CVW CleanTech Inc.

(Previously Titanium Corporation Inc.)

Financial Statements

Years Ended December 31, 2022 and December 31, 2021

Independent auditor's report

To the Shareholders of CVW CleanTech Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CVW CleanTech Inc. (the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's financial statements comprise:

- the statements of financial position as at December 31, 2022 and 2021;
- the statements of loss and comprehensive loss for the years then ended;
- the statements of changes in shareholders' equity (deficit) for the years then ended;
- the statements of cash flow for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

Key audit matter	How our audit addressed the key audit matter

Initial recognition and vesting of stock-based compensation
 	
Refer to note 3 – Significant accounting policies and note 8 – Equity-based compensation to the financial statements.
 	
As at December 31, 2022, the Company recognized $1.44 million and $0.65 million of stock-based compensation expense related to options that were granted in January 2022 and September 2022, respectively. The compensation cost for options with market and non-market performance criteria is based upon estimated fair value of those instruments at the time of grant using Monte Carlo simulations.
 	
The significant assumption used by management in the Monte Carlo simulations was the expected volatility rate.
 	
The options require either market or non-market performance criteria to be met in order to vest. The non-market performance criteria of the September options require the Company to move through a series of successive milestones that culminate in the construction and commissioning of an oil sands facility. Where an option grant includes non-market performance criteria as a vesting condition, the number of options expected to vest is considered at each reporting date. Significant judgment is used to determine the likelihood the specific performance criteria will be achieved.
 	
We considered this a key audit matter due to (i) the judgment made by management in determining both the initial fair value of the options granted during the year and the number of options to vest related to the September option grants based on certain non-market performance criteria; (ii) a high degree of auditor judgment and subjectivity in performing procedures; and (iii) the
	Our approach to addressing the matter included the following procedures, among others:
	
	• With the assistance of professionals with specialized skill and knowledge in the field of valuation, developed an independent point estimate of the initial fair value of the options granted based on data and assumptions used by management and:
	  – Tested the underlying data used in developing the independent point estimate.
	
	• Compared the independent point estimate to management's estimate to evaluate the reasonableness of management's estimate.
	
	• Tested how management determined the number of options to vest related to the September option grants when certain non-market performance criteria will be achieved, which included the following:
	  – Evaluated the reasonableness of the number of options to vest, which is based on the determination of the achievement of non-market performance criteria related to the Company completing a series of successive milestones that culminate in the construction and commissioning of an oil sands facility by considering (i) the information obtained from discussions with executives and corroborating that information to supporting documents; (ii) the Board of Directors approved budgets; and (iii) the Company's ability to source government funding by considering historic funding achieved.

Key audit matter	How our audit addressed the key audit matter
audit effort which involved the use of professionals with specialized skill and knowledge in the field of valuation.	

Other information

Management is responsible for the other information. The other information comprises the 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 identified above 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.

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 financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Kory Wickenhauser.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
April 20, 2023

CVW CleanTech Inc.

(Previously Titanium Corporation Inc.)

Statements of Financial Position

As at December 31, 2022 and 2021

Expressed in Canadian dollars

	December 31, 2022 $	December 31, 2021 $
Assets		
Current assets		
Cash and cash equivalents	6,958,336	407,782
Prepaid expenses and other assets	30,348	26,045
Accounts receivable (Note 4)	73,347	183,007
	7,062,031	616,834
Long term assets		
Equipment (Note 5)	6,635	-
Total assets	7,068,666	616,834
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	326,856	346,943
Deferred compensation (Note 6)	-	1,151,576
Total liabilities	326,856	1,498,519
Shareholders' Equity		
Share capital (Note 7)	83,739,554	75,641,635
Contributed surplus	23,178,065	19,247,886
Deficit	(100,175,809)	(95,771,206)
Total shareholders' equity (deficit)	6,741,810	(881,685)
Total liabilities and shareholders' equity	7,068,666	616,834

Commitments (Note 16)
Subsequent events (Note 17)

Approved by the Board of Directors

(signed) "Darren Morcombe", Director

(signed) "Jennifer Kaufield", Director

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

CVW CleanTech Inc.

(Previously Titanium Corporation Inc.)

Statements of Loss and Comprehensive Loss

For the years ended December 31, 2022 and 2021

Expressed in Canadian dollars

	December 31, 2022 $	December 31, 2021 $
Expenses		
General and administrative (Note 12)	3,476,272	2,009,744
Research and development (Note 12)	1,027,505	315,139
Operating loss	4,503,777	2,324,883
Interest income	(99,174)	(53,006)
Net loss and comprehensive loss	4,404,603	2,271,877
Basic and diluted loss per share (Note 9)	$0.04	$0.02

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

CVW CleanTech Inc.

(Previously Titanium Corporation Inc.)

Statements of Changes in Shareholders' Equity (Deficit)

As at December 31, 2022 and 2021

Expressed in Canadian dollars

	Share capital $	Contributed surplus $	Retained earnings (Deficit) $	Shareholders' equity (Deficit) $
Balance – January 1, 2022	75,641,635	19,247,886	(95,771,206)	(881,685)
Loss for the year	-	-	(4,404,603)	(4,404,603)
Private placement	6,345,091	-	-	6,345,091
Proceeds allocated to warrants	(4,707,735)	4,707,735	-	-
Stock based compensation expense	-	2,109,946	-	(2,109,946)
Stock options exercised	4,266,186	(1,715,586)	-	2,550,600
Conversion of warrants	2,259,761	(742,160)	-	1,517,601
Conversion of DSU's	215,946	(215,946)	-	-
Conversion of RSU's	511,138	(511,138)	-	-
Share issuance costs	(792,469)	297,328	-	(495,141)
Balance – December 31, 2022	83,739,554	23,178,065	(100,175,809)	6,741,810

	Share capital $	Contributed surplus $	Retained earnings (Deficit) $	Shareholders' equity $
Balance – January 1, 2021	75,686,611	19,147,030	(93,499,329)	1,334,312
Loss for the year	-	-	(2,271,877)	(2,271,877)
Stock based compensation expense	-	100,856	-	100,856
Share issuance costs	(44,976)	-	-	(44,976)
Balance – December 31, 2021	75,641,635	19,247,886	(95,771,206)	(881,685)

CVW CleanTech Inc.

(Previously Titanium Corporation Inc.)

Statements of Cash Flow

For the years ended December 31, 2022 and 2021

Expressed in Canadian dollars

	December 31, 2022 $	December 31, 2021 $
Cash (used in) provided by:		
Operating activities		
Net loss for the year	4,404,603	2,271,877
Items not affecting cash:		
Amortization	-	5,445
Gain on disposal of equipment	-	(41,400)
Stock based compensation expense	2,109,946	100,856
	2,294,657	2,206,976
Net change in non-cash working capital items		
Prepaid expenses and other assets	(4,303)	11,751
Accounts receivable	109,660	(183,007)
Accounts payable and accrued liabilities	(20,087)	(312,630)
Deferred compensation	(1,151,576)	446,324
Cash provided by (used in) operating activities	(3,360,963)	(2,244,536)
Investing activities		
Purchase of equipment	(6,635)	-
Proceeds on sale of equipment	-	41,400
Cash provided by (used in) investing activities	(6,635)	41,400
Financing activities		
Private placements – shares and warrants	6,345,091	-
Conversion of stock options, RSU's and DSU's	2,550,601	-
Conversion of warrants	1,517,601	-
Issue costs	(495,141)	(44,976)
Cash provided by (used in) financing activities	9,918,152	(44,976)
Increase (decrease) in cash and cash equivalents	6,550,554	(2,248,112)
Cash and cash equivalents – beginning of year	407,782	2,655,894
Cash and cash equivalents – end of year	6,958,336	407,782

1. Reporting entity and nature of operations

CVW CleanTech Inc. ("CVW CleanTech" or "the Company") is a clean technology innovator, working to develop sustainable technology solutions. On March 21, 2022, Titanium Corporation Inc. amended its articles and changed its name to CVW CleanTech Inc. The Company does not have any subsidiaries. The Company has developed a suite of technologies called Creating Value from Waste™ ("CVW™") that recovers bitumen, solvents, critical minerals and water from oil sands froth treatment tailings while significantly reducing their emissions and enhancing tailings management.

The Company's principal business office is located at 736 8th Avenue SW, Calgary, Alberta, T2P 1H4, while the registered office is located at Suite 2400, 525 8th Avenue, SW, Calgary, Alberta, T2P 1G1. The Company's common shares are listed on the TSX Venture Exchange under the ticker symbol "CVW".

2. Basis of presentation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.
These financial statements were approved by the Board of Directors on April 20, 2023.
These financial statements are presented in Canadian dollars, which is the Company's functional currency.

3. Significant accounting policies

a. Measurement basis

These financial statements have been prepared on a historical cost basis, except as discussed in the significant accounting policies below.

b. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. These estimates and judgements are reevaluated regularly, based upon historical experience and other factors, including expectations of future events, as believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the actual results. Management considers the following areas to be those where critical accounting policies affect the significant estimates and judgements used in the preparation of the Company's financial statements.

i. Government assistance

Agreements for government assistance contain many conditions prior to cash amounts being advanced. Some agreements provide a proportion of expenditures to be reimbursed, while others provide funding in advance of expenditures. Estimates about the timing of these expenditures and the dollar value involved are required. In addition, most government assistance contracts allow the funding agency to withhold a portion of funds until certain events occur. Determining the timing of these events, to reach reasonable assurance about the timing and amount to be collected from the funding agency, requires significant judgement.

ii. Stock options

The compensation cost for stock options with time based vesting is based upon the estimated fair value of those instruments at the time of the grant using the Black-Scholes option pricing model. The compensation cost for stock options with market and non market based performance criteria is based upon estimated fair value of those instruments at the time of grant using Monte Carlo simulations.

Measurement inputs to the Black-Scholes model and the Monte Carlo simulations include the share price on measurement date, exercise price, expected volatility, expected life, expected dividends and the risk-free interest rate. Significant estimates and assumptions are used in determining the expected volatility rate. Changes to the input assumptions could have a significant impact on the amounts recognized for equity based compensation.

Where a stock option grant includes non market performance criteria as a vesting condition, the number of awards expected to vest is considered at each reporting date. Significant judgement is used to determine the likelihood the specific performance condition will be achieved.

iii. Warrants

The value attributed to warrants is estimated at the grant date using the Black Scholes option pricing model. Measurement inputs to the Black Scholes model include the share price on grant date, exercise price, expected volatility, expected life, expected dividends and the risk free interest rate for the expected life of the warrant. Significant estimates and assumptions are used in determining the expected volatility and expected life. Changes to the input assumptions could have a significant impact on the value attributed to warrants.

iv.. Intangible assets

Research activities, such as pilot projects, and related development costs which are undertaken to commercialize CVW^{TM} Technologies, are expensed as incurred. Significant judgement is required to determine when costs meet the criteria for recognition as an intangible asset. To date, no project costs have been capitalized nor met the criteria to be classified as internally generated intangible assets.

c. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances net of outstanding cheques which have not cleared the bank at year end.

d. Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is recorded on the declining balance basis at rates between 20% and 50% as appropriate for the type of equipment.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

e. Internally generated intangible assets and research and development expenditures

Expenditures on research activities are recognized as an expense in the period in which they are incurred. Development costs are also expensed in the period incurred unless the Company believes these development projects meets generally accepted criteria for capitalization and amortization under IAS 38 Intangible Assets. The six criteria considered before capitalizing development costs include:

a. Ability to demonstrate technical feasibility to complete the asset so that it will be available for use or sale;
b. Demonstrated intention to complete the asset and use or sell it;
c. The ability to use or sell the asset;
d. Ability to demonstrate that the asset will generate probable future economic benefits, including the existence of a market or the usefulness of the asset if it is to be used internally;
e. The company can access adequate technical, financial and other resources to complete the development for use or sale of the asset; and
f. The Company has the ability to readily measure expenditures attributable to the intangible asset.

f. Government Assistance

Government grants and funding assistance are recognized when there is reasonable assurance that the Company will be able to comply with conditions in the respective contribution agreements and when there is reasonable assurance the funds will be received. The amounts are presented net of the associated research and development expenditures.

In the case of government grants and funding contracts that span several years and include numerous milestones, the final holdbacks are recognized when application has been made to obtain the final holdbacks and there is reasonable assurance the amounts will be collected.

g. Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income in the period in which the change is substantively enacted.

Deferred tax assets are recognized to the extent that future taxable income will be available against which temporary differences can be utilized.

h. Leases and right of use assets

The Company accounts for its leases by (i) recognizing 'right-of-use' assets and lease liabilities in the statements of financial position, initially measured at the present value of future lease payments discounted at the incremental borrowing rate; (ii) recognizing depreciation of right-of-use assets and interest on lease liabilities on the statements of loss; and (iii) separating the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statements of cash flows. For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company recognizes a lease expense on a straight-line basis as permitted by IFRS 16.

i. Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, warrants and stock options are recognized as a deduction from shareholders' equity, net of any tax effects.

Warrants
Warrants are considered financial instruments classified as equity and are measured at fair value upon issuance. On exercise, the cash consideration received by the Company and the associated carrying value of the warrants are recorded as share capital.

j. Equity based compensation

The Company has several equity -based compensation plans which include stock options, restricted share units ("RSUs") and deferred share units ("DSUs"). Stock-based compensation costs are recorded in general and administrative expense, or in research and development expense, as applicable.

i. Stock options
The fair value of stock options is recognized as stock-based compensation over the vesting period, with a corresponding increase in contributed surplus. On exercise, the cash consideration received by the Company and the contributed surplus are recorded as share capital.

ii. DSUs
As part of the Company's long-term incentives for non-executive directors, a deferred share unit plan was established representing a component of director compensation. DSU awards vest immediately upon grant and are settled with the issuance of one common share for one DSU when a director's service ceases. The compensation expense for DSUs awarded to non-executive directors is based on the fair value at the time the award is granted. The fair value means, at any date, the higher of (i) the weighted average price per share at which the common shares have traded on the TSXV during the last five (5) trading days prior to the relevant date and (ii) the closing price of the common shares on the date prior to the relevant date. The expense is recognized as a component of general and administration expense with a corresponding increase to contributed surplus within shareholders' equity. Upon redemption, the fair value of the award is reclassified from contributed surplus to share capital.

iii. RSUs
As part of the Company's long-term incentives for officers and other key employees of the Company, a restricted share unit plan was established representing a component of compensation. The RSU plan provides participants with the opportunity to acquire RSUs to participate in the long-term success of the Company. The vesting schedule for RSU awards is specified by the Board of Directors on the grant date. Once the award is vested, the RSU can be settled, at the option of the holder, with the issuance of one common share in exchange for one RSU and a nominal cash payment. The compensation expense for RSUs awarded is based on the fair value of the award at the time of grant and amortized over the specified vesting period. The fair value means, at any date, the higher of (i) the weighted average price per share at which the common shares have traded on the TSXV during the last five (5) trading days prior to the relevant date and (ii) the closing price of the common shares on the date prior to the relevant date. The cost is recognized as a component of general and administration and/or research and development expense with a corresponding increase to contributed surplus, within shareholders' equity. Upon redemption, the fair value of the award is reclassified from contributed surplus to share capital.

k. Financial instruments

The Company's financial assets include cash and cash equivalents and accounts receivable. Financial liabilities include accounts payable and accrued liabilities, and deferred compensation liability.

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Company has the legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

i. 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 (loss) income, or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of financial instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

ii. Measurement
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 the statements of net 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 statement of net loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive (loss) income.

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 and are subsequently carried at amortized cost less any impairment.

iii. Impairment of financial assets at amortized cost
Financial assets at amortized cost
Financial assets are measured at amortized cost and are assessed at each reporting date using an expected credit loss model ("ECL") to determine whether the financial asset is impaired. The Company applies the simplified approach to providing for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. A combination of historical and forward-looking information is used to determine the appropriate loss allowance provisions. ECLs are a probability -weighted estimate of all possible default events over the expected life of the financial asset which is based on credit quality since initial recognition of the financial asset.

Non-financial assets
Non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units" or "CGUs"). Recoverable amount is the higher of an asset's fair value less costs to dispose and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management). The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Financial liabilities
The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities and deferred compensation. Such financial liabilities are classified as other liabilities and are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

l. Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of common shares outstanding, for the effects of all potentially dilutive common shares. The Company's potentially dilutive common shares comprise equity-based awards granted to its employees and directors and warrants issued in connection with private placements. The number of common shares included with respect to equity awards and warrants are computed using the treasury stock method.

m. New accounting pronouncements

The following revisions to International Financial Reporting Standards and International Accounting Standards ("IAS") will apply to CVW CleanTech's financial disclosures commencing with the 2023 year end. The Company does not expect any material impact upon its financial statements and disclosures arising from the changes.

IAS 1 – Disclosure of accounting policies

The International Accounting Standards Board ("IASB") has issued narrow scope amendments to IAS 1. The revision requires companies to disclose their material accounting policy information rather than their significant accounting policies.

IAS 8 – Changes in accounting policies and accounting estimates

The IASB issued narrow-scope amendments to IAS 8 to clarify the distinction between a change in an accounting policy and a change in an accounting estimate. The amendments also introduced the definition of accounting estimates and clarified that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

Expressed in Canadian dollars

4. Accounts receivable

During the year ended December 31, 2021, the Company received non repayable grant funding from Emissions Reduction Alberta ("ERA"), Natural Resources Canada ("NRCan") and from Sustainable Development Technology Canada totaling $2,024,365. The amount was recognized and is presented net of the associated research and development expenses. No similar grant funding was received for the year ended December 31, 2022.

Accounts receivable include $73,347 of holdbacks from NRCan Clean Growth program grants. These holdbacks have been recognized as the project completion date is approaching, the Company believes it has met the conditions in the respective funding agreement and there is reasonable assurance the funds will be received.

During October 2021, laboratory and plant equipment was disposed of for proceeds of $47,630. Accounts receivable at December 31, 2021 included a balance of $31,528 relating to this disposal. Monthly instalment payments were made by the purchaser, with the full balance collected in during 2022.

5. Equipment

	December 31, 2022 $	December 31, 2021 $
Cost	-	102,342
Additions	6,635	-
Accumulated amortization	-	(102,342)
Net carrying value	6,635	-

During December 2022, office workstations and related accessories were acquired in the amount of $6,634.

6. Deferred Compensation

The Company has used its RSU and DSU plans in the past to compensate directors and officers as part of their total compensation package.

During the year ended December 31, 2020, both DSU and RSU plans reached their maximum allocation, based upon a limit of 2% of the issued share capital. As a result, fees for services rendered by directors subsequent to reaching the plan limit were accrued as deferred compensation liability instead of as a component of contributed surplus.

During the year ended December 31, 2021, $437,499 was accrued relating to these director's fees. No further amounts were deferred in this manner for the year ended December 31, 2022.

The deferred compensation liability of $1,151,576 at December 31, 2021 was settled via cash payment in January 2022.

Expressed in Canadian dollars

7. Share capital

There are an unlimited number of common shares without par value authorized for issuance. The balance of share capital at December 31, is as follows:

	December 31,2022		December 31, 2021	
	Common shares	Amount $	Common shares	Amount $
Balance, beginning of year	88,480,791	75,641,635	88,480,791	75,686,611
Private placements	26,166,664	6,345,091	-	--
Proceeds allocated to warrants	-	(4,707,735)	-	-
Stock options exercised	4,023,334	4,266,186	-	--
Conversion of warrants	3,146,500	2,259,761	-	--
Conversion of DSU's	283,002	215,946	-	--
Conversion of RSU's	698,272	511,138	-	--
Equity issue costs	-	(792,469)	-	(44,976)
Balance, end of year	122,798,563	83,739,554	88,480,791	75,641,635

On January 12, 2022, CVW CleanTech completed a private placement of equity units. Each unit consisted of one half warrant and one common share. A value of $3,783,154 was attributed to the 12,500,000 warrants ("January 2022 investor warrants") as described further in the 'Warrants' section of this note. Legal, regulatory and financing costs were incurred totaling $719,948 relating to this transaction, which are included as equity issue costs in the table above.

On October 19, 2022, CVW CleanTech completed a private placement of equity units. Each unit consisted of one warrant and one common share. A value of $924,581 was attributed to the 1,166,664 warrants ("October 2022 investor warrants") as described further in the 'Warrants' section of this note. Legal, regulatory and financing costs were incurred totaling $72,522 relating to this transaction, which are included as equity issue costs in the table above.

Expressed in Canadian dollars

Warrants

The movement in balance of warrants is noted below:

	December 31, 2022		December 31,2021	
	Warrants	Amount $	Warrants	Amount $
Balance, beginning of year	3,044,742	610,330	3,044,742	610,330
Investor warrants issued	13,666,664	4,707,735	-	-
Broker warrants issued	1,500,000	297,323	-	-
Conversion of warrants	(3,146,500)	(742,161)	-	-
Expiry of warrants	(2,523,242)	-	-	-
Balance, end of year	12,541,664	4,873,227	3,044,742	610,330

In connection with the January 12, 2022 private placement, the Company issued 12,500,000 warrants, with an exercise price of $0.30 per warrant. These warrants have a term to expiry of four years. The fair value attributed to these warrants totaled $3,783,154. In conjunction with this private placement, warrants were issued to brokers for their assistance ('broker warrants'). The fair value attributed to these warrants, which are included as part of equity issue costs, was $297,323. These warrants were exercised in December 2022.

In connection with the October 19, 2022 private placement, the Company issued 1,166,664 warrants, with an exercise price of $1.80 per warrant. These warrants have a term to expiry of four years. The fair value attributed to these warrants totaled $924,581.

In May 2019, the Company issued 3,044,742 warrants ("2019 investor warrants") exercisable at $1.40 per common share. The term for these instruments expired in May 2022. During the life of these warrants, 521,500 were converted to common shares, and 2,523,242 expired without conversion.

The fair values attributed to the warrants issued were determined using the Black Scholes option pricing model, with the following inputs:

	October 2022 Investor warrants	January 2022 Investor warrants	Broker warrants	2019 Investor warrants
Risk free interest rate	3.58%	1.36%	1.01%	1.57%
Term to expiry	4 years	4 years	1 year	3 years
Expected life	4.0	4.0	1.0	3.0
Expected volatility	100%	100%	100%	75%
Fair value per warrant	$0.79	$0.30	$0.19	$0.20

Expressed in Canadian dollars

8. Equity-based compensation

The Company has equity plans for its directors, officers, employees and consultants to encourage ownership of common shares and align with the longer-term interest of Company shareholders. The equity plans are designed to advance the Company's interests by providing additional incentives for plan participants and to retain and attract valued directors, officers, employees and consultants. The Company grants equity-based awards at the discretion of the Board of Directors.

The associated equity-based compensation expense is recognized as a component of general and administrative and research and development expenses. The Company adopted "rolling" equity-based plans that include stock options, DSUs and RSUs. The number of common shares issuable under all such plans at any time is limited to 10% (rolling) of the issued and outstanding common shares of the Company in the aggregate. The plans are subject to annual approval by the Company's shareholders.

A summary of the equity plans for the years ended December 31, is as follows:

	December 31, 2022	December 31, 2021
Equity Award Pool (10% of common shares outstanding)	12,279,856	8,848,079
Less Awards Outstanding:		
Stock Options	(8,335,000)	(3,205,000)
DSUs	(1,018,811)	(1,769,616)
RSUs	(941,248)	(1,639,520)
Available Pool	1,984,797	2,233,943

At December 31, 2022, an additional 1,984,797 equity instruments could be granted, up to a maximum of 1,437,160 DSU's, 1,514,723 RSU's or 1,984,797 stock options.

Stock options

	December 31, 2022		December 31, 2021	
	Number of stock options	Weighted average exercise price $	Number of stock options	Weighted average exercise price $
Balance, beginning of year	3,205,000	$0.89	4,755,000	$0.73
Granted	9,500,000	$0.91	-	-
Exercised	(4,023,334)	$0.63	-	-
Cancelled	(146,666)	$0.86	-	-
Expired	(200,000)	$1.37	(1,550,000)	$0.41
Balance, end of year	8,335,000	$1.03	3,205,000	$0.89
Options fully vested	3,335,000	$0.60	2,911,665	$0.91

Expressed in Canadian dollars

During September 2022, the Company appointed a new Chief Executive Officer. A component of the compensation plan included the grant of 5 million stock options. These options were granted in two tranches, with 2.4 million granted at an exercise price of $1.27 and 2.6 million granted at an exercise price of $1.35.

These options require either a market or non-market based performance condition to be met in order to vest. Vesting will occur if the underlying share price trades at or above $3.60 for a period of 90 consecutive days, after a minimum period of 18 months has elapsed from the grant date. The options may also vest if certain non-market performance based conditions are achieved between the dates that are 18 months after the grant date through to the 5 year expiry date. The non market performance conditions require the Company to move through a series of successive milestones that culminate in the construction and commissioning of a CVW oilsands facility.

The stock-based compensation expense relating to the September 2022 option grants is being recognized over periods ranging from 18 to 30 months, based on management's estimate of the date that the non-market performance criteria will be satisfied. If any of the non-market performance vesting conditions are achieved earlier, the expense relating to those options will be accelerated and recognized immediately. If the market price condition is achieved, the expense associated with all 5 million options will be accelerated and recognized at that date, so long as the minimum 18 month period from the grant date has elapsed. An expense of $651,321 has been recognized in 2022 relating to these options.

In January 2022, 4.5 million stock options were granted to directors and officers of the Company with an exercise price of $0.46. To vest, these options had several performance based or market priced based conditions to vest. The market price condition, for the underlying share price to trade at or above $1.25 for 90 consecutive days, was achieved in June 2022. As a result, the full amount of stock-based compensation expense of $1.44 million was recognized during 2022. At the grant date, the initial estimate for the vesting period was 30-months.

An additional $18,625 of stock-based compensation expense was recognized in 2022 relating to the vesting of options grated in 2019.

The fair value of the options granted during 2022 was calculated through the use of Monte Carlo simulations. The inputs to the fair value modelling were:

Option grant date	January 18, 2022	September 14, 2022	September 20, 2022
Risk free interest rate	1.36%	3.39%	3.39%
Term to expiry	5 years	5 years	5 years
Expected life	5.0	5.0	5.0
Expected volatility	100%	100%	100%
Number of options	4,500,000	2,400,000	2,600,000
Fair value per option	$0.32	$0.88	$0.94

Expressed in Canadian dollars

The following table summarizes the options outstanding at December 31, 2022:

Range of exercise price	Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number of options exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price $
$0.00 - $0.99	3,235,000	3.01	$0.58	3,235,000	3.01	$0.58
$1.00 to $1.50	5,100,000	4.87	$1.31	100,000	0.32	$1.12
Total	8,335,000	4.15	$1.03	3,335,000	2.93	$0.60

Deferred share units

A summary of the DSU activity for the years ended December 31 is as follows:

	December 31, 2022		December 31, 2021	
	Number of DSUs	Weighted average share price at time of grant $	Number of DSUs	Weighted average share price at time of grant $
Balance, January 1	1,769,616	$0.75	1,769,616	$0.75
Converted	(283,002)	$0.76	-	-
Cancelled	(467,803)	$0.75	-	-
Balance, December 31	1,018,811	$0.75	1,769,616	$0.75

Restricted share units

A summary of the RSU activity for the years ended December 31 is as follows:

	December 31, 2022		December 31, 2021	
	Number of RSU’s	Weighted average grant price $	Number of RSU’s	Weighted average grant price $
Balance, January 1	1,639,520	$0.75	1,639,520	$0.75
Converted	(698,272)	$0.73	-	-
Balance, December 31	941,248	$0.76	1,639,520	$0.75

Expressed in Canadian dollars

9. Basic and diluted loss per share

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. The effect of outstanding stock options, DSU's and RSU's has not been included in the calculation of diluted weighted average number of shares outstanding, as the effect would be anti-dilutive.

	December 31, 2022 $	December 31, 2021 $
Net loss for the year	4,404,603	2,271,877
Weighted average number of common shares outstanding	116,196,283	88,480,791
Basic and diluted loss per share	$0.04	$0.02

10. Income taxes

The tax recovery on the Company's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the entity as follows:

	December 31, 2022 $	December 31, 2021 $
Net loss income before income taxes	(4,404,603)	(2,271,877)
Tax recovery calculated at applicable statutory rates applicable to loss 23%	(1,013,059)	(522,532)
Change in temporary differences for which no deferred income tax asset was recognized	525,469	499,090
Stock-based compensation expense not deductible for tax purposes	485,288	23,197
Other expenses not deductible for tax purposes	2,302	245
Income tax expense (recovery)	-	-

Expressed in Canadian dollars

The components of the unrecognized deferred tax asset are as follows:

	December 31, 2022 $	December 31, 2021 $
Capital assets (tangible and intangible)	826,000	824,000
SR&ED expenditures	4,554,000	4,848,000
Deferred financing costs	99,000	27,000
Capital and non-capital losses	9,874,000	9,314,000
Balance, end of period	15,353,000	15,013,000
Deferred tax asset not recognized	(15,353,000)	(15,013,000)
Net deferred tax asset	-	-

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. Based on this test, the Company did not recognize deferred income tax assets of $15,353,000 (December 31, 2021 – $15,013,000) in respect of tax losses and other deductible temporary differences amounting to $66,750,000 (December 31, 2021– $65,435,000) that can be carried forward and used to reduce future taxable income.

The Company has $42,925,000 (December 31, 2021 - $40,376,000) in non-capital losses available to offset future taxable income. The amounts expire between 2026 and 2042. The gross amount of non-refundable investment tax credits available to offset taxable income at December 31, 2022 is $19,800,000 (December 31, 2021 - $21,078,694). These amounts expire between 2024 and 2039.

11. Segmented information

The Company has one reporting segment engaged in the commercialization of its proprietary CVW™ technology for the recovery of bitumen, solvent, heavy minerals and water from oil sands froth treatment tailings. As the operations comprise a single reporting segment, amounts disclosed in the financial statements represent those of the single reporting unit. All of the Company’s activities and assets are located in Canada.

Expressed in Canadian dollars

12. Expenses by nature

The Company's expenses are presented by function within these financial statements. The amounts comprising general and administrative expenses and research and development expenses are detailed by their nature in the tables below.

General and administrative expenses	December 31, 2022 $	December 31, 2021 $
Compensation and benefits	595,570	635,676
Director fees - deferred compensation (Note 6)	-	437,499
Director fees	266,748	-
Stock-based compensation (Note 8)	1,974,526	64,363
Consulting and professional fees	370,361	602,329
Rent, insurance and office	138,595	136,171
Travel	17,767	204
Investor relations and regulatory	112,707	128,057
Amortization	-	5,445
	3,476,272	2,009,744

During the year ended December 31, 2022, the Company recorded $29,269 (December 31, 2021 - $27,660) in general and administrative expenses related to short term leased office space. The Company has no current lease obligations related to its general and administrative function.

Research and development expenses	December 31, 2022 $	December 31, 2021 $
Projects and related expenditures	129,401	1,743,018
Compensation and benefits	762,684	559,994
Stock-based compensation (Note 8)	135,420	36,492
Recovery of project costs	-	(2,024,365)
R&D expenses, net of government grants	1,027,505	315,139

During the year ended December 31, 2022, the Company recorded $9,530 (December 31, 2021 - $9,259) in research and development expenses relating to short term leased office space. The Company has a commitment of $700 per month plus GST, expiring March 2023.

Expressed in Canadian dollars

13. Related party transactions

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation as a whole. Compensation to directors and officers of the Company for the years ended December 31 are indicated below:

Corporate officers	December 31, 2022 $	December 31, 2021 $
Compensation and benefits	1,358,254	1,195,670
Stock-based compensation	824,005	72,971
	2,182,259	1,268,641

Board of Directors	December 31, 2022 $	December 31, 2021 $
Directors' fees	266,748	437,499
Stock-based compensation	1,285,941	27,885
	1,552,689	465,384

Accounts payable and accrued liabilities at December 31, 2022 included $43,970 payable to directors and officers in respect of the transactions identified above. At December 31, 2021, $1,169,000 was payable to directors and officers, most of which was comprised of the deferred compensation liability.

One member of the Board of Directors is a partner in a law firm which provides legal services to the Company. Legal fees charged by this law firm for the year 2022 were $256,371. Of this amount, $132,025 is captured on the balance sheet, within share issue costs, and the remainder is included within consulting and professional fees. There are no comparative amounts for 2021, as this individual was not a director of the Company until January 2022.

14. Financial instruments and financial risk factors

The Company has for accounting purposes, designated its cash and cash equivalents and accounts receivable as loans and receivables. Accounts payable and accrued liabilities, along with the deferred compensation liability, are classified for accounting purposes as other financial liabilities.

As of December 31, 2022 and 2021, the Company estimates that both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent because of the short-term nature of the assets and liabilities.

a. Financial risk

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

Financial risk management is carried out by the Company's management team with guidance from the Audit Committee and the Board of Directors. The Board of Directors also provides guidance for enterprise risk management.

b. Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and recovery of project costs and related holdbacks and receivables. Cash and cash equivalents are held with major Canadian banks with credit ratings no lower than Aa. Management believes that the credit risk concentration with respect to cash is minimal. The recovery of project costs is dependent on the Company meeting milestone obligations under contribution agreements. Management believes that credit risk associated with funding commitments from government grant programs is low due to the project governance, credit quality of participants, reporting requirements to achieve milestones and the fact that all associated contributions have previously been fully collected.

c. Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due by monitoring actual and projected cash flows. The Board of Directors reviews and approves the operating plan as well as any material transactions outside the ordinary course of business. This oversight process is also supplemented by a continuous and detailed cash forecasting process. The Company is dependent on raising funds through the issuance of shares, loan facilities, government grants and/or attracting partners to undertake further development and commercialization of its technology. As at December 31, 2022, the Company had an aggregate cash balance of $6,958,336 to settle current cash liabilities of $326,856 (December 31, 2021 - Cash $407,782; liabilities $346,942). Most of the Company's financial liabilities have contractual terms of 30 days or less.

d. Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

i. Interest rate risk

The Company's current policy is to invest excess cash in interest bearing cash accounts, bankers' acceptances and guaranteed investment certificates issued by Canadian banks with credit ratings of Aa or higher. The Company periodically monitors its investments and the creditworthiness of the banks it holds investments in.

ii. Foreign currency risk

The Company's reporting and functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. The Company does not hold any significant balances in foreign currencies to give rise to exposure to foreign exchange risk. Any impact from fluctuations in foreign exchange rates would be minimal and therefore the Company does not hedge its foreign exchange risk.

15. Capital management

The Company considers shareholders' equity as its capital. At December 31, 2022 the Company had shareholders' equity of $6,741,810 (December 31, 2021 - deficit of $881,685). The Company does not have any bank debt or externally imposed capital requirements. The Company's capital management objectives are to manage its cash and cash equivalents prudently; to minimize the expenditures on general and administrative costs to ensure funds are available to continue to advance the commercialization of CVW™ projects; and to access available government funding for research and development and commercialization. Management reviews its capital management approach on an ongoing basis and believes that its current approach, given the relative size and stage of the Company, is appropriate.

16. Commitments

A retention bonus payable to two Corporate Officers, for $100,000 each, is included in the December 31, 2022 liabilities of CVW CleanTech. This commitment was agreed to as part of the terms of the January 2022 private placement. There remains a commitment to pay $100,000 to a Corporate Officer on December 31, 2023, to the extent they are still employed by the Company at that time.

In March 2022, the CEO announced his retirement, effective March 31, 2022. Under the terms of a consulting agreement that commenced April 1, 2022, a Company controlled by him will continue to provide services to the Company at an annual fee of $115,000 per annum. The contract is in place until February 2025.

17. Subsequent events

During the first three months of 2023, 650,000 stock options, 200,000 RSU's and 467,500 warrants were converted. As a result, 1,317,500 common shares were issued and the Company received $575,572 in cash proceeds.