



Consolidated Financial Statements

For the years ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Northstar Clean Technologies Inc.

Opinion

We have audited the accompanying consolidated financial statements of Northstar Clean Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a loss of \$7,207,912 during the year ended December 31, 2021 and, although as of that date, the Company had working capital of \$5,492,200, the Company is currently unable to self-finance operations, has limited resources, no source of operating cash flow, and no assurance that anticipated production revenue will be sufficient to fund operations. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Zachary Faure.

A handwritten signature in black ink that reads "Davidson & Coysany LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 22, 2022

Northstar Clean Technologies Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at December 31, 2021 and 2020

	December 31, 2021	December 31, 2020
ASSETS		
Current		
Cash	\$ 5,948,876	\$ 1,977,795
GST Receivable	370,293	206,225
Prepays	407,109	13,061
Net investment in sublease (Note 5)	59,469	51,824
	<u>6,785,747</u>	<u>2,248,905</u>
Non-Current		
Deposits (Note 5)	451,070	48,570
Property, plant and equipment (Note 6)	3,205,404	2,370,872
Long-term investments	-	4
Net investment in sublease (Note 5)	131,942	191,411
Right-of-use asset (Note 5)	1,800,450	-
	<u>5,588,866</u>	<u>2,610,857</u>
	<u>\$ 12,374,613</u>	<u>\$ 4,859,762</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 759,543	\$ 342,569
Credit facility payable (Note 7)	-	1,365,557
Loans payable (Note 7)	90,000	551,710
Lease liability (Notes 5)	444,004	51,824
	<u>1,293,547</u>	<u>2,311,660</u>
Non-Current		
Loans payable (Note 7)	149,015	-
Lease liability (Notes 5)	1,659,461	191,411
	<u>3,102,023</u>	<u>2,503,071</u>
Shareholders' equity		
Capital stock (Note 9)	24,698,274	12,602,086
Reserves (Note 10)	2,571,477	543,854
Deficit	(17,997,161)	(10,789,249)
	<u>9,272,590</u>	<u>2,356,691</u>
	<u>\$ 12,374,613</u>	<u>\$ 4,859,762</u>

Nature and continuance of operations (Note 1)
Subsequent events (Note 16)

On behalf of the Board:

"James Borkowski"

Director

"Aidan G. Mills"

Director

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

Northstar Clean Technologies Inc.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and 2020

	2021	2020
RESEARCH AND DEVELOPMENT EXPENSES		
Contract consulting fees	\$ 316,182	\$ 19,075
Repairs and maintenance	89,278	-
Site materials	228,001	36,624
	<u>(633,461)</u>	<u>(55,699)</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Advertising, marketing and promotion (Note 8)	849,737	9,489
Bank charges, interest and finance charges	292,679	169,051
Consulting fees (Note 8)	504,953	5,450
Depreciation (Note 5 and 6)	461,966	323,623
Insurance	73,215	4,274
Investor relations	58,535	-
Management fees (Note 8)	-	111,521
Office and administration	65,728	4,126
Professional fees (Note 8)	576,485	157,754
Rent and utilities	226,560	219,254
Share-based compensation (Notes 4, 8 and 10)	2,357,265	5,563,326
Transfer agent and regulatory fees	106,967	-
Travel	123,767	1,126
Wages and benefits (Note 8)	721,737	-
	<u>(6,419,594)</u>	<u>(6,568,994)</u>
OTHER ITEMS		
Foreign exchange gain	12,463	-
Gain on sale of investment	1	-
Interest income	22,000	-
Loss on sale of property, plant and equipment (Note 6)	(80,000)	-
Write-off of property, plant and equipment (Note 6)	(109,321)	-
Gain on settlement of debt	-	27,900
	<u>(154,857)</u>	<u>27,900</u>
Loss and comprehensive loss for the year	\$ (7,207,912)	\$ (6,596,793)
Basic and diluted loss per share	\$ (0.08)	\$ (0.16)
Weighted average number of common shares outstanding (basic and diluted)	88,830,351	40,995,531

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

Northstar Clean Technologies Inc.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited - Expressed in Canadian Dollars)

	Number of Shares	Capital Stock	Reserves	Deficit	Total Shareholders' Equity
Authorized Share Capital: Unlimited number of common shares without par value					
Issued:					
Balance, December 31, 2019	39,166,077	\$ 3,906,565	\$ 534,051	\$ (4,192,456)	\$ 248,160
Shares issued on Northstar Acquisition (Note 4)	27,034,412	8,383,146	-	-	8,383,146
Warrants exercised (Notes 9 and 10)	2,082,500	312,375	-	-	312,375
Share-based payments (Note 10)	-	-	9,803	-	9,803
Loss for the year	-	-	-	(6,596,793)	(6,596,793)
Balance, December 31, 2020	68,282,989	12,602,086	543,854	(10,789,249)	2,356,691
Private placements (Note 9)	34,975,178	12,241,312	-	-	12,241,312
Share issue costs (Note 9)	-	(1,151,082)	391,873	-	(759,209)
Penalty shares issued (Note 4)	2,150,000	752,500	-	-	752,500
Warrant exercise (Note 9)	15,000	7,500	-	-	7,500
Share-based payments (Note 10)	-	-	1,604,765	-	1,604,765
Shares issued for debt	702,736	245,958	-	-	245,958
Shareholder contribution on low interest loan	-	-	30,985	-	30,985
Loss for the year	-	-	-	(7,207,912)	(7,207,912)
Balance, December 31, 2021	106,125,903	\$24,698,274	\$ 2,571,477	\$ (17,997,161)	\$ 9,272,590

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

Northstar Clean Technologies Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended December 31, 2021 and 2020

	2021	2020
CASHFLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (7,207,912)	\$ (6,596,793)
Items not affecting cash		
Depreciation	461,966	323,623
Loss on sale of equipment under construction	80,000	-
Loss on disposition of equipment under construction	109,321	-
Interest and finance charges on loans	54,491	111,198
Interest on investment in sublease	(22,000)	-
Share-based payments	2,357,265	5,563,326
Interest on lease liabilities	232,347	18,924
Gain on sale of investments	(1)	(27,900)
	<u>(3,934,523)</u>	<u>(607,622)</u>
Changes in non-cash working capital items		
Receivables	(164,063)	110,908
Prepays	(394,048)	-
Accounts payable and accrued liabilities	398,074	379,228
Net cash flows used in operating activities	<u>(4,094,560)</u>	<u>(117,486)</u>
CASHFLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(761,229)	(435,511)
Proceeds on disposition of property, plant and equipment	24,000	-
Cash received on acquisition	-	1,975,538
Deposits	(402,500)	-
Net cash flows provided by (used in) investing activities	<u>(1,139,729)</u>	<u>1,540,027</u>
CASHFLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	480,000	731,301
Loan repayments	(2,205,800)	(93,514)
Bank indebtedness	-	(65,733)
Lease payments received	73,824	-
Lease liabilities	(632,257)	(329,175)
Proceeds from issuance of shares on private placements	12,241,312	312,375
Proceeds from issuance of shares on warrant exercises	7,500	-
Share issue costs	(759,209)	-
Net cash flows provided by financing activities	<u>9,205,370</u>	<u>555,254</u>
Change in cash during the year	3,971,081	1,977,795
Cash, beginning of year	1,977,795	-
Cash, end of year	<u>\$ 5,948,876</u>	<u>\$ 1,977,795</u>
Cash paid for interest	\$ 50,304	\$ 72,249
Cash paid for tax	\$ -	\$ -

Supplemental disclosures with respect to cash flows (Note 11)

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

Northstar Clean Technologies Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2021

1. NATURE AND CONTINUANCE OF OPERATIONS

Nature of operations

Northstar Clean Technologies Inc. (“Northstar” or the “Company”) was incorporated on August 21, 2017 as Blocktech Ventures Inc. under the laws of the British Columbia Corporations Act. On August 4, 2020, the Company entered into an amalgamation agreement and on December 23, 2020, the Company completed an amalgamation with its subsidiary 1257848 BC Ltd. and Empower Environmental Solutions Ltd (“Empower”) (the “Amalgamation”). Upon Amalgamation, the Company acquired all the shares of Empower (41,248,577 shares) by issuing 44,331,147 shares of the Company in exchange. Pursuant to the agreement, following completion of the transaction, Empower shareholders owned approximately 64.92% of the combined company resulting in the shareholders of the Empower controlling the Company. Accordingly, the transaction was considered a reverse takeover transaction (“RTO”). The head office and principal address of the Company is located at 7046 Brown Street, Delta, British Columbia, Canada, V4G 1G8 (the “Empower Pilot Facility”). The Company’s registered and records office is 6204 – 125th Street, Surrey, British Columbia, Canada V3X 2E1.

The Company, through its wholly-owned subsidiary Empower, has developed a proprietary design process technology at its Empower Pilot Facility for taking discarded or defective single-use asphalt shingles, otherwise destined for already over-crowded landfills, and extracting the liquid asphalt, aggregate and fiber for usage in new asphalt, shingles, construction products and other industrial applications.

Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Several adverse conditions may cast significant doubt on the validity of this assumption. The Company incurred a significant operating loss of \$7,207,912 during the year ended December 31, 2021 (December 31, 2020 - \$6,596,793). Although the company has working capital of \$5,492,200 (December 31, 2020 deficit - \$62,755) and has commenced steady state operations at its Empower Pilot Facility, the Company is currently unable to self-finance operations, has limited resources, no source of operating cash flow, and no assurances that anticipated production revenue will be sufficient to fund operations.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of December 31, 2021. The Board of Directors approved the consolidated financial statements for issue on April 19, 2022.

Northstar Clean Technologies Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2021

2. BASIS OF PREPARATION (Continued)

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies. These consolidated financial statements have been prepared using the accrual basis of accounting with the exception of cash flow information.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. All financial information is expressed in Canadian dollars unless otherwise stated and have been rounded to the nearest dollar.

Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires the use of judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these judgments and estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those judgments and estimates.

The most significant accounts that require judgments and estimates as the basis for determining the stated amounts include the recoverability of property, plant and equipment, assumptions used in share-based payments, recognition of deferred income tax amounts, and the going concern assumption.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

Estimates

Recoverability of property, plant, and equipment

The carrying value and the recoverability of property and equipment, which are included in the consolidated statements of financial position. The cost model is utilized and the value of the property and equipment is based on the expenditures incurred. At every reporting period, management assesses the potential impairment which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount.

Valuation of share-based payments

The Company uses the Black-Scholes option pricing model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

2. BASIS OF PREPARATION (Continued)

Critical judgements

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Going concern

The going concern assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Management plans to ensure the continuation of the operations is discussed in note 1.

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a list of significant accounting policies used by the Company.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Empower Environmental Solutions Ltd. and Equity Tech Ventures Inc. All significant intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents, when applicable, are designated as fair value through profit and loss (“FVTPL”) and include highly liquid short-term interest bearing variable rate investments with an original maturity of three months or less, or which are readily convertible into a known amount of cash with no significant charges. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For the years presented, the Company only held cash.

(c) Financial instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

Northstar Clean Technologies Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (Continued)

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the profit or loss in the period in which they arise.

Financial assets at FVTOCI

Financial assets carried at FVTOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTOCI are included in other comprehensive income or loss in the period in which they arise.

Impairment of financial assets at amortized cost

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of comprehensive loss.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of non-current assets

At each financial position reporting date, the Company's non-current assets are reviewed to determine whether there is any indication that the carrying value of those assets are impaired and may not be recoverable. If any such indication exists, the recoverable amount of the asset is evaluated at the level of a cash-generating unit ("CGU"), the smallest identifiable group of assets that generates cash in flows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(e) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company determines diluted earnings/loss per share whereby the dilutive effect on earnings/loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. The Company starts to depreciate property, plant and equipment when assets are ready and available for use.

Depreciation is calculated using the following methods over their respective estimated useful lives at the following annual rates:

Processing equipment	20% declining balance, no residual value
Storage facility	20% declining balance, no residual value
Construction in progress	Nil until available for use
Furniture and fixtures	20% declining balance, no residual value
Leasehold improvements	Straight-line over the term of lease

Depreciation methods and useful lives are reviewed at each reporting date and adjusted prospectively. Any gain or loss on disposal of an item of property and equipment is recognized in profit or loss.

Property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statements of loss and comprehensive loss.

Northstar Clean Technologies Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

(h) Leases

Leases are recognized as a lease liability and a corresponding right-of-use (“ROU”) asset at the date on which the leased asset is available for use by the Company. Liabilities and assets arising from a lease are initially measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate when the rate implicit in the lease is not readily available. The incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

Lease payments are allocated between the lease liability and finance costs. Cash outflows for repayment of the principal portion of the lease liability is classified as cash flows from financing activities. The interest portion of the lease payments is classified as cash flows from operating activities.

The ROU asset is initially measured at an amount equal to the corresponding lease liability and is subsequently depreciated on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses.

Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the consolidated statement of loss on a straight-line basis over the lease term.

(i) Income taxes

Income tax on the profit or loss for the year presented comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Income taxes (Continued)

Deferred tax is recorded, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the deferred tax asset.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(j) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(k) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events. It is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as interest expense.

(l) Share-based payment transactions

The Company grants stock options to acquire common shares to directors, officers, employees and consultants. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. The fair value of the options is accrued and charged to operations with the offset credit to reserves, over the vesting period. If and when the stock options are exercised, the applicable amounts from reserves are transferred to capital stock.

Northstar Clean Technologies Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Share-based payment transactions

Share-based compensation to nonemployees is measured at the fair value of the goods or services received or the fair value of the equity instruments issued if the fair value of the goods or services cannot be reliably measured, and is recorded at the date the goods or services are received.

The Black-Scholes option valuation model used by the Company to determine fair values of options and similar financial instruments requires the input of highly subjective assumptions including future stock volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate.

(m) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Equity units

The Company uses the residual value method with respect to the measurement of common shares and share purchase warrants issued as units. The proceeds from the issue of units is allocated between common shares and share purchase warrants where the fair value of the common shares is based on the market value on the date of the issuance of the placement and the balance, if any, is allocated to the attached warrants. Share issue costs are netted against common share component.

(n) There were no new accounting standards adopted during the year

(o) New accounting standards and interpretations not yet adopted

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place “at the end of the reporting period”
- clarify that classification is unaffected by expectations about whether an entity will exercise the right to defer settlement of a liability
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

The amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The Company does not expect the adoption of this amendment to have a significant impact.

Northstar Clean Technologies Inc.

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4. ACQUISITION

As described in Note 1, on December 23, 2020, Empower completed the Amalgamation with 1257848 BC Ltd., a wholly owned subsidiary of the Company. As consideration for the Amalgamation, the Company issued a total of 44,331,147 common shares to the shareholders of Empower.

The Amalgamation resulted in the shareholders of Empower obtaining control of the combined entity by obtaining control of the voting rights, governance, and management decision making processes, and the resulting power to govern the financial and operating policies of the combined entity.

The Amalgamation constitutes an RTO of Northstar by Empower and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, Share-based Payments and IFRS 3, Business Combinations. As Northstar did not qualify as a business according to the definition in IFRS 3, the RTO does not constitute a business combination; rather it is treated as an issuance of common shares by Empower for the net assets of Northstar with Empower as the continuing entity. Accordingly, no goodwill or intangible assets were recorded with respect to the transaction as it does not constitute a business.

For accounting purposes, Empower was treated as the accounting parent company (legal subsidiary) and Northstar has been treated as the accounting subsidiary (legal parent) in these consolidated financial statements. As Empower was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying values. Northstar's results of operations have been included from the date of the Amalgamation.

Northstar Clean Technologies Inc.
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4. NORTHSTAR ACQUISITION (Continued)

The following are the assumptions and adjustments relating to the acquisition of Northstar:

Total Purchase Consideration		
23,951,842 shares at \$0.35 per share private placement	\$	8,383,146
Allocation of Purchase Consideration		
Assets		
Current		
Cash	\$	1,975,538
Input tax credits		133,246
Prepaid expenses		13,159
Bridge loan (Note 8)		731,301
Investments		4
Net investment in sub-lease		<u>51,824</u>
	\$	2,905,072
Non-Current		
Net investment in sub-lease		<u>191,411</u>
Total assets		<u>3,096,483</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$	23,625
Lease liability		<u>51,824</u>
		75,449
Non-Current		
Lease liability		<u>191,411</u>
Total liabilities		<u>(266,860)</u>
Net assets acquired		2,829,623
Share-based compensation		<u>5,553,523</u>
Total	\$	<u>8,383,146</u>

The consideration was measured at the fair value of the shares that Empower would have had to issue to the shareholders of Northstar (23,951,842 common shares), to give the shareholders of Northstar the same percentage equity interest in the combined entity that results from the RTO had it taken the legal form of Empower acquiring Northstar.

As part of the Post-Closing Covenants, since NorthStar Shares were not listed on either the TSXV or the CSE on or before March 31, 2021, on April 1, 2021, NorthStar issued, for no additional consideration, an aggregate of an additional 2,150,000 NorthStar Shares and divided among the Entitled Shareholders pro-rata according to the interest each of them held in NorthStar as shown on the Equity Record. The shares were issued on April 1, 2021 at a fair value of \$0.35 per share for a total of \$752,500 which has been expensed as share-based compensation.

Northstar Clean Technologies Inc.

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5. RIGHT-OF-USE ASSET AND LEASE LIABILITY

Right-of-use assets

The Company's right-of-use assets are entirely comprised of premises for operating facility. The following is the continuity of the cost and accumulated depreciation of right-of-use assets as at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Cost		
Balance at beginning of year	\$ 612,140	\$ 612,140
Expiration	(612,140)	-
Additions	2,260,140	-
Balance, end of year	\$ 2,260,140	\$ 612,140
Accumulated depreciation		
Balance at beginning of year	\$ 612,140	\$ 319,377
Expiration	(612,140)	-
Depreciation	459,690	292,763
Balance, end of year	\$ 459,690	\$ 612,140
Net book value	\$ 1,800,450	\$ -

The Company's Net investment assets ("NIS") are comprised of premises under lease and are sub-leased. The following is the continuity of the NIS asset as at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Net investment in sublease		
NIS asset acquired from Northstar	\$ 243,235	\$ 243,235
Lease payments received	(73,824)	-
Finance income	22,000	-
Value of net investment in sublease, end of year	191,411	243,235
Current portion	(59,469)	(51,824)
Non-current portion	\$ 131,942	\$ 191,411

Lease liabilities

The following is the continuity of lease liabilities as at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Cost		
Balance at beginning of year	\$ 243,235	\$ 310,251
Additions	2,260,140	-
Lease payments	(632,257)	(329,175)
Lease acquired from Northstar	-	243,235
Interest accretion on lease liability	232,347	18,924
Balance, end of year	\$ 2,103,465	\$ 243,235
Current portion	(444,004)	(51,824)
Non-current portion	\$ 1,659,461	\$ 191,411

Northstar Clean Technologies Inc.

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5. RIGHT-OF-USE ASSET AND LEASE LIABILITY (Continued)

The following is a schedule of future minimum lease payments under lease commitments as at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Total Payments:		
No later than one year	\$ 634,366	\$ 73,824
Later than one year, not later than five years	1,922,501	221,471
Later than five years	-	-
Net minimum lease payments	\$ 2,556,867	\$ 295,295

Payments recognized in the consolidated financial statements relating to short-term leases and low-value assets for the periods ended December 31, 2021, were \$Nil (December 31, 2020 - \$Nil).

In connection with the agreement for the lease, the Company made a deposit payment of \$85,000 of which \$37,800 was applied to the Basic Rent due in December 2015, and the balance of \$47,200 was held as a security deposit. The Company renegotiated a new lease on January 1, 2021 and the security deposit held with the addition of \$402,500 formed part of the new security deposit.

In connection with the NIS lease, the Company's lease term is until November 30, 2024. The current monthly basic rent is payable monthly in advance at a rate of \$6,136 per month plus the proportion share of expense in respect of operating costs and property taxes. The Company entered into an assignment agreement whereby the assignee has accepted the terms of the Company's lease terms and is paying the lease payments directly to the Landlord.

6. PROPERTY, PLANT AND EQUIPMENT

	Processing equipment	Storage Facility	Construction in progress	Furniture and Fixtures	Leasehold Improve- ments	Total
Cost						
Balance – December 31, 2019	\$ 28,210	\$ 20,300	\$ 1,798,623	\$ 3,600	\$ 56,604	\$ 1,907,337
Additions	-	-	560,888	-	-	560,888
Balance – December 31, 2020	\$ 28,210	\$ 20,300	\$ 2,359,511	\$ 3,600	\$ 56,604	\$ 2,468,225
Additions	-	36,168	1,013,383	578	-	1,050,129
Equipment sold	-	-	(104,000)	-	-	(104,000)
Equipment written off	-	-	(109,321)	-	-	(109,321)
Fully amortized assets	-	-	-	-	(56,604)	(56,604)
Balance – December 31, 2021	\$ 28,210	\$ 56,468	\$ 3,159,573	\$ 4,178	\$ -	\$ 3,248,429
Accumulated Depreciation						
Balance – December 31, 2019	\$ 22,885	\$ 12,817	\$ -	\$ 2,273	\$ 28,518	\$ 66,493
Additions	1,065	1,497	-	212	28,086	30,860
Balance – December 31, 2020	\$ 23,950	\$ 14,314	\$ -	\$ 2,485	\$ 56,604	\$ 97,353
Additions	852	1,200	-	224	-	2,276
Fully amortized assets	-	-	-	-	(56,604)	(56,604)
Balance – December 31, 2021	\$ 24,802	\$ 15,514	\$ -	\$ 2,709	\$ -	\$ 43,025
Net Book Value						
Balance – December 31, 2020	\$ 4,260	\$ 5,986	\$ 2,359,511	\$ 1,115	\$ -	\$ 2,370,872
Balance – December 31, 2021	\$ 3,408	\$ 40,954	\$ 3,159,573	\$ 1,469	\$ -	\$ 3,205,404

During the year ended December 31, 2021, the Company received \$24,000 on the disposition of equipment included in construction in progress equipment with a net book value of \$104,000. The Company recognized a loss of \$80,000 on the sale.

Northstar Clean Technologies Inc.
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7. LOANS PAYABLE

	Credit Facility	Shareholder Loans	Directors' Loans	Bridge Loan	Equipment Loan	Total
Loans payable:						
Balance – December 31, 2019	\$ 1,416,584	\$ 208,658	\$ -	\$ -	\$ -	\$ 1,625,242
Advances	-	-	-	731,301	-	731,301
Accrued interest	42,487	70,856	-	-	-	113,343
Repayment of principal and interest	(93,514)	-	-	-	-	(93,514)
Vendor payable assumption	-	272,196	-	-	-	272,196
Eliminated on amalgamation	-	-	-	(731,301)	-	(731,301)
Balance – December 31, 2020	1,365,557	551,710	-	-	-	1,917,267
Less current portion	(1,365,557)	(551,710)	-	-	-	(1,917,267)
Long term portion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Balance – December 31, 2020	1,365,557	551,710	-	-	-	1,917,267
Advances	-	-	480,000	-	-	480,000
Accrued interest	35,252	16,744	2,495	-	-	54,491
Repayment of loan and interest	(1,400,809)	(322,496)	(482,495)	-	-	(2,205,800)
Shares for debt	-	(245,958)	-	-	-	(245,958)
Equipment received for loan	-	-	-	-	270,000	270,000
Interest accretion on low interest loan	-	-	-	-	(30,985)	(30,985)
Balance – December 31, 2021	-	-	-	-	239,015	239,015
Less current portion	-	-	-	-	(90,000)	(90,000)
Long term portion	\$ -	\$ -	\$ -	\$ -	\$ 149,015	\$ 149,015

Credit Facility:

The Company had a variable rate term loan with a maximum authorized limit of \$1,500,000 with Vancity Savings Credit Union. The credit facility carried an annual interest rate of Vancity Prime + 1.75%, was calculated and payable monthly and secured by a general security agreement and personal guarantees of certain Directors and Shareholders. All amounts due under the credit facility are due on demand and the remaining balance was repaid in December 2021. The amount outstanding as at December 31, 2021 was \$Nil (December 31, 2021 - \$1,365,557).

Shareholder loans:

The Company had a loan payable to a non-related party shareholders in the amount of \$523,520. The loans carried an annual interest rate of 10%, was unsecured and were paid in full in June 2021 of which \$245,958 was settled with the issuance of 702,736 shares (Note 9). The amount outstanding as at December 31, 2021 was \$Nil (December 31, 2020 - \$523,520) including \$Nil (December 31, 2020 - \$79,513) in interest.

The Company had a loan payable to a non-related party shareholder in the amount of \$28,190. The amount was non-interest bearing, is unsecured and was repaid in full in June 2021. The amount outstanding as at December 31, 2021 was \$Nil (December 31, 2020 - \$28,190).

Directors' loans:

During the year ended December 31, 2021, the Company had borrowed \$480,000 from directors of the Company. The loans carried an annual interest rate of 6%, was unsecured and were paid in full in June 2021 with interest totaling \$2,495.

Bridge loan:

Prior to the Amalgamation, Northstar advanced a total of \$731,301 to Empower. These amounts were eliminated after the Amalgamation date.

Equipment loan:

The Company acquired \$270,000 of equipment plus from a Company controlled by an officer of the Company during the year. The loan carries an annual interest rate of 1% per annum, secured by the equipment and repayable in monthly instalments of \$5,000 plus interest for the first 6 months and \$10,000 per month plus interest until fully paid. Interest payments begin in July 2022. The equipment loan was recognized as the present value using a 10% market rate of interest. The difference was recognized as a shareholder contribution in reserves on low interest loan.

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8. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) As at December 31, 2021, accounts payable and accrued liabilities include \$178,759 (December 31, 2020 - \$13,044) owing to companies with certain directors in common and companies controlled by certain directors and officers. The amounts are unsecured, non-interest bearing and due on demand.
- (b) Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. During the years presented the Company paid or accrued the following key management personnel compensation to directors, officers, and/or companies controlled by directors and officers and/or companies with certain directors in common:

	December 31, 2021	December 31, 2020
Advertising, marketing and promotion	\$ 106,300	\$ -
Consulting fees	64,000	-
Management fees	-	111,521
Professional fees	118,000	-
Wages and benefits	505,134	-
Share-based payment	1,377,542	3,267
	<u>\$ 2,170,976</u>	<u>\$ 114,788</u>

- (c) During the year ended December 31, 2021, the Company acquired equipment in the amount of \$270,000 plus GST and PST (2020 - \$Nil) from a company with certain controlled by an officer. See Note 7 for additional disclosure.

9. CAPITAL STOCK

Authorized Share Capital:

Unlimited number of common shares without par value

Issuance of shares

During the year ended December 31, 2021, the Company completed the following share transactions:

- Issued a total of 702,736 common shares with a fair value of \$245,958 in settlement of debts in the amount of \$245,958 (Note 7).
- On April 1, 2021, the Company issued 2,150,000 shares with a value of \$752,500 under a Post-Closing Covenant in the Northstar Empower Agreement (Note 4). The benefit was recorded as share-based compensation.
- Issuance of shares received on subscription receipts:
On March 25, 2021 and March 26, 2021, the Company raised \$12,241,312 on 34,975,178 Subscription Receipts at a price of \$0.35 per Subscription Receipt. The Subscription Receipts incurred \$705,098 in finders fees payable in cash of which \$352,649 was withheld from the Subscription Receipts and the balance of \$352,449 in finders fees were paid on Escrow Release. Each Subscription Receipt converted into one unit upon the receipt of the final prospectus by the British Columbia Securities Commission on June 22, 2021. Each Unit is comprised of one common share in the capital of the Company (each, a "Share") and one-half of one transferable common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire one Share (each, a "Warrant Share") at a price of \$0.50 per Warrant Share for a period of two years from listing on a public market. In addition, to the cash portion of the finder's fees, 2,014,565 Special Warrants were issued and has converted to 2,014,565 Broker Warrants on Escrow Release valued at \$391,873. The Company incurred additional share issuance costs of \$54,111 in connection with the financing.
- In November 2021, the Company issued 15,000 shares on the exercise of warrants for gross proceeds of \$7,500.

During the year ended December 31, 2020, the Company completed the following share transactions:

- Northstar issued a total of 44,331,147 shares in connection with the RTO (Note 4) valued at \$8,383,146.
- Empower, prior to the Amalgamation issued a total of 2,082,500 shares at a price of \$0.15 per share for gross proceeds of \$312,375 on warrant exercises.

Northstar Clean Technologies Inc.

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10. RESERVES

Stock options

The Company grants stock options to acquire common shares to directors, officers, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option is as determined by the Board at the time of grant. Options vest as determined by the Board of Directors. The options can be granted for a maximum term of 10 years.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding , December 31, 2019 and 2018	2,280,000	\$ 0.25
Cancelled on RTO	(2,280,000)	\$ 0.25
Outstanding , December 31, 2020	-	\$ -
Issued	6,675,000	\$ 0.35
Outstanding , December 31, 2021	6,675,000	\$ 0.35

Share-based compensation recognized for options vested during the year ended December 31, 2021 was \$1,604,765 (December 31, 2020 - \$9,803).

Outstanding and exercisable stock options as at December 31, 2021:

Expiry Date	Number of Options		
	Exercise Price	Outstanding	Exercisable
February 16, 2026	\$ 0.35	3,300,000	2,475,000
July 12, 2026	\$ 0.35	2,100,000	525,000
December 15, 2024	\$ 0.35	875,000	-
December 15, 2026	\$ 0.35	400,000	-
Total Outstanding		6,675,000	3,000,000

The fair value of stock options were calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2021	December 31, 2020
Expected volatility	125%	N/A
Risk-free interest rate	0.79%	N/A
Expected life	4.74 years	N/A
Dividend yield	-	N/A
Estimated fair value per option	\$0.31	N/A

Northstar Clean Technologies Inc.

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10. RESERVES (Continued)

Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2019	8,818,073	\$ 0.35
Exercised*	(2,082,500)	\$ 0.15
Expired	(1,434,167)	\$ 0.30
Adjustment for conversion ratio**	396,183	\$ 0.06
Outstanding, December 31, 2020	5,697,589	\$ 0.30
Issued	19,502,149	\$ 0.50
Exercised	(15,000)	\$ 0.50
Outstanding, December 31, 2021	25,184,738	\$ 0.46

The Warrants issued prior to December 23, 2020 will be void and of no value unless exercised on or before 5 years from the date that the warrants are issued, provided however, that if the Company's shares are listed for trading on a Stock Exchange or Stock Market before the expiry of the 5 year term at which the Warrant may be exercised any time after the expiry of five years from the date that the Company's shares are listed for trading on such Stock Exchange or Stock Market.

* All warrants were given a one-time reduction of exercise price from their original exercise price to \$0.15 from January 1, 2020 to June 30, 2020 at which time 2,082,500 warrants were exercised. On July 1, 2020 the exercise price reverted back to their original terms.

**The warrants outstanding on acquisition (Note 4) were converted at a ratio of 1 old for 1.0747 new warrants on December 23, 2020 and the price was adjusted by the same ratio.

Outstanding warrants:

	Expiry Date	Exercise Price	December 31, 2021
Finders warrants	July 13, 2026 ⁽¹⁾	\$ 0.279	4,596,268
	July 13, 2026 ⁽¹⁾	\$ 0.279	406,249
	July 13, 2026 ⁽¹⁾	\$ 0.465	490,615
Finders warrants	July 13, 2026 ⁽¹⁾	\$ 0.465	204,457
	June 22, 2023	\$ 0.500	17,472,584
Broker warrants	June 22, 2023	\$ 0.500	2,014,565
Outstanding and exercisable			25,184,738

⁽¹⁾The warrants outstanding on acquisition (Note 4) were converted at a ratio of 1 old for 1.0747 new warrants on December 23, 2020 and the price was adjusted by the same ratio. All warrants were reissued on July 13, 2021, for a period of 5 years when the Company became publicly listed and trading, with a new expiry date of July 13, 2026. These warrants are non-transferable.

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10. RESERVES (Continued)

Warrants (Continued)

The fair value of warrants issued were calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2021	December 31, 2020
Expected volatility	125%	N/A
Risk-free interest rate	0.42%	N/A
Expected life	2 years	N/A
Dividend yield	-	N/A
Estimated fair value per warrant	\$0.19	N/A

11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the year ended December 31, 2021:

- Issued 2,150,000 shares at \$0.35 per share with a value of \$752,500 as share based payments.
- Acquired \$270,000 of equipment under construction with a loan to an officer.
- Settled \$245,958 in vendor debts with 702,736 shares at \$0.35 per share.
- Recognition of \$2,260,140 in right-of-use assets and lease liabilities.
- Issued 2,014,565 Broker Warrants as finders fees on share issuance costs valued at \$391,873.
- Property, plant, and equipment included in accounts payable and accrued liabilities - \$129,805.
- Recognized \$30,985 on contribution from low interest shareholder loan.

Significant non-cash transactions during the year ended December 31, 2020:

- Settled \$274,341 in vendor debts with shareholder loans.
- Shares issued in connection with the RTO.
- Property, plant, and equipment included in accounts payable and accrued liabilities - \$125,377.
- Recognition of \$612,140 in right-of-use assets and lease liabilities on adoption of IFRS 16.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Capital Management

The Company manages its capital to ensure that it will be able to continue as going-concern while maximizing the return to shareholders through the optimization of debt and equity balances.

The capital of the Company consists of items included in Shareholders' Equity of \$9,272,590.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue equity or return capital to shareholders. There were no changes to the Company's approach to capital management during the year ended December 31, 2021. The Company is not subject to externally imposed capital requirements.

Northstar Clean Technologies Inc.

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12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

b) Financial Risk Management Objectives

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored.

i) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

Cash is held with reputable banks in Canada. The long-term credit rating of these banks, as determined by Standard and Poor's, was A+.

ii) Liquidity Risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they become due.

Accounts payables and accrued liabilities are paid in the normal course of business generally according to their terms. In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. As at December 31, 2021, the Company had \$5,948,876 cash to settle current liabilities of \$1,293,547.

iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company is not subject to interest rate risk.

iv) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary financial instruments are denominated in United States dollars. The Company has not entered any foreign currency contracts to mitigate this risk. The Company's sensitivity analysis suggests that a 10% change in the rate of exchange between the Canadian and United States dollar would have an insignificant impact on its results of operations as it held nominal financial assets and liabilities denominated in United States dollars.

c) Fair Value Measurements Recognized in the Statement of Financial Position

The following table summarizes the carrying values of the Company's financial instruments.

	December 31, 2021	December 31, 2020
Financial assets at FVTPL (i)	\$ 5,948,876	\$ 1,977,795
Financial liabilities at amortized cost (ii)	\$ 998,558	\$ 2,259,836

(i) Cash, and investments

(ii) Accounts payable and accrued liabilities and loans payable.

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12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observability of the inputs used in the measurement.

The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Cash is measured at fair value using Level 1 inputs.

The fair values of other financial liabilities approximate their carrying value, due to their short-term nature or market rate of interest.

13. SEGMENTED INFORMATION

The Company currently operates in one business segment in Canada, being the repurposing and reprocessing of asphalt shingles and the extraction and recovery of asphalt cement, fiberglass/felt and mineral aggregates to be sold and used in asphalt pavement, shingle manufacturing, construction products, and other industrial applications.

14. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2021	2020
Loss before tax	\$ (7,207,912)	\$ (6,596,793)
Expected income tax (recovery)	(1,946,000)	(1,781,000)
Permanent differences	640,000	1,503,000
Impact on reverse takeover	-	(40,000)
Adjustment to prior year provision versus statutory tax returns and expiry of non-capital losses	352,000	313,000
Change in unrecognized deductible temporary differences	954,000	5,000
Total income tax expense (recovery)	\$ -	\$ -

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15. INCOME TAXES (Continued)

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2021	2020
Deferred tax assets (liabilities)		
Property and equipment	\$ (300,000)	\$ (351,000)
Non-capital losses	300,000	351,000
Net deferred tax liability	\$ -	\$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the statement of financial position are as follows:

	2021	Expiry Date Range	2020	Expiry Date Range
Temporary differences				
Right-of-use assets/ Lease liability	112,000	No expiry date	-	No expiry date
Share issue costs	681,000	2042 to 2045	175,000	2041 to 2044
Non-capital losses	7,549,000	2030 to 2041	3,876,000	2030 to 2040

Tax attributes are subject to review, and potential adjustment, by tax authorities.

16. SUBSEQUENT EVENTS

The Company issued 200,000 stock options to an officer at an exercise price of \$0.35 for a 5-year term, to vest as to 25% on each of 6, 12, 18 and 24 months post-issuance and 100,000 stock options to an officer at an exercise price of \$0.35, with immediate vesting.

The Company has executed an investment agreement (the "Investment Agreement") dated March 3, 2022, with Alberta Innovates, a provincial Crown corporation and Alberta's largest research and innovation corporation. Alberta Innovates reviewed Northstar's application and approved a total of \$200,000 in funding towards the estimated \$675,000 of direct engineering costs. The Company is required to use this funding to pay for a portion of the engineering costs for its planned expanded-capacity asphalt shingle reprocessing scale up facility in Calgary ("Calgary Empower Facility").