60,363**
NET BOOK VALUE						
AS AT DECEMBER 31, 2025	4,694	5,598	10,360	1,096,415	62,125,212	63,242,279
AS AT JUNE 30, 2026	**3,912**	**4,338**	**8,008**	**1,096,415**	**62,173,576**	**63,286,249**

4. CREDIT LINE AND EMBEDDED DERIVATIVES

The Company has non-revolving credit lines with Mercury Financing Corp. ("the Lender") which were obtained to finance the development of the Lac a Paul project. The Lender holds a first ranking security over the Company's Lac a Paul property claims, up to an aggregate amount of $27 million. The wholly owned subsidiary, 9252-5880 Québec Inc., has guaranteed jointly and severally the credit lines. Furthermore, the Company is subject to restrictions related to the disposal of assets and equity issuance through financing. The combined credit lines have been extended in 2017, 2018, 2020, 2021 and 2026.

On March 17, 2021, the Company amended and extended its credit line until March 31, 2026. Since the amendment, the credit line bears interest at an annual rate equal to 8%, with all interest capitalized to the principal amount, to be paid annually in cash or in common shares of the Company using the volume weighted average price ("VWAP") of the Company's shares for a period of 1 year prior to the interest payment date. It was determined that the option of conversion of the interest using the VWAP is an embedded derivatives to be separated from the host contract.

In conjunction with the amended credit line, the Lender received 32 million non-transferable share purchase warrants, exercisable at a price of $0.33 per warrant for a period of 5 years. These warrants were renounced by the Lender on February 25, 2026.

On March 31, 2025, 5M non-transferable share purchase warrants were granted to the Lender in connection with a clause where the Company had undertaken to raise additional funds over the period and issue non-transferable share purchase warrants where funding milestones has not been met, and these warrants were renounced by the Lender on February 25, 2026.

In connection with the credit line, the Company granted the Lender of the credit line royalties of $2.25 per ton of phosphate concentrate sales from the Lac à Paul project ($2 per ton as at December 31, 2025). These royalties may be redeemed at any time through a lump-sum payment of $20.25 million ($18 million as at December 31, 2025). These royalties will have to be redeemed by the Company for the same amount in the event of a change of control where at least 90% of the issued and outstanding shares of the Company are acquired, purchased, or held by a third party, either through a tender offer or other transaction with the same result. It was determined that this clause does not constitute an embedded derivative because of the non-financial variable specific to the Company and therefore the cash flows from the buy back of the production fees had to be included in the amortized cost of the host contract.

On March 31, 2025, the Company opted to issue 10,824,601 common shares at a price of $0.155 per share, in lieu of cash, as its annual interest payment to the Lender due on March 31, 2025 (6,080,939 common shares at a price of $0.27 per share in lieu of cash as at March 31, 2024). The carrying value of the interest payable and of the corresponding embedded derivative – interest conversion option was then transferred to capital stock.

In December 2025, the Company revised timing of the cash flows from the production fees buy-back, which reduced the financial costs on the credit line. As at December 31, 2025 and June 30, 2026, the Company estimates that the buyback will occur in 2032.

On March 31, 2026, the Company and the Lender signed the executed an amended and restated credit agreement. The secured credit facility under the Amended and Restated Credit Agreement will mature on

September 30, 2027. The Loan will continue to bear interest at an annual rate of 8%, with all interest payable at maturity.

In connection with the Transaction:

- the Company issued 7,539,515 common shares to the Lender representing accrued interest of $1,958,170 up to March 31, 2026.

- the Company issued 10,000,000 common shares to the Lender, valued at $2,500,000, corresponding to the market price of the common share as at March 31, 2026. The Lender agreed to the following voluntary hold periods: 5,000,000 shares are subject to a voluntary hold period of six months from the Closing Date; and 5,000,000 shares are subject to a voluntary hold period of nine months from the Closing Date. In the event the Company completes an equity financing following the Closing Date, the Voluntary Hold Period shall be reduced to the lesser of (a) the period of time remaining under the Voluntary Hold Period, and (b) the regulatory hold period, if any, applicable to the securities issued by the Company under such equity financing. Furthermore, the Voluntary Hold Period shall automatically terminate in the event of a merger, amalgamation, acquisition, disposition, arrangement or other business combination transaction involving the Company (a "Business Combination Transaction");

- the Company issued 25,000,000 common share purchase warrants (the "2026 Warrants") to the Lender entitling the Lender to acquire the same number of common shares at a price of $0.28 per share until September 30, 2027, valued at $1,670,553. Furthermore, the Lender shall not be entitled to exercise such aggregate number of 2026 Warrants which would result in it holding, following such exercise, on a partially-diluted basis, more than 19.9% of the issued and outstanding Common Shares, subject to certain conditions. The Lender shall nevertheless be entitled to exercise the 2026 Warrants without the limitations of these warrant exercise restrictions applying in the event of a Business Combination Transaction;

-the Company agreed to pay to the Lender an additional production fee of $0.25 per metric ton of phosphate concentrate sales for the life of the project, including any non-arm's-length sales or in connection with any non-arm's-length transformation of such phosphate concentrate, which can be repurchased at any time for a lump sum payment of $2.25 million. Should the Company fail to reimburse the Loan in full on or before March 31, 2027, the Company agreed to pay to the Lender an additional production fee of $0.25 per metric ton of phosphate concentrate sales, including any non-arm's-length sales or in connection with any non-arm's-length transformation of such phosphate concentrate, which additional production fee can be repurchased at any time for a lump sum payment of $2.25 million. It was determined that this clause does not constitute an embedded derivative because of the non-financial variable specific to the Company and therefore the cash flows from the buy back of the production fees had to be included in the amortized cost of the host contract.

Since the terms of the extended credit facility were substantially different, the modification was considered as an extinguishment of the original credit line. The difference between the carrying value of the credit line extinguished and the new credit line was recognized in the six months ended June 30, 2026, in the consolidated statement of income (loss) and comprehensive income (loss), through a gain of $1,137,772 under the Financial expenses on credit line (Note 6). The Company used an effective interest rate of 33%.

(IN CANADIAN DOLLARS)

	PERIOD ENDED JUNE 30, 2026
	$
BALANCE – BEGINNING OF YEAR	26,247,085
Capitalized interest and accretion	2,212,529
Interest paid in shares	(1,958,170)
Debt extinction	(26,501,444)
New Credit line	21,193,119
Capitalized interest and accretion	1,561,678
BALANCE – END OF PERIOD	**22,754,797**
Current portion	-
Non-current portion	22,754,797

YEAR ENDED DECEMBER 31, 2025	HOST	EMBEDDED DERIVATIVES		TOTAL
		INTEREST CONVERSION OPTION	SUPPLEMENTAL WARRANTS	
	$	$	$	$
BALANCE – BEGINNING OF YEAR	31,453,461	(280,357)	48,254	31,221,358
Interest paid in shares	(1,958,170)	280,357	-	(1,677,813)
Change in fair value of derivative	-	-	4,597	4,597
Warrants issued	-	-	(52,851)	(52,851)
Change in estimate	(14,733,690)	-	-	(14,733,690)
Capitalized interest and accretion	11,485,484	-	-	11,485,484
BALANCE – END OF YEAR	**26,247,085**	**-**	**-**	**26,247,085**
Current portion	25,952,462	-	-	25,952,462
Non-current portion	294,623	-	-	294,623

5. CONVERTIBLE DEBENTURE

On October 10, 2024, the Company issued a convertible debenture in the principal of $3,808,269, that matures on October 10, 2027 and bears interest at 9.5% per annum that are added to the principal amount.

The Holder has the option, at any time and subject to customary adjustments, to convert (i) the principal amount of the convertible debenture at a price of $0.35 per common share, and (ii) the accrued interest thereon at a price per share equal to the greater of (a) $0.35 and (b) the market price at the time the accrued interest is converted, as determined in accordance with the rules of the TSX Venture Exchange.

The conversion price of the convertible debenture is subject to adjustments, including in the event that the Company issues a convertible debenture or other similar debt-like instrument convertible into common shares to any person (other than the debenture Holder or its affiliates) pursuant to a transaction that is not a common share reorganization, rights offering or capital reorganization (a "Third Party Debenture

(IN CANADIAN DOLLARS)

Issuance"), in any such case at an effective conversion or exercise price (net of all fees and commissions associated with such subscription) (the "Third Party Debenture Issuance Price") that is less than the conversion price applicable at the time of such issuance, in which case, upon closing of such Third Party Debenture Issuance: (i) the conversion price for the principal amount shall automatically be adjusted downwards to the greater of: (a) the Third Party Debenture Issuance Price; and (b) $0.19, and (ii) the conversion price for the accrued interest shall be equal to the market price at the time such amounts are converted into common shares, as determined in accordance with the rules of the TSX Venture Exchange, subject to the application of Policy 4.3 – Shares for Debt of the TSX Venture Exchange. It was determined that the conversion option is an embedded derivative to be separated from the host contract and classified as a liability because it failed the fixed for fixed criteria per IAS 32.11. Also, because the Holder can convert the debenture at any time, per IAS 1 *Presentation of financial statements*, the convertible debt is classified as a short-term liability.

In some circumstances of common share reorganization, rights offering, special distribution and capital reorganization, the conversion price for the principal amount can be modified. It was determined that this was an embedded derivative classified as a liability to be separated from the host contract.

In the event of a change of control or a project transfer, the Holder has the right to require the Company to redeem the debenture at a price equal to (i) 130% of the original principal amount of the debenture, plus (ii) all accrued and unpaid interest. This was considered as an embedded derivative classified as a liability to be separated from the host contract.

No common shares of the Company shall be issued to the Holder if, as a result of such issuance, the Holder would beneficially own or exercise control or direction over 9.99% that would be issued and outstanding immediately after giving effect of such issuance. The Holder may, at its sole discretion, increase the ownership cap to 19.99% of the common shares that would be issued and outstanding immediately after any issuance. This clause does not constitute an embedded derivative but has to be considered when evaluating the fair value of the conversion option.

According to IFRS 9.B4.3.4, all the embedded derivatives in the single hybrid contract were treated as a single compound embedded derivative. The Company used an effective interest rate of 16.67%.

Upon the Holder reaching an ownership of at least 3.0% of the issued and outstanding common shares of the Company (either through conversion, open market purchase or otherwise), the Company will enter into an investor rights agreement with the Holder that will provide customary participation and top-up rights and a board nomination right.

PERIOD ENDED JUNE 30, 2026	HOST	EMBEDDED DERIVATIVES	TOTAL
	$	$	$
BALANCE – BEGINNING OF YEAR	3,488,558	651,542	4,140,100
Change in fair value of derivative	-	310,610	310,610
Capitalized interest and accretion	368,692	-	368,692
BALANCE – END OF YEAR	**3,857,250**	**962,152**	**4,819,402**

(IN CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31, 2025	HOST	EMBEDDED DERIVATIVES	TOTAL
	$	$	$
BALANCE – BEGINNING OF YEAR	2,822,062	510,850	3,332,912
Change in fair value of derivative	-	140,692	140,692
Capitalized interest and accretion	666,496	-	666,496
BALANCE – END OF YEAR	**3,488,558**	**651,542**	**4,140,100**

6. FINANCE COSTS (INCOME)

	SIX-MONTH PERIOD ENDED JUNE 30, 2026	SIX-MONTH PERIOD ENDED JUNE 30, 2025
	$	$
Financial expenses on credit line	2,636,435	5,361,251
Financial expenses on convertible debenture	368,692	240,143
Change in fair value of embedded derivatives – credit line	-	4,597
Change in fair value of embedded derivatives – convertible debenture	310,610	62,063
Interest expense on lease liabilities	5,220	(953)
Interest income	(16,457)	(52,667)
	3,304,500	**5,614,434**

7. CAPITAL STOCK

AUTHORIZED

Unlimited number of common shares without par value.

Unlimited number of preferred shares, without par value, issuable in series: Series A includes 500,000 preferred shares, non-voting, non-cumulative dividend of 8% redeemable by the Company at the amount paid in.

SIX MONTHS ENDED JUNE 30, 2026

On March 31, 2026, the Company issued a total of 7,539,515 common shares representing accrued interest of $1,958,170 up to March 31, 2026 , in lieu of cash, as its annual interest payment relating to the credit line as at March 31, 2026.

Also, upon signature of the amended and restated credit agreement, a total of 10,000,000 common shares were issued to the Lender, valued at $2,500,000, corresponding to the market price of the shares as at March 31, 2026.

During the period, 120,000 common shares were issued, following stock options exercised with a weighted average exercise price of $0.20.

YEAR ENDED DECEMBER 31, 2025

On March 31, 2025, the Company issued 10,824,601 common shares at a price of $0.155 per share, in lieu of cash, as its annual interest payment relating to the credit line as at March 31, 2025.

8. STOCK OPTIONS, WARRANTS AND OPTIONS GRANTED TO BROKERS

STOCK OPTIONS

The shareholders of the Company initially approved on June 25, 2013, a stock option plan, amended on September 26, 2025 (the "plan") whereby the Board of Directors may grant stock options of the Company to directors, officers, employees and suppliers. The terms of stock options are determined by the Board of Directors.

The stock options granted to directors and employees vest on a basis of 33% every year on a three-year period from the date of grant and options to consultants vest on a basis of 25% every three months, starting three months after the grant date.

Stock options expire no later than ten years after being granted. The exercise price of each share purchase option is determined by the Board of Directors and may not be lower than the market price of the common shares at the time of grant.

The plan provides that (i) the maximum number of common shares in the capital of the Company that may be reserved for issuance under the plan shall be equal to 10% common shares; (ii) the maximum number of common shares which may be reserved for issuance to an employee, officer or director may not exceed 5% of the outstanding common shares at the time of grant; and (iii) the maximum number of shares which may be reserved for issuance to consultants and investors representative may not exceed 2% of the outstanding common shares at the time of grant.

Any share purchase option is settled in shares in accordance with Company policies.

The Company currently estimates the volatility of its common shares based on historical data from the Company.

On June 2nd, 2026, 200,000 stock options were granted to an officer, having an exercise price of $0.425 and expiring on June 2nd, 2036, having a total fair value of $65,279, determined by the Black-Scholes option pricing model.

(IN CANADIAN DOLLARS)

The following table summarizes the information relating to the stock options outstanding under the plan as at June 30, 2026:

EXERCISE PRICE RANGE	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	OPTIONS OUTSTANDING JUNE 30, 2026	OPTIONS OUTSTANDING DECEMBER 31, 2025
$	$	Years		
0.18 – 0.28	0.20	6.56	3,293,000	3,413,000
0.29 – 0.44	0.38	6.58	2,496,667	2,296,667
0.45 – 0.63	0.54	4.21	1,930,000	1,930,000
0.63 – 1.30	0.76	0.76	330,000	505,000
			8,049,667	8,144,667
		EXERCISABLE	7,483,000	6,973,000

WARRANTS

Changes in the Company warrants were as follows:

	SIX MONTHS ENDED JUNE 30, 2026		YEAR ENDED DECEMBER 31, 2025	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
		$		$
BALANCE – BEGINNING	37,000,000	0.33	32,000,000	0.33
Granted	25,000,000	0.28	5,000,000	0.33
Cancelled	(37,000,000)	0.33		
BALANCE – END	**25,000,000**	**0.28**	**37,000,000**	**0.33**

During 2026, the holder renounced to 37,000,000 outstanding warrants, they were therefore cancelled.

Also, 25,000,000 warrants were granted in relation with the credit line having a total fair value of $1,670,553. The warrants, when granted, are accounted for at their fair value determined by the Black-Scholes pricing model.

The following table summarizes the information relating to the outstanding warrants as at June 30, 2026:

EXERCISE PRICE	EXPIRY DATE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WARRANTS OUTSTANDING JUNE 30, 2026	WARRANTS OUTSTANDING DECEMBER 31, 2025
$		Years		
0,28	2027-09-30	1.25	25,000,000	37,000,000

After the six-month period ended June 30, 2026, a total of 4,580,066 warrants were exercised for a total consideration of $1,282,418.

(IN CANADIAN DOLLARS)

9. RELATED PARTY TRANSACTIONS

The table below shows related party transactions and balances payable for each of the Company's related parties:

	SIX-MONTH PERIOD ENDED JUNE 30, 2026	SIX-MONTH PERIOD ENDED JUNE 30, 2025
	$	$
KEY MANAGEMENT COMPENSATION (1)		
Share-based compensation	69,204	32,480
Management fees	50,010	-
Salaries and benefits (2)	345,193	375,828
TOTAL COMPENSATION	**464,407**	**408,309**
Balance included in accounts payable and accrued liabilities	35,271	6,788

(1) The key management is composed of the Chief executive officer, Chief Financial Officer, Chief Operating Officer, Head of Strategic & Business Initiatives.

(2) Salaries and benefits capitalized to property and equipment amount to $Nil ($38,549 in 2025).

The agreements with the Company's key executives and key employees provide for payments on termination of employment following a change of control of $525,000.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. There was no transfer of hierarchy level during the six months ended June 30, 2026 and 2025.

The carrying value of cash and cash equivalents, receivables and other current assets, accounts payable and accrued liabilities are considered to be a reasonable approximation of their fair value because of the short-term maturity and contractual terms of these instruments.

The fair value of the credit line and the convertible debenture is based on discounted cash flows and is not materially different from their carrying value because there was no material change in the assumptions used for fair value determination at inception. Therefore, their principal amounts approximate their fair value.

The embedded derivatives on the convertible debenture are classified as a level 3 instrument. A, increase of 10% in the volatility and a 10% change in the probability determined for each embedded derivative, the main non-observable inputs used in the model, would lead to a variation in the fair value as at June 30, 2026 of $72,000 ($97,000 as at December 31, 2025).