

ESG Capital 1 Inc.
Financial Statements

For the period ended December 31, 2021
(Expressed in Canadian Dollars)

To the Shareholders of ESG Capital 1 Inc.:

Opinion

We have audited the financial statements of ESG Capital 1 Inc. (the "Company"), which comprise the statement of financial position as at December 31, 2021, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the period from March 8, 2021 (date of incorporation) to December 31, 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the period from March 8, 2021 (date of incorporation) to December 31, 2021 in accordance with International Financial Reporting Standards.

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 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 financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 Brad Frampton.

Calgary, Alberta

February 22, 2022

MNP LLP

Chartered Professional Accountants

MNP

ESG Capital 1 Inc.
Statement of Financial Position
(Expressed in Canadian Dollars)
As at:

	Note		December 31, 2021
Assets			
Current			
Cash	5	\$	326,993
Deposits			1,578
Total assets		\$	328,571
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accruals		\$	9,532
Total liabilities			9,532
Shareholders' Equity			
Share capital	6	\$	384,450
Contributed surplus			71,438
Deficit			(136,849)
Total shareholders' equity			319,039
Total liabilities and shareholders' equity		\$	328,571

Approved on behalf of the Board of Directors

Signed "Robert Pollock"
Director

Signed "David Guebert"
Director

ESG Capital 1 Inc.
Statement of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Note	From March 8, 2021 (date of incorporation) to December 31, 2021
Expenses		
Professional fees	\$	44,593
Regulatory and shareholder communications		32,928
Share based compensation	6	59,328
		136,849
Income taxes (Note 9)		-
Loss and comprehensive loss	\$	136,849
Loss per share		
Basic and Diluted	\$	(0.04)
Weighted average number of shares outstanding	6	3,014,548

ESG Capital 1 Inc.
Statement of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

For the period from March 8, 2021 (date of incorporation) to December 31, 2021

	Share Capital (#)	Share Capital (\$)	Contributed Surplus (\$)	Deficit (\$)	Shareholders' Equity (\$)
At incorporation date March 8, 2021 (Note 6)		-	-	-	-
Issuance of common shares seed financing	2,650,000	265,000	-	-	265,000
Issuance of common shares in IPO	1,000,000	200,000	-	-	200,000
Share issue costs	-	(80,550)	12,110	-	(68,440)
Stock based compensation	-	-	59,328	-	59,328
Loss and comprehensive loss	-	-	-	(136,849)	(136,849)
Balance at December 31, 2021	3,650,000	384,450	71,438	(136,849)	319,039

ESG Capital 1 Inc.
Statement of Cash Flows

(Expressed in Canadian Dollars)

For the period from March 8, 2021 (date of incorporation) to December 31, 2021

	Note		From March 8, 2021 (date of incorporation) to December 31, 2021
Cash flows used in operating activities:			
Loss and comprehensive loss		\$	(136,849)
Stock based compensation	6		59,328
Change in non-cash working capital:			
Accounts payable and accruals			9,532
Deposits			(1,578)
Cash flows used in operating activities			(69,567)
Cash flows from financing activities:			
Proceeds from share issuance (net of share issue costs)	6	\$	396,560
Cash flows provided by financing activities			396,560
Increase in cash			326,993
Cash beginning of period			-
Cash end of period		\$	326,993

ESG Capital 1 Inc.

Notes to Financial Statements

(Expressed in Canadian Dollars)

For the period from March 8, 2021 (date of incorporation) to December 31, 2021

1. INCORPORATION AND NATURE OF OPERATIONS

ESG Capital 1 Inc. (the "Company") was incorporated on March 8, 2021 by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Ontario). The Company is classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). The principal business of the Company is to identify and evaluate assets or businesses with a view to potentially acquire them or an interest therein by completing a purchase transaction, by exercising of an option or by any concomitant transaction. The purpose of such an acquisition is to satisfy the related conditions of a qualifying transaction under the Exchange rules.

The head office and registered office of the Company is located at Suite 902, 18 King Street East, Toronto, ON, M5C 1C4.

Where an acquisition or participation is warranted, additional funding may be required. The ability of the Company to fund its potential future operations and commitments is dependent upon the ability of the Company to obtain additional financing.

Pursuant to a final prospectus dated August 12, 2021, the Company completed an initial public offering ("IPO") of the Company's common shares. The IPO closed on September 14, 2021 with 1,000,000 common shares being issued at price of \$0.20 per common share. The Company's shares commenced trading on September 15, 2021 under the symbol ESGO.P.

The novel coronavirus ("COVID-19") outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in significant economic uncertainty and governments worldwide are enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global financial markets have experienced significant volatility and weakness as a consequence of this economic uncertainty. The duration and impact of the COVID-19 outbreak is unknown as this time, as is the effectiveness of interventions by governments and central banks. The full extent of the impact on the Company's future financial results is uncertain given the length and severity of these developments cannot be reliably estimated.

2. BASIS OF PRESENTATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in effect for the fiscal period beginning March 8, 2021.

These financial statements were authorized for issue in accordance with a resolution of the directors on February 22, 2022.

Basis of measurement

These financial statements are stated in Canadian dollars which is the Company's functional currency and were prepared on a going concern basis, under the historical cost convention except for certain financial instruments that have been measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash consists of the proceeds generated from share issuances, less costs incurred to date, which is included in a lawyer's trust account.

Deferred financing costs

Financing costs related to proposed financings are recorded as deferred financing costs. These costs are deferred until the financing is completed at which time the costs are charged against the proceeds received. If the financing does not close, the costs are charged to operations.

ESG Capital 1 Inc.
Notes to Financial Statements
(Expressed in Canadian Dollars)

For the period from March 8, 2021 (date of incorporation) to December 31, 2021

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

The Company applies a fair value-based method of accounting to all share-based payments. Employee and director stock options are measured at the fair value of each tranche on the grant date and recognized over its respective vesting period. Non-employee stock options are measured based on the service provided to the reporting date and at their then-current fair values. The cost of stock options is presented as share-based compensation expense when applicable with a corresponding credit to contributed surplus. On the exercise of stock options, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payments.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings or loss per share is calculated by adjusting the number of common shares for the effects of dilutive options and other dilutive potential units. Diluted loss per share does not adjust the loss attributable to common shareholders on the weighted average number of common shares outstanding when the effect is antidilutive.

Shares held in escrow are included in the calculation of the weighted average number of common shares.

Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statement of comprehensive loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Financial Instruments

Classification and measurement of financial instruments

The Company measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which in the case of financial assets, is determined by the context of the Company's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into two categories: (1) measured at amortized cost and (2) fair value through profit and loss ("FVTPL"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income ("OCI"). The Company does not employ hedge accounting for its risk management contracts currently in place.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Amortized cost

The Company classifies its cash and accounts payable and accruals as measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.

Impairment of financial assets

The measurement of impairment of financial assets is based on expected credit losses. Accounts receivable that are considered collectible within one year or less are not considered to have a significant financing component and a lifetime expected credit loss ("ECL") is measured at the date of initial recognition of the receivable.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Company will consider historical industry default rates as well as credit ratings of major customers. The Company does not currently have any financial assets subject to this approach.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

Estimates

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Stock-based payments

Equity-settled stock-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Determining the fair value of such share-based awards requires estimate as to the appropriate valuation model and the inputs for the model require assumptions including the rate of forfeiture of options granted, the expected life of the option, the Company's share price and its expected volatility, the risk-free interest rate and expected dividends.

Fair value of financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

ESG Capital 1 Inc.

Notes to Financial Statements

(Expressed in Canadian Dollars)

For the period from March 8, 2021 (date of incorporation) to December 31, 2021

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Judgements

The key areas of judgement that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Taxes

The Company recognizes deferred tax assets to the extent that it is probable that future taxable profits will be available to utilize the Company's deductible temporary differences which are based on management's judgement on the degree of future taxable profits. To the extent that future taxable profits differ significantly from the estimates impacts the amount of the deferred tax assets management judgements is probable.

Financial instruments

The Company is required to classify its various financial instruments into certain categories for the financial instruments' initial and subsequent measurement. This classification is based on management's judgement as to the purpose of the financial instrument and to which category is most applicable.

5. CASH

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to \$3,000 per month may be used to cover prescribed costs of issuing common shares or administrative and general expenses of the Company. These restrictions may apply until completion of a Qualifying Transaction by the Company as defined under the policies of the Exchange. The cash is currently held in a trust account by the Company's counsel.

6. SHARE CAPITAL

Authorized

Unlimited number of common shares.

Issued

Common Shares

	Number of Shares	\$
Issued at incorporation (i)	-	-
Issued at \$0.10 per share (ii)	2,650,000	265,000
Issued through initial public offering (iii)	1,000,000	200,000
Share issue cost	-	(80,550)
As at December 31, 2021	3,650,000	384,450

- (i) One common share was issued on the date of incorporation at a price of \$0.05 which was subsequently cancelled prior to the private placement.
- (ii) Common shares issued are held in escrow until completion of a Qualifying Transaction. 25% of these common shares will be released on the issuance of the Final Exchange Bulletin and an additional 25% will be released on the dates 6 months, 12 months and 18 months following the initial release. These common shares, which are considered contingently issuable until the Company completes a Qualifying Transaction, are not considered to be outstanding for the purpose of the loss per share calculation.
- (iii) On September 14, 2021, the Company completed its initial public offering (the "Offering") of 1,000,000 shares at a price of \$0.20 per share. As consideration for services rendered in connection with the Offering, the Company paid Haywood Securities Inc. (the "Agent") \$15,000 and also granted options to acquire 100,000 common shares for a period of 24 months at an exercise price of \$0.20. These options were valued at the date of issue using the Black Scholes option pricing model with the following assumptions: dividend yield 0%, risk-free rate of 0.40%, expected volatility of 120% and an expected life of two years. The value attributed to these options was \$12,110 and has been included in share issue cost.

ESG Capital 1 Inc.
Notes to Financial Statements
(Expressed in Canadian Dollars)

For the period from March 8, 2021 (date of incorporation) to December 31, 2021

6. SHARE CAPITAL *(continued)*

Stock options

The Company has adopted an incentive stock option plan (the "Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers and technical consultants to the Company and Eligible Charitable Organizations, non-transferable options to purchase Common Shares, provided that the number of Common Shares reserved for issuance will not exceed 10% of the issued and outstanding Common Shares as at the date of grant of any such option, and that the exercise period does not exceed 10 years from the date of grant.

The number of Common Shares issuable to any individual director or officer will not exceed 5% of the issued and outstanding Common Shares of the Company as at the date of grant of such option. The number of Common Shares issuable at any given time to all technical consultants in aggregate will not exceed 2% of the issued and outstanding Common Shares of the Company as at the date of grant of such option.

Upon completion of the IPO, the Company granted 360,000 stock options to its directors and officers at an exercise price of \$0.20 per share for a period of five years from the date of the grant. These options were valued at the date of issue using the Black Scholes option pricing model with the following assumptions: dividend yield 0%, risk-free rate of 0.82%, expected volatility of 120% and an expected life of five years. The value attributed to these options was \$59,328 and is recognized as stock-based compensation.

The remaining contractual life of the agent and directors' options is 1.7 and 4.7 years, respectively.

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company, as part of its operations, carries financial instruments consisting of cash and accounts payable and accruals. It is management's opinion that the Company is not exposed to significant credit, interest, or currency risks arising from these financial instruments except as otherwise disclosed.

Fair value

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The carrying amount of cash and account payable and accruals approximates its fair value due to the short-term maturities of these items.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk as its cash balance is held in a lawyer's trust account with a reputable Canadian law firm.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. As at December 31, 2021, the Company has cash of \$326,993 to satisfy obligations of \$9,532, as such, is not exposed to significant liquidity risk.

ESG Capital 1 Inc.
Notes to Financial Statements

(Expressed in Canadian Dollars)

For the period from March 8, 2021 (date of incorporation) to December 31, 2021

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk of loss that results from changes in market prices, market risk is comprised of foreign currency risk, interest rate risk and other price risks.

- i. Currency risk - The Company does not have assets or liabilities in a foreign currency and therefore is not exposed to foreign currency risk.
- ii. Interest rate risk - The Company's cash is held in an account with a Canadian law firm and is non-interest bearing.
- iii. Commodity risk - The Company is not exposed to commodity price risk.

8. CAPITAL MANAGEMENT

The Company's capital consists of share capital. The Company's objective for managing capital is to maintain sufficient capital to identify, evaluate and complete an acquisition or other transaction as disclosed in Note 1. The Company sets the amount of capital in relation to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets.

The Company's objectives when managing capital are:

- i. to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and,
- ii. to maintain investor, creditor and market confidence in order to sustain the future development of the business.

The Company is not subject to any externally or internally imposed capital requirements at period-end apart from the requirements of the Exchange.

9. INCOME TAXES

The Company's combined federal and provincial tax rate applicable for the period from March 8, 2021 (date of incorporation) to December 31, 2021 was 26.5%. A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	For the period from March 8, 2021 (date of incorporation) to December 31, 2021
	\$
Loss and comprehensive loss	(136,849)
Expected income tax recovery	(36,949)
Stock-based compensation	15,722
Impact of share issue costs	(21,346)
Change in unrecognized deductible temporary differences	42,573
Total income tax recovery	-

The significant components of the Company's unrecorded deferred tax assets as at December 31, 2021 are as follows:

	\$
Non-capital losses available for future periods	93,600
Share issuance costs	64,400
Net deferred tax assets	158,000

ESG Capital 1 Inc.
Notes to Financial Statements

(Expressed in Canadian Dollars)

For the period from March 8, 2021 (date of incorporation) to December 31, 2021

10. RELATED PARTY TRANSACTION

Key management personnel consists of officers and directors of the Company. Apart from the options issued to directors no compensation was paid to management during the period.

Transaction with related parties are in the normal course of business and initially recorded at fair value.