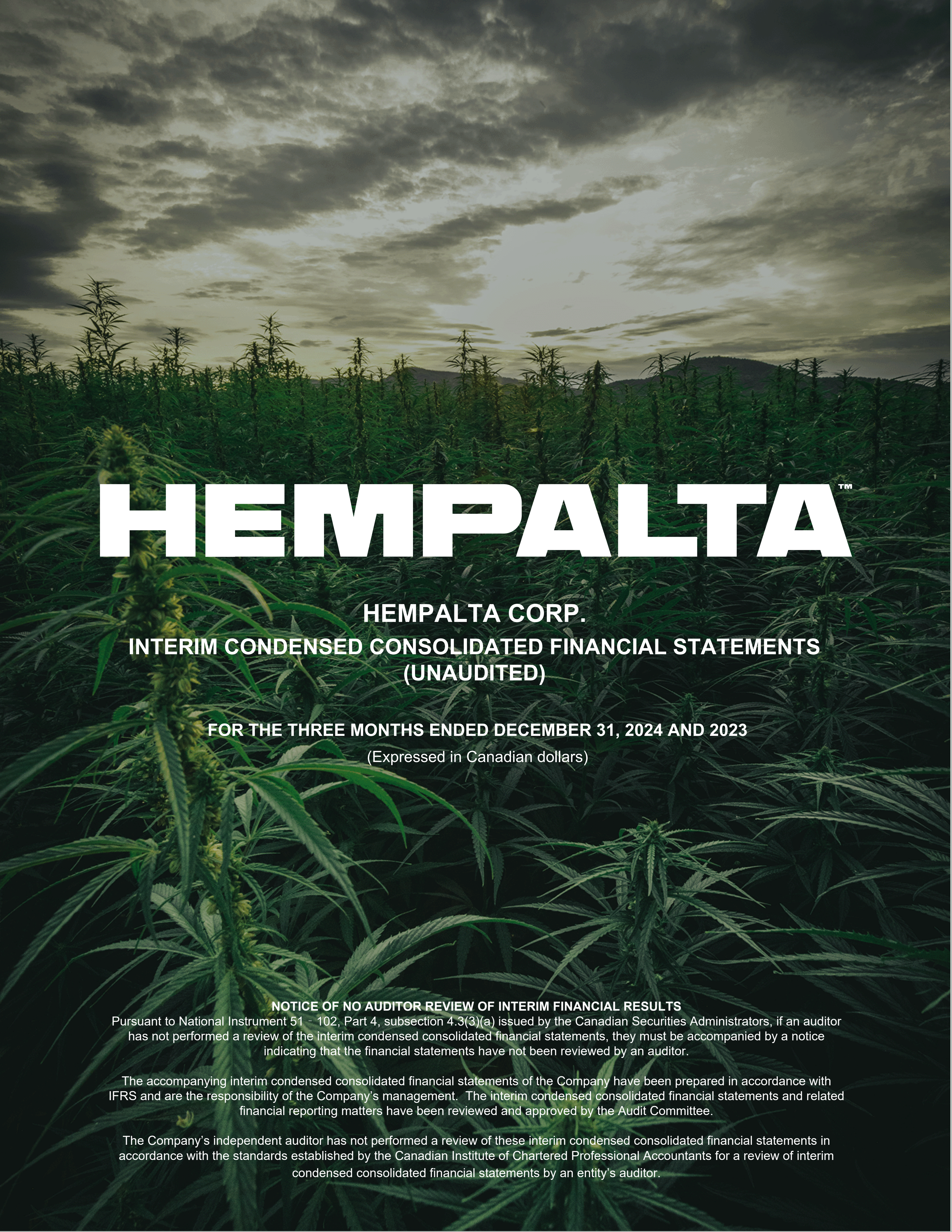

HEMPALTA™

HEMPALTA CORP.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED DECEMBER 31, 2024 AND 2023

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL RESULTS

Pursuant to National Instrument 51 ‑ 102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of the Company have been prepared in accordance with IFRS and are the responsibility of the Company's management. The interim condensed consolidated financial statements and related financial reporting matters have been reviewed and approved by the Audit Committee.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim condensed consolidated financial statements by an entity's auditor.

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HEMPALTA CORP.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

(Expressed in Canadian dollars)	Notes		**December 31, 2024**		September 30, 2024
ASSETS					
Current					
Cash and cash equivalents		**$**	**182,768**	$	726,514
Accounts receivable			**54,756**		123,144
Inventory	5		**405,045**		401,476
Prepaids			**142,331**		142,323
			784,900		1,393,457
Non-Current					
Property, plant and equipment	6		**2,326,068**		2,357,202
Right-of-use assets	7		**911,568**		949,457
Intangible assets	8		**561,815**		488,862
TOTAL ASSETS		**$**	**4,584,351**	$	5,188,978
LIABILITIES					
Current					
Accounts payable and accrued liabilities		**$**	**213,223**	$	142,910
Payable to non-controlling interest	9		**-**		190,726
Current portion of lease liabilities	10		**151,993**		150,276
Current portion of long-term debt	11		**131,958**		197,473
			497,174		681,385
Non-Current					
Contractual obligation			**3,915**		3,876
Long-term lease liabilities	10		**795,592**		834,241
Long-term debt	11		**497,587**		480,633
TOTAL LIABILITIES			**1,794,268**		2,000,135
EQUITY					
Share capital	12		**12,089,456**		12,089,456
Contributed surplus	12		**1,015,040**		980,575
Deficit			**(10,314,413)**		(9,826,607)
Equity attributable to owners of the company			**2,790,083**		3,243,424
Non-controlling interest			**-**		(54,581)
TOTAL EQUITY			**2,790,083**		3,188,843
TOTAL LIABILITIES AND EQUITY		**$**	**4,584,351**	$	5,188,978

Nature of Business (Note 1)

See accompanying notes to the interim condensed consolidated financial statements.

HEMPALTA CORP.
CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS
(Unaudited)

(Expressed in Canadian dollars)	Notes		**Three months ended December 31, 2024**		December 31, 2023
PRODUCT SALES		**$**	**70,497**	$	119,821
COST OF SALES			**84,162**		135,247
GROSS LOSS			**(13,665)**		(15,426)
EXPENSES					
Amortization	6,7,8		**101,814**		107,092
Financing costs	10,11		**18,479**		65,365
General and administrative costs	13		**497,475**		278,120
Share based compensation	12		**34,465**		50,887
			652,233		501,464
OTHER INCOME (EXPENSES)					
Other income			**3,028**		6,307
Government grant	14		**-**		13,634
Gain on debt settlement			**230,589**		-
NET LOSS AND COMPREHENSIVE LOSS		**$**	**(432,281)**	$	(496,949)
NET LOSS PER SHARE					
Basic and diluted			**($0.00)**		($0.01)
Weighted average number of common shares					
Basic and diluted			**91,396,524**		47,509,960

See accompanying notes to the interim condensed consolidated financial statements.

HEMPALTA CORP.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(Expressed in Canadian dollars)	*Notes*	Common Shares Number	Common Shares Amount	Contributed Surplus	Convertible Debenture - Equity	Accumulated Deficit	Non-controlling Interest ("NCI")	Total
Balance at September 30, 2023		47,176,627	$ 4,489,263	$ 487,261	$ 83,928	$ (3,384,130)	$ -	$ 1,676,322
Private placement	12	1,333,333	200,000	-	-	-	-	200,000
Share based compensation	12	-	-	50,887	-	-	-	50,887
Share issue costs	12	-	(51,022)	-	-	-	-	(51,022)
Net and comprehensive loss		-	-	-	-	(496,949)	-	(496,949)
Balance at December 31, 2023		48,509,960	$ 4,638,241	$ 538,148	$ 83,928	$ (3,881,079)	$ -	$ 1,379,238
Balance at September 30, 2024		**94,944,176**	**$ 12,089,456**	**$ 980,575**	**$ -**	**$ (9,826,607)**	**$ (54,591)**	**$ 3,188,833**
Acquisition of non-controlling interest	9,12	**-**	**-**	**-**	**-**	**(55,525)**	**54,591**	**(934)**
Share based compensation	12	**-**	**-**	**34,465**	**-**	**-**	**-**	**34,465**
Net and comprehensive loss		**-**	**-**	**-**	**-**	**(432,281)**	**-**	**(432,281)**
Balance at December 31, 2024		**94,944,176**	**$ 12,089,456**	**$ 1,015,040**	**$ -**	**$ (10,314,413)**	**$ -**	**$ 2,790,083**

See accompanying notes to the interim condensed consolidated financial statements.

HEMPALTA CORP.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(Expressed in Canadian dollars)	Notes	**Three months ended December 31, 2024**	Three months ended December 31, 2023
OPERATING ACTIVITIES			
Net loss		**$ (432,281)**	$ (496,949)
Items not affecting cash and cash equivalents:			
Amortization	6,7,8	**101,814**	107,092
Financing costs	10,11	**-**	46,589
Share based compensation	12,15	**34,465**	50,887
Gain on debt settlement	9	**(230,589)**	-
		(526,591)	(292,381)
Changes in non-cash working capital balances			
Accounts receivable		**68,388**	(496,546)
Inventory		**(3,569)**	(96,456)
Prepaid expenses		**(8)**	202,130
Accounts payable and accrued liabilities		**70,313**	32,365
Net change in non-cash working capital		**135,124**	88,493
Cash flows used in operating activities		**(391,467)**	(203,888)
FINANCING ACTIVITIES			
Proceeds from the issuance of shares, net of costs	12	**-**	148,978
Lease liabilities settled	10	**(36,932)**	(48,000)
Payable to non-controlling interest		**38,919**	
Repayment of long term debt	11	**(48,522)**	(46,446)
Cash flows from (used in) financing activities		**(46,535)**	54,532
INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	**(15,744)**	(261,802)
Additions to intangible assets	8	**(90,000)**	(30,000)
Cash flows used in investing activities		**(105,744)**	(291,802)
Increase in cash and cash equivalents		**(543,746)**	(441,158)
Cash and cash equivalents, beginning		**726,514**	560,681
Cash and cash equivalents, ending		**$ 182,768**	$ 119,523

See accompanying notes to the interim condensed consolidated financial statements.

(Expressed in Canadian dollars)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Hempalta Corp. (the “Company”) is a public company trading on the TSX Venture Exchange under the symbol (TSX.V: HEMP). The Company’s head office is located at 1560 Hastings Crescent SE, Calgary, Alberta, Canada, T2G 4E1. It was originally incorporated under the name Trail Blazing Ventures Ltd. (“TBV”) under the Business Corporations Act (Alberta) on August 30, 2021, and was a Capital Pool Company as defined in Policy 2.4 (the “Policy”) of the TSX Venture Exchange (the “Exchange”).

On March 19, 2024, TBV completed its qualifying transaction (the “Qualifying Transaction”) pursuant to the rules and policies of the Exchange by acquiring 100% of the issued and outstanding share capital of Hempalta Processing Inc. (“Hempalta”). Hempalta was a private company incorporated on November 12, 2021, in the province of Alberta as 2387761 Alberta Ltd. and changed its name to Hempalta Inc. on January 7, 2022. On June 24, 2024, it changed its name to Hempalta Processing Inc.

On April 30, 2024, the Company acquired the controlling interest of 50.1% of Hemp Carbon Standard Inc. ("HCS"), an Alberta based company in the business of carbon credit generation. During the period ended December 31, 2024, the Company acquired the balance of the shares in HCS to own 100% of HCS. The acquisition of the HCS strategically aligns with the Company's mission to lead the hemp industry in sustainability and innovation. HCS has a financial incentive program designed to reward industrial hemp farmers for their contributions to sustainable carbon farming.

With the addition of HCS as a wholly owned subsidiary, the Company has made the transition from hemp processing and manufacturing of hemp products to focus on the high-growth carbon credit market. The Company is now poised to scale a unique, low-cost carbon credit platform focused on industrial hemp, marking a pivotal step in the Company’s evolution toward becoming a leader in nature-based carbon removal solutions.

The Company is currently in the initial start up stages of its operations. Cash flows and future operations are dependent upon the continued availability of equity and debt financing and favourable trade credit and the Company’s ability to achieve profitable operations. Should the Company be unable to attain profitable operations, debt and equity financing, or favourable trade credit, there is a material uncertainty about the Company's ability to continue as a going concern.

Details of the working capital and deficit of the Company are as follows:

	December 31, 2024	September 30, 2024
Working capital	$ 287,726	$ 712,072
Deficit	$ (10,314,413)	$ (9,826,607)

These interim condensed consolidated financial statements (“Financial Statements”) have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations, and do not include any adjustments to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standards 34, “Interim Financial Reporting” (“IAS34”) as issued by the International Accounting Standards Board (“IASB”), and interpretations of the IFRS Interpretations Committee (“IFRIC”). These Financial Statements are prepared in accordance with the same accounting policies, critical estimates and methods described the Company’s audited financial statements.

Given that certain information and note disclosures, which are included in the audited financial statements, have been condensed or excluded in accordance with IAS 34, these Interim Financial Statements should be read in conjunction with the audited annual consolidated financial statements of the Company for the years ended September 30, 2024 and 2023 and the notes thereto (the “Annual Financial Statements”). The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements.

These financial statements were authorized for issue by the Board of Directors, on March 3, 2025.

BASIS OF MEASUREMENT
These financial statements are prepared on a historic cost basis; except for financial instruments which are measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies.

BASIS OF CONSOLIDATION
The acquisition of Hempalta has been accounted for as a reverse takeover of TBV by Hempalta. Accordingly, the reported balances and transactions for periods prior to March 19, 2024, are those of Hempalta.

The consolidated financial statements include the accounts of TBV since March 19, 2024, the accounts of HCS since April 30, 2024, and those of its wholly owned subsidiary Hempalta since the incorporation of Hempalta in 2021.

All intra-group transactions, balances, income and expenses are eliminated during consolidation. The financial statements of Hempalta are prepared for the same financial information presentation period as the Company and as per the same accounting policies.

FUNCTIONAL AND PRESENTATION CURRENCY
The functional currency of the Company is the Canadian dollar, which is also the presentation currency of the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company’s significant accounting policies under IFRS are presented in Note 3 to the Annual Financial Statements of the Company. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with IFRS have been condensed or omitted in the Interim Financial Statements.

4. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS requires the Company’s management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The significant judgments, estimates and assumptions considered by management in preparing the Financial Statements are presented in Note 4 to the Annual Financial Statements of the Company. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with IFRS have been condensed or omitted in the Interim Financial Statements.

(Expressed in Canadian dollars)

5. INVENTORY

Total carrying amount of inventory is as follows:

		December 31, 2024		September 30, 2024
Raw materials	$	87,436	$	89,642
Work in progress		161,177		135,622
Finished goods		156,432		176,212
	$	405,045	$	401,476

Cost of inventory is recognized as an expense when sold and is included in cost of goods sold. During the three months ended December 31, 2024, the Company expensed $8,946 (year ended September 30, 2024 - $605,673) of inventory to cost of goods sold.

6. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

		Furniture and fixtures		Processing Equipment		Plant and Buildings		Vehicles		Total
Cost										
September 30, 2023	$	47,242	$	2,267,269	$	51,292	$	25,000	$	2,390,803
Additions		3,012		-		584,583		-		587,595
September 30, 2024		50,254		2,267,269		635,875		25,000		2,978,398
Disposals		-		-		15,744		-		15,744
December 31, 2024	$	50,254	$	2,267,269	$	651,619	$	25,000	$	2,994,142
Accumulated amortization										
September 30, 2023	$	14,707	$	374,666	$	12,770	$	8,000	$	410,143
Amortization		7,109		195,371		5,173		3,400		211,053
September 30, 2024		21,816		570,037		17,943		11,400		621,196
Amortization		1,422		43,653		1,123		680		46,878
December 31, 2024	$	23,238	$	613,690	$	19,066	$	12,080	$	668,074
Net book value										
September 30, 2024	$	28,438	$	1,697,232	$	617,932	$	13,600	$	2,357,202
December 31, 2024	$	27,016	$	1,653,579	$	632,553	$	12,920	$	2,326,068

Included in plant and buildings are assets in the course of construction, that are not being amortized, with a net book value of $612,880 (September 30, 2024 - $597,136).

(Expressed in Canadian dollars)

7. RIGHT-OF-USE ASSETS

A reconciliation of the changes in the carrying amount of right-of-use assets is as follows:

Cost		December 31, 2024		September 30, 2024
Beginning balance	$	1,394,874	$	1,394,874
Lease extension		-		-
Ending balance	$	1,394,874	$	1,394,874
Accumulated amortization				
Beginning balance	$	445,417	$	293,863
Amortization		37,889		151,554
Ending balance	$	483,306	$	445,417
Net book value	$	911,568	$	949,457

8. INTANGIBLE ASSETS

A reconciliation of the changes in the carrying amount of intangible assets is as follows:

		Intellectual Property		Licences		Trademarks		Goodwill		Total
September 30, 2023	$	309,375	$	29,875	$	57,801	$	-	$	397,051
Additions		-		70,000		-		2,134,062		2,204,062
Amortization		(37,500)		(5,000)		(25,689)		-		(68,189)
Impairment		-		-		-		(2,044,062)		(2,044,062)
September 30, 2024	$	271,875	$	94,875	$	32,112	$	90,000	$	488,862
Additions		-		-		-		90,000		90,000
Amortization		(9,375)		(1,250)		(6,422)		-		(17,047)
December 31, 2024	$	262,500	$	93,625	$	25,690	$	180,000	$	561,815

Goodwill impairment of $2,044,062 was recognized in the year ended September 30, 2024 triggered by annual goodwill impairment testing reflecting factors including lower than expected revenues achieved by HCS to date.

9. BUSINESS COMBINATION AND NON-CONTROLLING INTEREST (“NCI”)

On April 30, 2024, the Company acquired the controlling interest of 50.1% of Hemp Carbon Standard Inc. ("HCS"), an Alberta based company in the business of carbon credit generation. The transaction was completed by way of a share purchase agreement (the "SPA") among HCS, Climafi Limited ("Climafi"), and the Company. Pursuant to the terms of the SPA, Climafi received an aggregate of 12,500,000 common shares of the Company, issued at a deemed price of $0.16 per Share.

As at September 30, 2024, the Company owned 50.1% of HCS, and Climafi owned a 49.9% non-controlling interest (“NCI”) and held 49.9% of the voting rights. As at September 30, 2024, the Company has a long-term payable to Climafi of $190,726, with no interest and no terms of repayment.

During the period ended December 31, 2024, the Company acquired the balance of the shares in HCS for $90,000. As part of the agreement, the amounts owing from HCS to Climafi were forgiven.

(Expressed in Canadian dollars)

10. LEASE LIABILITIES

The Company recognizes lease liabilities for right-of-use assets for the office and processing facility using an estimated discount rate of 4.554%. As part of the acquisition that closed on December 30, 2021, the Company assumed the facility lease agreement. The Lease agreement expires in February 2026, with an option to renew for a five-year term. Effective June 1, 2023, the Company signed an extension to the lease for a further 5 years.

The changes in lease liabilities are as follows:

	December 31, 2024	September 30, 2024
Balance, beginning	$ 984,517	$ 1,128,114
Acquisition	-	-
Interest expense	11,068	48,403
Lease payments	(48,000)	(192,000)
End of period	$ 947,585	$ 984,517
Current portion	151,993	150,276
Long-term portion	795,592	834,241
Lease Liabilities	$ 947,585	$ 984,517

The total undiscounted amount of the estimated future cash flows to settle the lease liabilities over the remaining lease term is $1,087,856.

The following is a reconciliation from the undiscounted lease payments to the lease liabilities for fiscal years ended September 30:

2025	$ 144,000
2026	175,984
2027	164,544
2028	172,543
2029 and later	430,785
Total contractual cash flows	1,087,856
Less: interest	(140,271)
Lease liabilities	$ 947,585

11. LONG-TERM DEBT

CREDIT FACILITY WITH FARM CREDIT CANADA

The Company has credit facilities in the amount of $1.0 million (the “FCC Facility”) from Farm Credit Canada. The FCC Facility contemplates a five-year term, maturing December 1, 2026, including monthly interest-only payments until January 1, 2023. Subsequent to January 1, 2023, blended monthly payments of $18,669 are required. Amounts drawn on the main facility bear interest at a rate of 4.554% per annum. The credit facility is secured by the machinery and equipment of the Company with a net book value of $1,697,232 as well as a $500,000 personal guarantee of the Chief Executive Officer of the Company. The proceeds of the FCC Facility were used to finance the acquisition of machinery and equipment.

During the quarter ended December 31, 2024, Farm Credit Canada adjusted the required payments for the next six months to be interest only for January 2024 to June 2025.

(Expressed in Canadian dollars)

The changes in the credit facility are as follows:

	December 31, 2024	September 30, 2024
Beginning balance	$ 678,106	$ 867,464
Interest	7,444	34,669
Payments made	(56,005)	(224,027)
Ending balance	$ 629,545	$ 678,106
Current portion of long-term debt	131,958	197,473
Long-term portion of long-term debt	497,587	480,633
	$ 629,545	$ 678,106

Principal payments for fiscal years ended September 30 are as follows:

2025	$ 51,423
2026	201,963
2027	376,159
Total payments	$ 629,545

12. SHARE CAPITAL

AUTHORIZED

The Company is authorized to issue an unlimited number of voting common shares, without par value.

The Company is authorized to issue an unlimited number of Preferred Shares (issuable in series).

ISSUED AND OUTSTANDING COMMON SHARES

A reconciliation of the number and dollar amount of outstanding shares is shown below.

Common Shares	Number	Amount
Balance at September 30, 2023	47,176,627	$ 4,489,263
Private placement	1,333,333	200,000
Subscription receipts	6,649,821	1,130,470
Convertible debenture conversion (Note 13)	3,754,982	598,731
Shares of the Company pursuant to closing of the Qualifying Transaction (Note 5)	23,529,413	4,000,002
Acquisition of Hemp Carbon Standard Inc. (Note 10)	12,500,000	2,000,000
Share issue costs	-	(329,010)
Balance at December 31, 2024 and September 30, 2024	94,944,176	$ 12,089,456

On December 8, 2023, the Company closed a private placement financing by issuing 1,333,333 common shares at a price of $0.15 per share for gross proceeds of $200,000.

On January 19, 2024, Hempalta completed a brokered private placement (the "Subscription Receipt Financing") led by Canaccord Genuity Corp. (the "Agent"), pursuant to which Hempalta issued and sold 6,473,351 subscription receipts of Hempalta ("Subscription Receipts"). Additionally, in connection with the Subscription Receipt Financing, Hempalta (i) paid to the Agent a cash corporate finance fee in the amount of $25,000, (ii) issued to the Agent a total of 176,470 Subscription Receipts in satisfaction of a Subscription Receipts corporate finance fee with a value of $30,000, (iii) issued to the Agent 154,859 Broker Warrants exercisable into Hempalta Shares at an exercise price of $0.17 per share, (iv) paid to the Agent, in connection with the Escrow Release (as defined herein), $20,376 in cash commission, and (v) paid the Agent's expenses in connection with the Subscription Receipt Financing. Prior to the completion of the Transaction, each of the 6,649,821 Subscription Receipts was automatically converted into one Hempalta Share (the "Escrow Release").

(Expressed in Canadian dollars)

Each such Hempalta Share was exchanged pursuant to the Transaction for one TBV Share. The escrowed proceeds derived from the Subscription Receipt Financing, less the fees paid to the Agents in connection with the Agents' services rendered in connection with the Subscription Receipt Financing and other applicable deductions, were released in accordance with the provisions of the subscription receipt agreement that governed the Subscription Receipts.

During the year ended September 30, 2024, the Company completed the acquisition for the controlling interest of 50.1% of HCS for 12,500,000 common shares. See Note 9.

SHARE PURCHASE WARRANTS

On January 19, 2024 Hempalta granted 154,859 Broker Warrants to purchase up to 154,859 common shares, at an exercise price of $0.17 per share, exercisable on or before January 19, 2026.

A continuity of the share purchase warrants is summarized as follows:

	December 31, 2024		September 30, 2024	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Warrants outstanding, beginning balance	2,784,823	$0.14	2,629,964	$0.13
Issued January 19, 2024	-	-	154,859	0.17
Warrants outstanding, ending balance	2,784,823	$0.14	2,784,823	$0.14

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

Expiry date	Exercise price	Remaining life (years)	Number of warrants outstanding	Number of warrants exercisable
February 7, 2025	$0.10	0.10	468,000	468,000
July 31, 2025	$0.20	0.58	625,000	625,000
August 8, 2025	$0.15	0.60	80,000	80,000
September 30, 2025	$0.16	0.75	100,000	100,000
January 19, 2026	$0.17	1.05	154,859	154,859
January 25, 2026	$0.15	1.07	150,000	150,000
June 27, 2027	$0.10	2.49	1,000,000	1,000,000
November 9, 2027	$0.15	2.86	206,964	206,964
	$0.14	1.41	2,784,823	2,784,823

STOCK OPTIONS

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, and consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares.

On October 3, 2023, Hempalta granted 325,000 stock options to an employee to purchase up to 325,000 common shares, at an exercise price of $0.16 per share, exercisable on or before October 3, 2028. The options will vest over a 36-month period, in 12 month increments with ¼ vesting upon issuance.

On June 24, 2024, the Company granted 1,825,000 stock options to employees to purchase up to 1,825,000 common shares, at an exercise price of $0.17 per share, exercisable on or before June 20, 2029. The options will vest over a 36-month period, in 12 month increments with ¼ vesting upon issuance.

(Expressed in Canadian dollars)

A summary of the Company's stock option transactions is presented below:

	December 31, 2024		September 30, 2024	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning balance	7,927,941	$0.14	4,375,000	$0.13
Granted	-	-	2,150,000	$0.17
Options from Qualifying Transaction	-	-	2,352,941	$0.13
Cancelled/Expired	-	-	(950,000)	$0.13
Options outstanding, ending balance	7,927,941	$0.14	7,927,941	$0.14
Number of options exercisable	5,134,191	$0.13	5,052,941	$0.13

The share options outstanding as at December 31, 2024, are as follows:

Grant date	Number of options outstanding	Exercise price	Expiry date	Number of options exercisable	Remaining life (years)
October 1, 2021	1,176,471	$0.09	October 1, 2031	1,176,471	6.75
January 21, 2022	1,176,470	$0.17	January 21, 2032	1,176,470	7.06
February 7, 2022	1,550,000	$0.10	February 7, 2027	1,162,500	2.10
March 9, 2022	250,000	$0.10	March 9, 2027	187,500	2.19
January 25, 2023	1,525,000	$0.15	January 25, 2028	762,500	3.07
August 2, 2023	100,000	$0.16	August 2, 2028	50,000	3.59
October 3, 2023	325,000	$0.16	October 3, 2028	162,500	3.76
June 24, 2024	1,825,000	$0.17	June 24, 2029	456,250	4.48
	7,927,941	$0.14		5,134,191	4.35

CONTRIBUTED SURPLUS

The Contributed Surplus account records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

The Company recognized $34,465 in share-based compensation on options and warrants during the period ended December 31, 2024 (2023 - $50,887).

13. GENERAL AND ADMINISTRATIVE COSTS

The following table provides a breakdown of general and administrative expense:

Three months ended		December 31, 2024		December 31, 2023
Accounting and legal	$	149,704	$	50,856
Advertising and marketing		54,540		21,794
Bank service charges		1,569		441
Office and sundry		39,870		26,140
Salaries and benefits		283,506		306,377
Travel and business development		3,996		4,854
Gross general and administrative costs	$	533,185	$	410,462
Costs transferred to cost of goods sold and inventory		(35,710)		(132,342)
Net general and administrative costs	$	497,475	$	278,120

Included in salaries and wages is the management fee charged by the non-controlling interest of HCS in the amount of $40,000 for the three months ended December 31, 2024 (2023 - $nil).

(Expressed in Canadian dollars)

14. GOVERNMENT GRANT

During the three months ended December 31, 2024, the Company received $nil (2023 - $13,634), in government grants from the Alberta Government as per Alberta Jobs Now Program. This grant program covers 25% of eligible new hires salaries for the first 52 weeks of their employment.

15. RELATED PARTY TRANSACTIONS

KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

Expenses related to key management personnel are comprised of:

Three months ended		December 31, 2024		December 31, 2023
Salaries and benefits	$	63,000	$	30,000
Share-based compensation		34,106		15,778
	$	97,106	$	45,778

Included in accounts payable and accrued liabilities is $nil (September 31, 2024 - $nil) due to the Chief Executive Officer and Director of the Company.

16. SEGMENTED INFORMATION

An operating segment is defined as a component of the Company that:

- Engages in business activities from which it may earn revenues and incur expenses;
- Whose operating results are reviewed regularly by the Company’s chief operating decision maker; and
- For which separate financial information is available.

For the three months ended December 31, 2024, the Company’s one significant operating segment is Hempalta. “Others” consists primarily of the Company’s corporate assets and liabilities and HCS which is not a significant operating segment. For the three months ended December 31, 2023, Hempalta was the only segment.

Revenue reported below represents revenue generated from external customers. The accounting policies of the reportable segments are the same as the group’s accounting policies.

(Expressed in Canadian dollars)

Three months ended December 31, 2024	Hempalta	Others	Total
PRODUCT SALES	$ 70,364	$ 133	$ 70,497
COST OF SALES	84,162	-	84,162
GROSS PROFIT (LOSS)	(13,798)	133	(13,665)
EXPENSES			
Amortization	101,814	-	101,814
Financing costs	18,312	167	18,479
General and administrative costs	236,686	260,789	497,475
Share based compensation	-	34,465	34,465
	356,812	295,421	652,233
OTHER INCOME (EXPENSES)			
Other income	-	3,028	3,028
Gain on debt settlement	-	230,589	230,589
Net loss and comprehensive loss	$ (370,610)	$ (61,671)	$ (432,281)

December 31, 2024	Hempalta	Others	Total
Property, plant and equipment	$ 2,326,068	$ -	$ 2,326,068
Right-of -use assets	$ 911,568	$ -	$ 911,568
Intangible assets	$ 381,815	$ 180,000	$ 561,815
Total assets	$ 4,242,894	$ 341,458	$ 4,584,352
Total liabilities	$ 1,604,185	$ 190,085	$ 1,794,269

September 30, 2024	Hempalta	Others	Total
Property, plant and equipment	$ 2,357,202	$ -	$ 2,357,202
Right-of-use assets	$ 949,457	$ -	$ 949,457
Intangible assets	$ 398,862	$ 90,000	$ 488,862
Total assets	$ 4,444,223	$ 744,755	$ 5,188,978
Total liabilities	$ 1,787,959	$ 212,176	$ 2,000,135

17. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholders' equity, long-term debt and leases. The Company manages its capital structure and makes adjustments based on the funds available to support the development of its operations. The board of directors has not established quantitative return on capital criteria for management and relies on the expertise of management to sustain future development of the business.

The Company is dependent upon external financing to fund its activities. To continue to carry out the Company's planned development and funding of ongoing administrative expenses the Company will utilize its existing working capital and will raise additional capital as appropriate.

The management and board of directors of the Company review its capital management approach on an ongoing basis and believe it reflects a reasonable approach given the relative size of the Company's assets.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgement.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company uses quoted market prices when available to estimate fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Management's judgement as to the significance of a particular input may affect placement within the fair value hierarchy levels.

The fair value hierarchy is as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;
- Level 3 – Inputs that are not based on observable market data.

The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Cash, accounts receivable, and accounts payable and accrued liabilities	Measured initially at fair value, then at amortized cost after initial recognition. Fair value approximates carrying value due to their short-term nature. (Level 1)
Long-term debt	Measured initially at fair value, then at amortized cost after initial recognition using the effective interest method. Fair value is determined using discounted cash flows at the current market interest rate. (Level 2)

Market risk

The Company's activities expose it to a variety of market risks, including foreign currency risk, interest rate risk, credit risk, and liquidity risk.

Management has overall responsibility for the establishment of risk management strategies and objectives. The Company's risk management policies are established to identify the risks faced, to set appropriate risk limits, and to monitor adherence to risk limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities.

Foreign Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has limited foreign currency transactions and management is of the opinion that the foreign currency risk is low and is not material.

Interest rate risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to significant interest rate risk, as the Company's long-term debt has a fixed interest rate.

Credit risk

The Company is exposed to credit risk if a customer or counterparty fails to meet its contractual obligations. The maximum credit risk that the Company is exposed to is the carrying value of cash and accounts receivable.

At December 31, 2024, two customers accounted for 80% of accounts receivable (September 31, 2024 - 83%).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk is managed through cash, debt and equity management strategies, when available.

(Expressed in Canadian dollars)

The table below summarizes the Company's contractual obligations as at December 31, 2024:

December 31, 2024	Recognized in Financial Statements	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Accounts payable and accrued liabilities (1)	Yes-Liability	213,223	213,223	-	-	-
Long-term debt	Yes-Liability	629,545	131,958	497,587	-	-
Minimum lease payments	Yes-Liability	1,087,856	192,000	333,664	354,227	207,965
Interest payable on long term debt (2)	No	53,778	21,241	32,537	-	-
September 30, 2024						
Accounts payable and accrued liabilities (1)	Yes-Liability	142,910	142,910	-	-	-
Long-term debt	Yes-Liability	678,106	197,473	480,633	-	-
Minimum lease payments	Yes-Liability	1,135,856	192,000	340,528	350,799	252,529
Interest payable on long term debt (2)	No	46,891	26,553	20,338	-	-

1) Excludes interest payable on long-term debt

2) Excludes interest payable on lease liabilities

19. SUBSEQUENT EVENTS

Subsequent to the quarter ended December 31, 2024, the Company announced a proposed non-brokered private placement of up to 30,000,000 units of the Company ("Units") at a price of $0.05 per Unit for aggregate gross proceeds of up to $1,500,000 (the "Private Placement"). Each Unit will consist of one common share ("Common Share") and one-half of one common share purchase warrant, with each full warrant ("Warrant") being exercisable to purchase one Common Share at a price of $0.10 for two years from the date of issuance.

In addition, subsequent to the quarter end December 31, 2024, major shareholders Darren Bondar and Prairie Merchant Corporation (the "Lenders") have extended a one-year term loan in the aggregate amount of $325,000 at 12% interest (the "Loan"). In connection with the Loan, the Company will issue a loan bonus to the Lenders of an aggregate of 5,416,667 common share purchase warrants (the "Warrants"), exercisable for a period of one year with an exercise price equal to $0.06 (the "Bonus"). The Warrants are subject to a hold period under Canadian securities laws, expiring four months and one day from the date of issuance. The Loan and the Bonus are subject to the approval of the TSX Venture Exchange. This Loan provides additional working capital to support HEMPALTA's growth in the carbon credit market.

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