BluSky Carbon Inc.

Condensed Interim Consolidated Financial Statements

For the three and nine months ended May 31, 2025 and 2024

(Expressed in United States dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of BluSky Carbon Inc. as at May 31, 2025 and for the three and nine months ended May 31, 2025 and 2024, have been prepared by, and are the responsibility of the management of the Company and approved by the Company's Audit Committee and Board of Directors.

Under National Instrument 51-102 Continuous Disclosure Obligations, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity's auditor.

BluSky Carbon Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States Dollars - Unaudited)

As at:		**May 31, 2025**		**August 31, 2024**
ASSETS				
Current assets				
Cash	$	335,334	$	2,458,821
Prepaid expenses and deposits (Note 5)		106,259		160,357
Other receivables		18,536		-
Inventory (Note 6)		546,982		524,438
		1,007,111		3,143,616
Equipment (Note 7)		2,995,454		2,129,672
Prepaid expenses and deposits (Note 5)		5,415		41,439
Right-of-use assets (Note 8)		470,149		742,336
Total assets	$	4,478,129	$	6,057,063
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	1,081,265	$	661,690
Deferred revenue		689,690		569,650
Current portion of lease liabilities (Note 10)		334,104		336,512
Loan payable (Note 11)		761,614		-
Convertible debenture (Note 12)		266,595		
Derivative liabilities (Note 12)		309,207		-
		3,442,475		1,567,852
Lease liabilities (Note 10)		188,555		444,992
Total liabilities		3,631,030		2,012,844
Shareholders' equity				
Share capital (Note 13)		11,471,045		10,262,729
Reserves		3,577,394		3,559,523
Deficit		(14,113,604)		(9,797,013)
Accumulated other comprehensive loss		(87,736)		18,980
Total shareholders' equity		847,099		4,044,219
Total liabilities and shareholders' equity	$	4,478,129	$	6,057,063

Approved and authorized for issue by the Board of Directors on July 30, 2025:

"Alex McAulay" Director   *"William Hessert"* Director

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

BluSky Carbon Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States dollars - Unaudited)

	Three months ended May 31, 2025	Three months ended May 31, 2024	Nine months ended May 31, 2025	Nine months ended May 31, 2024
Revenue				
CORC sales	$ 534,421	$ -	$ 534,421	$ -
Cost of sales	600,150	-	600,150	-
Gross profit	(65,729)	-	(65,729)	-
Operating Expenses				
Depreciation (Notes 7 and 8)	$ 96,592	$ 95,379	$ 294,262	$ 212,558
Finance cost	71,529	53,136	105,737	108,463
Interest on lease liability (Note 10)	19,422	31,384	66,994	73,481
Legal and professional fees (Note 14)	28,335	319,105	520,090	537,606
Marketing	(1,965)	41,749	1,010,919	54,149
Office expenses	82,732	153,206	504,631	235,868
Research and development	-	5,234	-	6,461
Salaries and benefits (Note 14)	161,976	287,305	806,739	554,301
Share-based compensation (Note 13 and 14)	(124,413)	-	771,008	591,133
Consulting fees	21,207	22,620	145,409	29,851
Subcontractor fees	47	38,656	47,209	68,511
	355,462	1,047,774	4,272,998	2,472,382
Other Expense (Income)				
Listing expense	-	4,896,380	-	4,896,380
Interest income	(1,495)	-	(14,536)	-
Gain on debt settlement	-	(433,477)	-	(433,477)
Foreign exchange	(29,803)	16,015	(18,198)	17,433
Other income	-	(880)	-	(880)
Change in fair value of derivative liabilities	(62,372)	-	10,598	-
	(93,670)	4,478,038	(22,136)	4,479,456
Net loss	$ (327,521)	$ (5,525,812)	$ (4,316,591)	$ (6,951,838)
Other comprehensive loss, items that will be reclassified through profit and loss:				
Currency translation adjustment	(87,830)	15,089	(106,716)	15,089
Net loss and comprehensive loss	$ (415,351)	$ (5,510,723)	$ (4,423,307)	$ (6,936,749)
Basic and diluted loss per share	$ (0.00)	$ (0.20)	$ (0.06)	$ (0.30)
Weighted average number of common shares outstanding – basic and diluted	68,366,456	27,176,223	66,672,656	23,395,666

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

BluSky Carbon Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in United States dollars - Unaudited)

	Number of common shares*	Share capital $	Obligation to issue shares $	Reserves $	Deficit $	Accumulated other comprehensive loss $	Total $
Balance at August 31, 2023	4,900,000	1,000	30	-	(342,213)	-	(341,183)
Issuance of Bluski units	1,045,490	230,000	-	-	-	-	230,000
Settlement of obligation to issue shares	735,000	30	(30)	-	-	-	-
Units deemed to be issued in the RTO (Note 5)	26,071,859	6,481,880	1,170,848	-	-	-	7,652,728
Share-based compensation	18,865,000	591,173	-	-	-	-	591,173
Net loss for the period	-	-	-	-	(6,951,838)	-	(6,951,838)
Currency translation period	-	-	-	-	-	15,089	15,089
Balance at May 31, 2024	51,617,349	7,304,083	1,170,848	-	(7,294,051)	15,089	1,195,969
Balance at August 31, 2024	63,226,779	10,262,729	-	3,559,523	(9,797,013)	18,980	4,044,219
Shares issued on exercise of warrants	3,786,000	1,009,375	-	(708,620)	-	-	300,755
Shares issued on conversion of RSU	243,677	90,844	-	(90,844)	-	-	-
Units issued in private placement	1,110,000	108,097	-	46,327	-	-	154,424
Share-based compensation	-	-	-	771,008	-	-	771,008
Net loss for the period	-	-	-	-	(4,316,591)	-	(4,316,591)
Foreign exchange difference on translation of foreign operation	-	-	-	-	-	(106,716)	(106,716)
Balance at May 31, 2025	**68,366,456**	**11,471,045**	**-**	**3,577,394**	**(14,113,604)**	**(87,736)**	**847,099**

**The number of common shares outstanding before the RTO have been restated to reflect the effect of exchanging 4,900 common shares of the Company for each common share of Bluski outstanding at closing of the Arrangement.*

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

BluSky Carbon Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in United States dollars - Unaudited)

		Nine months ended May 31, 2025		Nine months ended May 31, 2024
Operating activities				
Net loss	$	(4,316,591)	$	(6,951,838)
Items not affecting cash:				
Depreciation		294,262		212,558
Share-based compensation		771,008		591,133
Finance cost		90,057		101,653
Fair value change on derivative liabilities		10,598		-
Unrealized foreign exchange		(23,209)		15,954
Gain on extinguishment of debt		-		(433,477)
Listing expense		-		4,896,380
Changes in non-cash working capital items:				
Prepaid expenses		90,958		(154,063)
Inventory		(22,544)		(361,542)
Other receivables		(18,138)		(730)
Accounts payable and accrued liabilities		418,030		578,909
Deferred revenue		120,040		393,655
Net cash used in operating activities		(2,585,529)		(1,111,408)
Investing activity				
Purchase of equipment		(892,170)		(1,366,840)
Lease deposit		-		(55,415)
Cash consumed in RTO		-		240,510
Net cash used in investing activity		(892,170)		(1,181,745)
Financing activities				
Due to related parties		-		74
Lease payments		(258,845)		(169,425)
Convertible debenture payments		(17,383)		-
Proceeds from warrant exercise		300,755		-
Proceeds from share issuance		154,424		-
Proceeds from convertible debenture		485,322		-
Proceeds from loan payable		750,000		
Proceeds from promissory note		-		2,893,022
Proceeds from the issuance of units		-		230,000
Net cash provided by financing activities		1,414,273		2,953,671
Change in cash		**(2,063,426)**		**660,518**
Impact of foreign currency translation on cash		(60,061)		2,238
Cash (bank indebtedness), beginning		2,458,821		(9)
Cash (bank indebtedness), ending	$	**335,334**	$	**662,747**

Supplemental cash flow information:				
Interest received	$	14,536	$	880
Interest paid	$	84,378	$	327
Income taxes paid	$	-	$	-

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

1. NATURE OF OPERATIONS AND GOING CONCERN

BluSky Carbon Inc. (the "Company") was incorporated under the Business Corporations Act of British Columbia on July 25, 2023. On May 24, 2024, the Company changed its name from 1429798 B.C. Ltd. to BluSky Carbon Inc. The principal business of the Company is converting organic and industrial wastes into biochar, renewable power, and carbonate rocks. The head office, and registered and records office of the Company is located at Suite 214, 257 12th Street East, North Vancouver, BC, V7L 2J8.

On November 10, 2023, as amended on November 23, 2023, February 27, 2024, and April 30, 2024, the Company, Bluski Inc. ("Bluski") and 1448451 B.C. Ltd. (a wholly-owned subsidiary of the Company) entered into an Arrangement Agreement (the "Arrangement"). The Arrangement closed on May 24, 2024. Under the Arrangement, the Company acquired all of the issued and outstanding shares of the Bluski by way of exchanging 4,900 common shares and 4,900 share purchase warrants of the Company for each issued and outstanding common share and share purchase warrant of Bluski. 1448451 B.C. Ltd. merged with Bluski to form and amalgamated entity under the name "Bluski Inc." which became a wholly-owned subsidiary of the Company.

The closing of the Arrangement completed the reverse take over ("RTO") of Bluski, which was incorporated under the laws of the state of Connecticut, United States, on May 26, 2021. These consolidated financial statements are presented as a continuation of Bluski as the deemed acquirer (Note 4).

The Company filed its final long form prospectus on May 28, 2024 and amendment to its final long form prospectus on June 12, 2024, and began trading on the Canadian Securities Exchange ("CSE") under symbol BSKY on June 20, 2024. The Company also trades on the Frankfurt Stock Exchange under the symbol QE4.

Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. For the nine months ended May 31, 2025, the Company incurred a net loss of $4,316,591. As of May 31, 2025, the Company had a working capital deficit of $2,435,364 and has an accumulated deficit of $14,113,604. These circumstances indicate that material uncertainties exist that may cast significant doubt about the Company's ability to continue as a going concern and, accordingly, the ultimate use of accounting principles applicable to a going concern.

The Company's ability to continue as a going concern is dependent upon raising equity or debt to meet its present and future commitments, the continued support of certain shareholders and trade creditors, and on achieving profitable commercial operations. These condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses, and the condensed interim consolidated statement of financial position classification used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financing statements, including International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed interim consolidated financial statements do not include all disclosures required for annual audited financial statements. Accordingly, they should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended August 31, 2024, which have been prepared in accordance with IFRS issued by the IASB.

The condensed interim consolidated financial statements were approved and authorized for issuance on July 30, 2025 by the board of directors of the Company.

Basis of presentation and measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis. In addition, they have been prepared using the accrual basis of accounting, except for the cash flow information.

On May 24, 2024, on closing of the Arrangement, the Company issued 25,545,490 common shares to former shareholders of Bluski at an exchange ratio of 4,900 common shares of the Company for each outstanding common shares of Bluski at the time of closing. All references to share and per share amounts in the consolidated financial statement and accompanying notes have been retrospectively adjusted to reflect the exchange ratio as if it had occurred at the beginning of the earlier period presented.

Functional and presentation currency

The condensed interim consolidated financial statements are presented in United States dollars. The functional currency of the Company is determined based on the currency of the primary economic environment in which the Company operates. The functional currency of the Company is the Canadian dollar and the functional currency of Bluski is the United States dollar.

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Bluski. Subsidiaries are those entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to variable returns from its activities. Intercompany balances are eliminated on consolidation.

Critical Accounting Estimates and Judgements

The preparation of these condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

2. BASIS OF PRESENTATION (continued)

The estimates and judgements made by the Company in these condensed interim consolidated financial statements are consistent with the disclosure set out in Note 2 to the audited consolidated financial statements for the year ended August 31, 2024.

3. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies followed by the Company are set out in Note 3 to the audited consolidated financial statements for the year ended August 31, 2024. The accounting policies have been consistently applied in the preparation of these condensed interim consolidated financial statements.

4. REVERSE TAKE-OVER

On May 24, 2024, the Arrangement closed and the Company acquired all issued and outstanding Bluski common shares in exchange for common shares of the Company on a 1 for 4,900 basis. In addition, all of the outstanding convertible securities of Bluski were exchanged for securities of the Company on a 1 for 4,900 basis and on substantially the same economic terms and conditions.

The Arrangement constitutes a reverse takeover (“RTO”) with Bluski deemed as the acquirer for accounting purposes. The RTO has been accounted for in accordance with guidance provided in IFRS 2, Share-Based Payment (“IFRS 2”) as the Company did not qualify as a business according to the definition in IFRS 3, Business Combinations, as there were no substantive processes in place. As a result, the RTO has been accounted for as an asset acquisition with an issuance of shares by Bluski for the net assets of the Company and its listing status.

The assets, liabilities and operations of Bluski are included in the condensed interim consolidated financial statements at their historical carrying value. The Company’s operations are considered to be a continuance of the business and operations of Bluski with the Company’s operations being included from May 24, 2024, the closing date of the Arrangement, onwards.

In consideration for the RTO, the Company issued 25,545,490 common shares and 522,754 consideration warrants of the Company to former shareholders of Bluski. Each warrant is exercisable at CAD$0.50 for one common share of the Company until May 24, 2026.

The former shareholders of the Company retained 26,071,859 common shares. The fair value of the shares was estimated to be $6,481,880 based on the share price of the Company’s recent financings.

As at May 24, 2024, the Company had 13,405,833 warrants outstanding exercisable at between CAD$0.10 – CAD$0.75 per warrant and expiring between October 19, 2025 to March 26, 2026. The fair value of the warrants was estimated to be $1,964,161 based on the Black-Scholes Option Pricing Model using the following assumptions:

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

4. REVERSE TAKE-OVER (continued)

Assumptions	May 24, 2024
Risk-free interest rate	4.25% - 4.35%
Expected volatility	100%
Fair value of underlying share	CAD$0.34
Dividend yield	0%
Expected life	1.41 – 1.84 years

The excess of the purchase price over the net assets was charged to profit or loss as a listing expense.

The purchase price is allocated as follows:

	$
Fair value of shares retained by former shareholders of the Company (26,071,859 shares at CAD$0.34 ($0.24))	6,481,880
Fair value of replacement warrants	1,964,161
Promissory note due to the Company (Note 9)	(3,017,990)
Total consideration	**5,428,051**
Net assets (liabilities) acquired (assumed):	
Cash	238,283
Prepaid expenses	30,808
Accounts payable and accrued liabilities	(623,290)
Net liabilities	**(354,199)**
Listing expense	**5,782,250**

5. PREPAID EXPENSES AND DEPOSITS

		May 31, 2025		August 31, 2024
Security deposits (Note 8)	$	45,754	$	41,439
Insurance		28,084		26,789
Marketing		10,982		39,308
Legal retainers		5,000		7,800
Other		21,854		86,460
	$	**111,674**	**$**	**201,796**
Current	$	106,259	$	160,357
Non-current		5,415		41,439
	$	**111,674**	**$**	**201,796**

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

6. INVENTORY

As at May 31, 2025 and August 31, 2024, inventory consists of machinery that is being developed for resale for one specific customer order.

7. EQUIPMENT

	Equipment	Leasehold improvements	Asset under construction	Total
Cost				
Balance, August 31, 2023	$ 26,280	$ -	$ 101,550	$ 127,830
Transfer	(2,652)	-	2,652	-
Additions	126,368	158,325	1,740,662	2,025,355
Balance, August 31, 2024	149,996	158,325	1,844,864	2,153,185
Additions	3,628	282,303	606,241	892,172
Balance, May 31, 2025	**$ 153,624**	**$ 440,628**	**$ 2,451,105**	**$ 3,045,357**
Accumulated depreciation				
Balance, August 31, 2023	$ 6,657	$ -	$ -	$ 6,657
Depreciation	13,966	2,890	-	16,856
Balance, August 31, 2024	20,623	2,890	-	23,513
Depreciation	22,990	3,400	-	26,390
Balance, May 31, 2025	**$ 43,613**	**$ 6,290**	**$ -**	**$ 49,903**
Net book value				
Balance, August 31, 2024	$ 129,373	$ 155,435	$ 1,844,864	$ 2,129,672
Balance, May 31, 2025	**$ 110,011**	**$ 434,338**	**$ 2,451,105**	**$ 2,995,454**

8. RIGHT-OF-USE ASSETS

	Building
Cost	
Balance, August 31, 2023	$ 157,184
Additions	949,875
Balance, May 31, 2025 and August 31, 2024	**$ 1,107,059**
Accumulated depreciation	
Balance, August 31, 2023	$ (67,677)
Depreciation	(297,046)
Balance, August 31, 2024	(364,723)
Depreciation	(272,187)
Balance, May 31, 2025	**$ (636,910)**

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

8. RIGHT-OF-USE ASSETS (continued)

Net book value		
Balance, August 31, 2024	$	742,336
Balance, May 31, 2025	**$**	**470,149**

On initial recognition, the Company capitalized the discount on a security deposit of $18,030 to its right-of-use assets. The security deposit will be amortized using the effective interest rate over the lease term in accordance with IFRS 16 – Leases, at an effective interest rate of approximately 15%, and has been recorded as prepaid expenses and deposits (Note 5).

A reconciliation of the lease deposit is as follows:

Balance, August 31, 2024	$	41,439
Accretion		4,315
Balance, May 31, 2025	**$**	**45,754**

The accretion of $4,315 is recorded as a reduction of the right-of-use asset depreciation.

9. JOINT VENTURES

Joint Venture Agreement (Red Mountain):

On October 11, 2024, the Company entered into an agreement with Red Mountain Biochar LLC (“Red Mountain”) to create a joint venture to be known as BluMountain Carbon (“BluMountain”) to commercialize multiple potential biochar offtake and project financing opportunities for the benefit of each of the Company and Red Mountain, with a particular emphasis on the Southern United States and the (i) production and processing of biochar, (ii) deployment of carbon removal technologies, and (iii) exploration and deployment of opportunities in related industries and technologies.

On November 6, 2024, BluMountain entered into a preliminary agreement, signing a letter of intent with Carbon Market Exchange Inc. (“CMX”) to collaborate on the development and operation of biochar production facilities utilizing local biomass feedstock provided by an existing agreement (to which CMX is a party) with a regional growers’ association and other parties in Tanzania.

On November 6, 2024, BluMountain entered into a preliminary agreement, signing a letter of intent with Neutralizing Environmental Trash Inc. (“N.E.T. Inc.” or “NET”) to form a joint venture, under which BluMountain is to provide Vulcan pyrolysis equipment, operational and consulting service for biochar production, bioenergy production, and biomass carbon removal under the business joint venture brand “NET of the Villages LLC”. This agreement was finalized on November 21, 2024.

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

9. JOINT VENTURES (continued)

Joint Venture Agreement (Ikigai):

On November 12, 2024, the Company entered into an agreement with Ikigai Carbon Corporation (“Ikigai”) to create a joint venture aimed at establishing and deploying future biochar projects in the African Republic of Namibia (“Namibia”) by utilizing the Company’s biomass Vulcan pyrolysis technology, operation and consulting services for biochar production, and biomass carbon removal.

No transactions related to these joint ventures have occurred during the three and nine months ended May 31, 2025.

10. LEASE LIABILITIES

Bluski leases a building with a three-year term expiring on April 30, 2025. The present value of the lease liability was calculated using an incremental borrowing rate of 15% per annum on initial recognition.

On November 17, 2023, the Company entered into a lease agreement for a facility located at 35 Research Parkway, Old Saybrook, Connecticut (the “Facility”). The lease commenced on November 19, 2023 and ends on November 30, 2026, and the present value of the lease liability was calculated using an incremental borrowing rate of 15% per annum on initial recognition.

Changes in the lease liabilities are as follows:

		Building
Lease Liability		
Balance, August 31, 2023	$	98,247
Additions		931,845
Interest		102,057
Payments		(350,645)
Balance, August 31, 2024		781,504
Interest		66,995
Payments		(325,840)
Balance, May 31, 2025	**$**	**522,659**

		May 31, 2025		**August 31, 2024**
Current portion	$	334,104	$	336,512
Non-current portion		188,555		444,992
	$	**522,659**	**$**	**781,504**

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

10. LEASE LIABILITIES (continued)

A maturity analysis of the undiscounted contractual balances of lease payments is as follows:

Maturity analysis		May 31, 2025
Less than one year	$	382,623
One to two years		194,139
Three to four years		-
Total undiscounted lease payments		576,762
Amount representing implicit interest		(54,103)
Lease liability	**$**	**522,659**

11. LOAN PAYABLE

On February 10, 2025, the Company entered into a secured debenture agreement for a $500,000 loan with a maturity date of June 10, 2025. On May 9, 2025, the terms of the loan were amended (the "First Amendment") and an additional $250,000 was loaned to the Company for a total of $750,000. Subsequent to the period end, the terms of the loan were amended (the "Second Amendment"), where the maturity date of the loan was extended to October 15, 2025, subject to the payment of an extension fee of $75,000 (Note 18). The loan accrues interest at 7% per annum payable in cash. The loan is secured, and the Company has pledged the common shares it holds in its subsidiary, Bluski, as collateral against the loan. As at May 31, 2025, accrued interest on the loan is $11,614, resulting in an outstanding balance of $761,614.

12. CONVERTIBLE DEBENTURE AND DERIVATIVE LIABILITIES

On February 21, 2025 ("the Closing Date"), the Company closed a non-brokered private placement of convertible debenture units (the "Convertible Debentures", and each a "Convertible Debenture Unit"), at a price of CAD$1,000 per Convertible Debenture Unit, for gross proceeds of $527,937 (CAD$750,000). Each Convertible Debenture Unit comprises:

(i) A CAD$1,000 principal amount Convertible Debenture which will mature 18 months from the Closing Date, i.e., August 21, 2026, and will bear interest at 12.0% per annum payable monthly. Each Convertible Debenture will be convertible, in whole or in part, at any time while any principal or interest remains outstanding, into common shares, at the option of the holder, at a price of CAD$0.21 per common share, subject to adjustments (the "Conversion Price"). The Conversion Price is subject to adjustment such that if the Company issues or sells any common shares, or securities convertible into or exercisable to acquire common shares ("Convertible Securities"), save and except for certain permitted issuances, for a price per common share or Convertible Security less than the Conversion Price then in effect, or issues or sells Convertible Securities with a conversion, redemption or exercise price less than the Conversion Price then in effect, save and except for certain permitted issuances, then the Conversion Price shall be adjusted downward to such issue, conversion or exercise price.

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

12. CONVERTIBLE DEBENTURE AND DERIVATIVE LIABILITIES (continued)

(ii) 4,761.9 common share purchase warrants of the Company (the "Debenture Warrants"), with each whole Debenture Warrant entitling the holder to acquire one common share of the Company at a price of CAD$0.30, subject to adjustments, (the "Debenture Warrant Exercise Price") for a period of 2 years following the Closing Date, i.e., February 21, 2027. The Debenture Warrant Exercise Price is subject to adjustment such that if the Company issues warrants or options exercisable to acquire common shares at a price below the Debenture Warrant Exercise Price then in effect, save and except for certain permitted issuances, then the Debenture Warrant Exercise Price then in effect shall be reduced to such lower exercise price.

As a result of the possible adjustment of the Conversion Price and Debenture Warrant Exercise Price, the fixed-for-fixed criteria for equity classification failed and the conversion feature and Debenture Warrants need to be accounted for as derivative liabilities (the "Derivative Liabilities"). The Company calculated the fair values of the Derivative Liabilities at initial recognition and as at May 31, 2025 using the Black-Scholes Options Pricing Model using the following assumptions:

	May 31, 2025		**Closing Date**	
	Conversion Feature	**Debenture Warrants**	**Conversion Feature**	**Debenture Warrants**
Exercise price	CAD$0.21	CAD$0.30	CAD$0.21	CAD$0.30
Fair value of Company share price	CAD$0.14	CAD$0.14	CAD$0.14	CAD$0.14
Expected dividend yield	0%	0%	0%	0%
Expected volatility	139%	122%	116%	106%
Risk-free interest rate	2.59%	2.59%	2.73%	2.73%
Expected remaining life	1.22 years	1.73 years	1.5 years	2 years

The continuity of the fair value of the Derivatives Liabilities are as follows:

	Conversion Feature	**Debenture Warrants**	**Total**
Balance, August 31, 2024	$ -	$ -	$ -
Issuance	152,639	135,977	288,616
Change in fair value	5,799	4,799	10,598
Foreign currency translation	5,290	4,703	9,993
Balance, May 31, 2025	**$ 163,728**	**$ 145,479**	**$ 309,207**

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

12. CONVERTIBLE DEBENTURE AND DERIVATIVE LIABILITIES (continued)

A continuity of the remaining convertible debenture liability is as follows:

		Convertible Debenture
Gross proceeds	$	527,937
Fair value of derivative liabilities		(288,616)
Transaction cost allocated to convertible debenture		(19,318)
Repayment		(17,383)
Accretion		38,309
Interest		17,383
Foreign currency translation		8,282
Balance, May 31, 2025	**$**	**266,595**

Interest and accretion are included in finance cost on the condensed interim consolidated statements of loss and comprehensive loss. In addition, the Company incurred a total of $42,615 in transaction cost on the issuance of the Convertible Debentures of which $23,297 is included in finance cost and the remaining $19,318 was capitalized to the convertible debenture liability.

13. SHARE CAPITAL

Authorized capital

The authorized share capital consists of unlimited common shares without par value.

Issued and outstanding capital

Nine months ended May 31, 2025

During the nine months ended May 31, 2025, 243,677 RSUs which had vested were converted into common shares of the Company.

During the nine months ended May 31, 2025, 101,000 warrants were exercised at an exercise price of CAD$0.50 for gross proceeds of CAD$50,500 ($36,320).

During the nine months ended May 31, 2025, 3,685,000 warrants were exercised at an exercise price of CAD$0.10 for gross proceeds of CAD$368,500 ($264,435).

During the nine months ended May 31, 2025, the Company issued 1,110,000 units at CAD$0.20 per unit for gross proceeds of CAD$222,000 ($154,424). Each unit is comprised of one common share and one common share purchase warrant, with each warrant exercisable for one common share at a price of CAD$0.30 for a period of 24 months. Unsing the residual method, the Company allocated $108,097 to the common shares, based on the trading price of the Company’s common shares on the transaction date, and the remaining $46,327 to the warrants.

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

13. SHARE CAPITAL (continued)

Nine months ended May 31, 2024

On September 29, 2023, the Company issued 18,865,000 common shares to the key management team members for gross proceeds of $40. The fair value of the shares was estimated to be $591,173 based on a concurrent equity financing of the Number Co and the share exchange ratio with the Number co. under the Arrangement. The fair value amount in excess of the proceeds, $591,133 is recognized as share-based compensation. The fair value was estimated using the Black-Scholes Options Pricing Model using the following assumptions: Exercise price - $0.10, expected dividend yield – 0%, expected volatility – 100%, risk-free interest rate – 4.55%, and an expected remaining life – 2 years.

On September 29, 2023, the Company issued 735,000 common shares to settle its obligation to issue shares of $30 as at August 31, 2023.

In April 2024, the Company closed a round of equity financing with the issuance of 1,045,490 units at $0.22 per unit for gross proceeds of $230,000. Each unit consists of one common share of Bluski and one-half of one common share purchase warrant. Each warrant entitled the holder to purchase one additional common share of Bluski at a price of $0.365 for 24 months following the closing of the equity financing. In connection with the Arrangement, on May 24, 2024, these warrants were cancelled and exchanged for 522,754 warrants of the Company with an exercise price of CAD$0.50 and an expiry date of May 24, 2026.

In relation to the Arrangement, on May 24, 2024, the Company issued 26,071,859 consideration common shares with a fair value of $6,481,880 (Note 4).

Warrants

A continuity of the Company’s warrants is as follows:

	Number of warrants	Weighted average exercise price
Outstanding, August 31, 2023	**-**	**-**
Deemed to be issued in RTO (Note 4)	13,405,832	CAD$0.32
Issued	6,272,754	CAD$0.73
Cancelled	(6)	CAD$0.50
Outstanding, August 31, 2024	**19,678,580**	**CAD$0.45**
Exercised	(3,786,000)	CAD$0.10
Issued	4,681,425	CAD$0.30
Outstanding, May 31, 2025	**20,574,005**	**CAD$0.48**

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

13. SHARE CAPITAL (continued)

The following table summarizes information about the warrants outstanding and exercisable as at May 31, 2025:

Exercise price	Number of warrants outstanding	Weighted-average remaining contractual life (years)	Expiration date
CAD$0.10	3,930,000	0.64	October 19, 2025
CAD$0.50	3,328,832	0.79	December 15, 2025
CAD$0.75	56,000	1.07	March 26, 2026
CAD$0.75	2,305,000	1.23	May 24, 2026
CAD$0.50	522,748	1.23	May 24, 2026
CAD$0.75	5,750,000	1.30	June 19, 2026
CAD$0.30	3,571,425(1)	1.98	February 21, 2027
CAD$0.30	1,110,000	1.99	February 24, 2027
	20,574,005	**1.24**	

(1) Classified as derivative liability warrants (Note 12)

Options

A continuity of the Company's options issued under its stock option plan is as follows:

	Number of options	Weighted average exercise price
Outstanding, August 31, 2023	**-**	**-**
Granted	5,971,000	CAD$0.57
Outstanding, August 31, 2024	**5,971,000**	**CAD$0.57**
Granted	100,000	CAD$0.57
Forfeited and cancelled	(1,216,000)	CAD$0.50
Outstanding, May 31, 2025	**4,855,000**	**CAD$0.59**

The following table summarizes the information about the options outstanding and exercisable as at May 31, 2025:

Exercise price	Number of outstanding options	Number of exercisable options	Weighted-average remaining contractual life (years)	Expiration date
CAD$0.50	850,000	637,500	4.05	June 19, 2029
CAD$0.58	3,855,000	-	4.16	July 29, 2029
CAD$0.495	50,000	-	4.23	August 23, 2029
CAD$0.57	100,000	100,000	1.27	September 5, 2026
	4,855,000	**737,500**	**4.09**	

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

13. SHARE CAPITAL (continued)

On September 5, 2024, the Company granted 100,000 options to a consultant of the Company. The options vested immediately on the date of grant. The fair value was estimated using the Black-Scholes Options Pricing Model using the following assumptions: Exercise price - CAD$0.57, expected dividend yield – 0%, expected volatility – 100%, risk-free interest rate – 2.83%, and an expected remaining life – 2 years.

Share-based payments relating to the vesting of options for the nine months ended May 31, 2025 was $463,579 (2024 - $nil).

Agent Options

As at May 31, 2025 and August 31, 2024, there are 793,160 compensation options outstanding, exercisable into units of the Company at a price of CAD$0.50. When exercised, each unit will consist of one common share and one-half of one share purchase warrant. Each whole warrant will entitle the holder to purchase one common share for an exercise price of CAD$0.75 until June 19, 2026.

Restricted Share Units (“RSUs”)

A continuity of the Company’s RSUs is as follows:

	Number of RSUs
Outstanding, August 31, 2023	**-**
Granted	2,455,080
Converted	(109,430)
Outstanding, August 31, 2024	**2,345,650**
Granted	50,000
Converted	(243,677)
Forfeited and cancelled	(687,946)
Outstanding, May 31, 2025	**1,464,027**

On September 5, 2024, the Company granted 50,000 RSUs with a fair value of $19,990 to a consultant of the Company. The RSUs vested immediately on the date of grant.

Share-based payments relating to the vesting of RSUs for the nine months ended May 31, 2025, was $307,429, respectively (2024 - $nil).

14. RELATED PARTY TRANSACTIONS

Related parties consist of the directors, officers, close members of family of related parties, and companies owned or controlled in whole or in part by them. Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Key management personnel comprise members of the Company’s Board of Directors and corporate officers.

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

14. RELATED PARTY TRANSACTIONS

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All amounts are non-interest bearing, unsecured, and have no fixed terms of repayments.

Remuneration attributed to key management personnel, including close family members, is summarized as follows:

Nine months ended		**May 31, 2025**		**May 31, 2024**
Salaries and benefits	$	197,271	$	362,568
Share-based compensation		575,944		583,456
	$	**773,215**	**$**	**946,024**

Balance due from / to related parties

As at May 31, 2025, included in accounts payable and accrued liabilities was $51,206 (August 31, 2024 - $4,615) owing to key management personnel.

As at May 31, 2025, included in accounts payable and accrued liabilities was $129,986 (August 31, 2024 - $8,149) owing to a companies controlled by a director of the Company.

During the nine months ended May 31, 2025, the Company incurred $127,754 (2024 - $Nil) in professional fees to an entity controlled by a director of the Company.

15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to management them are as follows:

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level One - includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level Two - includes inputs that are observable other than quoted prices included in Level One.
- Level Three - includes inputs that are not based on observable market data.

The carrying value of the Company's financial liabilities as at February 28, 2025 approximate their fair value due to their short terms to maturity.

May 31, 2025	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash	$ 335,334	$ -	$ -	$ 727,731

During the nine months ended May 31, 2025, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Financial risk management

The Company's activities are exposed to a variety of financial risks in the normal course of business. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize the Company's capital costs by using suitable means of financing and to manage and control the Company's financial risks effectively. The principal financial risks arising from financial instruments are liquidity risk. Management has assessed credit risk as low.

Liquidity risk

As at May 31, 2025, the Company's financial liabilities consist of accounts payable and accrued liabilities, loan payable, convertible debenture, derivative liabilities and lease liabilities. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

The following table outlines the undiscounted contractual maturities of the Company's financial liabilities payable in cash at May 31, 2025:

	Less than 1 year	1-5 years	Thereafter
Accounts payable and accrued liabilities	$ 1,081,265	$ -	$ -
Loan payable	761,614	-	-
Convertible debenture	-	575,802	
Lease liabilities	382,623	194,139	-
	$ 2,225,502	$ 769,941	$ -

Credit risk

Credit risk is the risk of an unexpected loss if a third party fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, and other receivables. The Company manages credit risk by depositing its cash with major financial institutions, which have been assigned high credit ratings by internationally recognized credit rating agencies, and by only paying security deposits to reputable, well-established third parties.

16. CAPITAL MANAGEMENT

The Company manages its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of shareholder's equity. The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in business environment. To maintain or adjust the capital structure, the Company may issue new shares through private placement, incur debt or return capital to shareholders.

The Company relies upon management to manage capital in order to accomplish the objectives of:

- Ensuring sufficient financial flexibility to achieve ongoing business objectives, including funding of future growth opportunities, and pursuit of accretive acquisitions; and,
- Maintaining a flexible capital structure, which optimizes the cost of capital at acceptable risk.

16. CAPITAL MANAGEMENT (continued)

The Company's current capital consists of equity funding through issuance of common shares. There have been no changes in the way in which the Company manages capital in the period. The Company is not subject to any externally or internally imposed capital requirements as at May 31, 2025.

17. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the conversion of organic and industrial wastes into biochar, renewable power, and carbonate rocks. All of the Company's non-current assets are located in the United States.

18. SUBSEQUENT EVENTS

On July 11, 2025, the Company approved the Second Amendment of their previous loan agreement wherein the maturity date of the debenture was extended to October 15, 2025, subject to the payment of an extension fee in the amount of $75,000 (Note 11).