Aduro Clean Technologies Inc.

Consolidated Financial Statements

For the Year Ended May 31, 2023

(Expressed in Canadian Dollars)

Aduro Clean Technologies Inc.
Consolidated Statements of Financial Position
Expressed in Canadian Dollars

	May 31, 2023	May 31, 2022
ASSETS		
Current		
Cash and cash equivalents	**$ 4,046,634**	$ 2,110,785
Deposits and Prepaid expenses (Note 5)	**392,114**	312,644
Other receivables (Note 6)	**464,906**	158,408
	4,903,654	2,581,837
Non-current		
Property and equipment (Note 7)	**2,553,702**	450,422
Right of use assets (Note 8)	**122,104**	184,198
Intangible assets (Note 9)	**1,366**	4,918
	2,677,172	639,538
Total Assets	**$ 7,580,826**	$ 3,221,375
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade payables and other current liabilities	**$ 455,048**	$ 585,104
Lease liability – current portion (Note 11)	**34,765**	46,126
Debt - current portion (Note 10)	**27,478**	30,935
	517,291	662,165
Non-current		
Lease liability – non-current portion (Note 11)	**95,734**	137,223
Debt – non-current portion (Note 10)	**-**	27,360
	95,734	164,583
Shareholders' equity (Note 12**)**		
Share capital	**15,396,907**	6,529,316
Warrant reserve	**2,557,918**	2,547,457
Contributed surplus	**4,472,191**	2,913,752
Accumulated deficit	**(15,459,215)**	(9,595,898)
	6,967,801	2,394,627
Total Liabilities and Shareholders' Equity	**$ 7,580,826**	$ 3,221,375

Nature and continuance of operations (Note 1)

Approved on behalf of the Board of Directors on September 18, 2023:

"Ofer Vicus" , Director   "Peter Kampian" , Director

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

Aduro Clean Technologies Inc.
Consolidated Statements of Loss and Comprehensive Loss
Expressed in Canadian Dollars

		Year ended May 31, 2023		Year ended May 31, 2022
Revenue (Note 15)	$	**109,629**	$	-
Expenses				
General and administrative (Note 17)		**2,114,207**		1,884,671
Share-based compensation expense (Note 19)		**1,903,157**		1,789,547
Research and development (Note 18)		**1,780,446**		1,037,796
Depreciation and amortization		**151,313**		60,633
Finance costs (Note 16)		**17,628**		38,932
Foreign exchange		**6,195**		23,659
		5,972,946		4,835,238
Loss before other items		**(5,863,317)**		(4,835,238)
Other items				
Loss on settlement of Debt (Note 10)		-		(245,313)
Loss and comprehensive loss	$	**(5,863,317)**	$	(5,080,551)
Basic and diluted loss per share	$	**(0.10)**	$	(0.13)
Weighted average number of common shares outstanding		**57,048,897**		40,318,441

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

Aduro Clean Technologies Inc.
Consolidated Statements of Changes in Equity
Expressed in Canadian Dollars

	Share Capital					
	Number of Shares	Amount	Warrant Reserve	Contributed Surplus	Deficit	Total
Balance, May 31, 2021	**33,908,358**	**$ 3,483,304**	**$ 1,775,651**	**$ 1,075,164**	**$ (4,515,347)**	**$ 1,818,772**
Shares and warrants issued – April 2022 (Note 12)	3,360,952	1,211,518	940,656	47,657	-	2,199,831
Shares issued on exercise of warrants (Note 12)	1,700,401	1,019,051	(168,850)	-	-	850,201
Shares issued on exercise of Class A Special Warrants	13,333,328	815,443	-	-	-	815,443
Share-based compensation expense (Note 19)	-	-	-	1,790,931	-	1,790,931
Net loss for the year	-	-	-	-	(5,080,551)	(5,080,551)
Balance, May 31, 2022	**52,303,039**	**6,529,316**	**2,547,457**	**2,913,752**	**(9,595,898)**	**2,394,627**
Shares and warrants issued – July 19, 2022	2,599,579	1,423,490	429,543	-	-	1,853,033
Shares and warrants issued – April 3, 2023	4,222,056	3,059,725	670,668	43,009	-	3,773,402
Shares issued on exercise of warrants (Note 12)	4,333,822	3,865,496	(1,089,750)	(63,847)	-	2,711,899
Shares issued on exercise of options (Note 12)	300,000	383,880	-	(188,880)	-	195,000
Shares issued on RSU vesting (Note 12)	150,000	135,000	-	(135,000)	-	-
Share-based compensation expense (Note 19)	-	-	-	1,903,157	-	1,903,157
Net loss for the year	-	-	-	-	(5,863,317)	(5,863,317)
Balance, May 31, 2023	**63,908,496**	**$ 15,396,907**	**$ 2,557,918**	**$ 4,472,191**	**$ (15,459,215)**	**$ 6,967,801**

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

Aduro Clean Technologies Inc.
Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

		Year ended May 31, 2023		Year ended May 31, 2022
Operating Activities				
Net loss for the year	**$**	**(5,863,317)**	$	(5,080,551)
Items not affecting cash:				
Depreciation and amortization		**151,313**		60,633
Share-based compensation expense (Note 19)		**1,903,157**		1,790,931
Interest expense accrued		**13,575**		29,472
Loss on settlement of debt (Note 10)		**-**		245,313
Unrealized foreign exchange on debt		**-**		4,062
Changes in non-cash working capital (Note 23)		**(701,001)**		(348,930)
Cash used in operating activities		**(4,496,273)**		(3,299,070)
Financing Activities				
Issue of common shares, net of issuing costs		**8,533,334**		3,050,032
Finance lease repayments (Note 11)		**(64,550)**		(29,071)
Term and working capital loan repayments (Note 10)		**(30,748)**		(60,125)
Cash provided by financing activities		**8,438,036**		2,960,836
Investing activities				
Property and equipment acquired (Note 7)		**(2,005,914)**		(410,997)
Cash used by investing activities		**(2,005,914)**		(410,997)
Change in cash during the year		**1,935,849**		(749,231)
Cash and cash equivalents, start of year		**2,110,785**		2,860,016
Cash and cash equivalents, end of year	**$**	**4,046,634**	**$**	2,110,785

Supplementary disclosure of non-cash activities:

Shares issued in exchange for redeeming convertible notes (Note 10)	**-**	(815,443)
New right of use asset and related lease liability recognized at start of lease	**24,208**	192,648
Property and equipment additions in accounts payable at May 31, 2023	**187,034**	-

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Aduro Clean Technologies Inc. (the "Company") was incorporated in the Province of British Columbia on January 10, 2018, under the Business Corporations Act of British Columbia. On February 12, 2019, the Company's shares commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "DFT." On April 23, 2021, the Company changed its name to "Aduro Clean Technologies Inc." from Dimension Five Technologies Inc. and the Company's shares were re-listed under the symbol ACT. On July 20, 2021, the Company's shares commenced trading on the OTCQB in the United States under the symbol "ACTHF" and on July 28, 2021, on the Frankfurt Exchange in Germany under the symbol "9D50".

The Company's primary business is the holding company of Aduro Energy Inc. ("Aduro"). Aduro is an early-stage business focusing on developing environmentally responsible technology for converting end-of-life plastics and tire rubber to specialty chemicals and fuels that replace petroleum, upgrading of heavy crude oils and the transformation of renewable oils into renewable fuels and specialty chemicals. The water based chemical recycling platform features three sector focus technologies, Hydrochemolytic Plastics Upgrading ("HPU"), Hydrochemolytic Renewables Upgrading ("HRU") and Hydrochemolytic Bitumen Upgrading ("HBU"). As at May 31, 2023, the Company has developed and owns eight patents, seven granted and one pending (see Note 9).

The registered and records office of the Company is located at Suite 2300, Bentall 5, 550 Burrard Street, Vancouver, BC, Canada V6C 2B5.

During the year ended May 31, 2023 and year ended May 31, 2022, the Company closed three non-brokered private placements (Note 12) that realized net proceeds of $7,826,266 which will be used for general working capital purposes to advance Aduro's scale-up and path to commercialization. As at May 31, 2023, the Company had a deficit of $15,459,215 since inception and incurred negative operating cash flows. As at May 31, 2023, the Company's working capital balance was $4,386,363 (May 31, 2022: $1,919,672) and available cash of $4,046,634 (May 31, 2022: $2,110,785). Therefore, management concludes that the Company has sufficient funds to fund its operations for the next twelve months. Ultimately the continuing operations of the Company are dependent upon generating profitable operations and obtaining funding, as required, to allow the Company to achieve its business objectives. While the Company's management believes that there are many financing opportunities available, there is no assurance that it will be able to successfully obtain additional financing as needed. These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due and do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the classifications used in the consolidated statements of financial position.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements (the "Financial Statements") have been prepared based on the principles of International Financial Reporting Standards (IFRS). Preparation of these Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity and areas where assumptions and estimates are significant to these Financial Statements are disclosed in Note 4.

These financial statements were authorized for issue by the Board of Directors on September 18, 2023.

b) Basis of consolidation

The financial statements of all entities controlled by the Company are included in the Financial Statements from the date control commenced. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company's subsidiary has the same reporting date as the Company. Intra-group balances and transactions are eliminated on consolidation.

c) Basis of measurement

The Financial Statements have been prepared using the historical cost basis except as detailed in the Company's accounting policies in Note 3.

d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary Aduro.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

a) Foreign currency transaction

The Canadian dollar is the functional and presentation currency of the Company and its subsidiary. Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to the functional currency at the exchange rate in effect on the statement of financial position date with any resulting foreign exchange gain or loss recognized in net income (loss).

Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction. Foreign currency gains and losses on transactions are reported on a net basis and recognized in foreign exchange under Expenses within Statements of Loss and Comprehensive Loss.

b) Financial instruments

All financial instruments are measured at fair value upon initial recognition of the transaction.

Measurement

Measurement in subsequent periods is dependent on whether the instrument is classified as "amortized cost", "fair value through profit or loss" or "fair value through other comprehensive income".

The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

All of the Company's financial assets and liabilities are classified as amortized cost.

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, adjusted for any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method.

c) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably.

Expressed in Canadian Dollars

The costs of day-to-day servicing of property and equipment (i.e., repairs and maintenance) are recognized under Expenses in the Statements of Loss and Comprehensive Loss as incurred.

A summary of the expected life and residual values for the Company's property and equipment as at May 31, 2023 and May 31, 2022 was as follows:

	Expected Life	Residual Values
Computer equipment	5 years	-
Leasehold improvements	5 years	-
Laboratory	20 years	-
Motor vehicle	4 years	-
Office equipment	10 years	-
Research equipment	20 years	-

Depreciation is calculated based on the cost of the asset, less its estimated residual value. Depreciation is recognized in the Statements of Loss and Comprehensive Loss on a straight-line basis over the estimated useful lives of each class of asset.

An item of property and equipment is derecognized when it is either disposed of or when it is determined that no further economic benefit is expected from the item's future use or disposal. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal, less associated costs of disposal, with the carrying amount of property and equipment, and are recognized in Other Items within the Statements of Loss and Comprehensive Loss.

d) Identifiable intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses. Cost includes the purchase price and the directly attributable costs to bring the assets to the location and condition necessary for them to be capable of operating in the manner intended by management. Finite life intangible assets are amortized on a straight-line basis over their useful lives. Intangible assets with an indefinite useful life are not amortized. Amortization commences when an asset is ready for its intended use. Estimates of remaining useful lives are reviewed annually.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date that the Company can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) its intention to complete the intangible asset and use or sell it; (iii) its ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development. Until these criteria are met, expenditures are expensed as incurred.

A summary of the expected life and residual values for the Company's intangible assets as at May 31, 2023 and May 31, 2022 was as follows:

	Expected Life	Residual Values
Investor relations videos	5 years	-
Patents	20 years from filing date	-

e) Right-of-use assets and lease liability

Where the Company has entered a lease, the Company has recognized a right-of-use asset representing its rights to use the underlying assets and a lease liability representing its obligation to make lease payments. The right-of-use asset, where it relates to an operating lease, has been presented net of accumulated amortization and is disclosed under right-of-use assets on the statement of financial position. The right of use assets are depreciated over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Company will obtain ownership at the end of the lease term, in which case, the estimated useful life of the asset is used. The lease liability has been disclosed as a separate line item, allocated between current and non-current liabilities. The lease liability associate with all leases is measured at the present value of the expected lease payments at inception and discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, the Company's incremental borrowing rate is used to discount the lease liability. Judgement is required to determine the incremental borrowing rate.

A summary of the expected life and residual values for the Company's right-of-use assets as at May 31, 2023 and May 31, 2022 was as follows:

	Expected Life	**Residual Values**
Property leases	2-5 years	-

f) Impairment

Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates a loss event has occurred after the initial recognition of the asset and the loss event had a negative effect on the estimated future cash flows of the asset that can be estimated reliably.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is an indication of impairment. If an indication exists, then the asset's carrying amount is assessed for impairment. An impairment loss is recognized in net income (loss) if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing fair value less costs to sell, the Company must estimate the price that would be received to sell the asset less any incremental costs directly attributable to the disposal. In assessing value in use, the estimated cash flows are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the decrease in impairment loss can be objectively related to an event occurring after the impairment was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Such reversal is recognized in net income (loss).

g) Share based compensation

Share based compensation expense relates to stock options and restricted share units ("RSUs"). Stock-based compensation expense relates to the fair value of the awards being expensed over their respective vesting periods.

Stock Options

The grant date fair value of stock options is measured using the Black-Scholes option pricing model and is recognized as an expense, with a corresponding increase in contributed surplus in equity, over the vesting period. The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Upon exercise of stock options, the consideration paid by the holder is included in share capital and the related contributed surplus associated with the stock options exercised is reclassified into share capital. Where the terms of a stock option are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based compensation arrangement or is otherwise beneficial to the employee as measured at the date of modification over the remaining vesting period. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received.

Restricted share units ("RSUs")

The fair value of RSUs is measured based on the closing price of the Company's common shares on the date of grant. The fair value of each tranche of RSUs is recognized as expense on a straight-line basis over its vesting period. The fair value of RSUs is charged to profit or loss with a corresponding increase in contributed surplus within equity. The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Upon vesting of equity settled RSUs, the related contributed surplus associated with the RSU is reclassified into share capital.

h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost within the Statements of Loss and Comprehensive Loss. As at May 31, 2023, the Company did not have any provisions.

i) Share capital

Share capital represents the amount received on the issue of shares, less issuance costs, net of any underlying income tax benefit from these issuance costs. If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus and the fair value recorded under warrant reserve. If shares are issued within the conversion option on convertible securities' exercise, the share capital account also comprises the equity component of any of the convertible securities. Common shares issued for consideration other than cash are valued based on the fair value at the date the common shares are issued.

j) Share purchase warrants

Share purchase warrants when issued were initially measured at fair value using a Black Scholes model and the fair value is recognized in Warrants Reserve. When the share purchase warrants are exercised, the fair value attributable to the warrants exercised are added to the proceeds received and shown under share capital.

k) Revenues from contracts with customers

Revenue is recognized at the point in time when the customer obtains control of the product and/or service. Control is achieved when a product is delivered to or the service is performed for the customer, the Company has a present right to payment for the product and/or service, significant risks and rewards of ownership have transferred to the customer according to contract terms and there is no unfulfilled obligation that could affect the customer's acceptance of the product and/or service. For contract services that last over a year, revenue is recognized over the duration of the contract.

l) Government grants

Research and experimental development tax credits are recognized using the cost reduction method in the year that they are received by the Company. Investment tax credits are subject to the customary approvals by the pertinent tax authorities. Adjustments, if required, are reflected in the year when such assessments are received.

m) Finance costs

Finance costs comprise interest expense on borrowings, costs associated with securing debt instruments and unwinding of the discount on provisions.

n) Research and development

Research costs are expensed as incurred. Development costs are only capitalized when the product or process is clearly defined; the technical feasibility has been established; the future market for the product or process is clearly defined; and the Company is committed, and has the resources, to complete the project. During the year ended May 31, 2023 and year ended May 31, 2022, no development costs were deferred and accounted for as identified intangible assets.

o) Income tax

Income tax expense is comprised of current and deferred income taxes. Income tax is recognized in net income (loss) and other comprehensive income (loss) except to the extent that it relates to items recognized in equity on the consolidated statements of financial position. Current income tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Deferred income taxes are recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered.

p) Earnings (loss) per share

Earnings (loss) per share is computed by dividing the income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Under this method, the weighted average number of common shares used to calculate the dilutive effect in the Statements of Loss and Comprehensive Loss assumes that the proceeds that could be obtained upon exercise of options, warrants and similar instruments would be used to purchase common shares at the average market price during the period.

In periods where a net loss is incurred, basic and diluted loss per share is the same as the effect of outstanding stock options and warrants would be anti-dilutive.

q) Operating segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other operating segments. All operating segments' results are reviewed regularly by senior management to make decisions about resources to be allocated to the operating segment and assess its performance. Operating segment results that are reported to senior management include items directly attributable to an operating segment as well as those that can be allocated on a reasonable basis. The Company has one reportable operating segment.

r) Standards adopted in the year

The Company did not adopt any new accounting standards during the year ended May 31, 2023.

s) New interpretations and amendments not yet adopted

A number of interpretations are not yet effective for the year ended May 31, 2023 and have not been applied in preparing these financial statements. The following new interpretations and amendments have been issued, but are not yet effective until financial years beginning on or after January 1, 2023, and may impact the Company in the future:

IAS 1 – Presentation of Financial Statements

IAS 1 has amended the definition of material to "information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The previous definition of material from IAS 1 was "omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

4. CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies (described in Note 3) and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Certain of the Company's accounting policies and disclosures require key assumptions concerning the future and other estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or disclosures within the next fiscal year. Where applicable, further information about the assumptions made is disclosed in the notes specific to that asset or liability. The critical accounting estimates and judgments set out below have been applied consistently to all periods presented in these financial statements.

a) Ability to continue as a going concern

Evaluation of the ability of the Company to realize its strategy for funding its future needs for working capital involves making judgments.

b) Property and equipment/intangible assets

Property and equipment/intangible assets are depreciated/amortized over the estimated useful life of the asset to the asset's estimated residual value as determined by management. All estimates of useful lives and residual values are set out in Notes 3 c), d) and e). Assessing the reasonableness of the estimated useful life, residual value and the appropriate depreciation/amortization methodology requires judgment and is based on management's experience and knowledge of the industry.

c) Impairment

An evaluation of whether or not an asset is impaired involves consideration of whether indicators of impairment exist. Factors which could indicate impairment exists include: significant underperformance of an asset relative to historical or projected operating results, significant changes in the manner in which an asset is used or in the Company's overall business strategy, the carrying amount of the net assets of the Company being more than its market capitalization or significant negative industry or economic trends. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. Events can occur in these situations that may not be known until a date subsequent to their occurrence. When there is an indicator of impairment, the recoverable amount of the asset is estimated to determine the amount of impairment, if any. If indicators conclude that the asset is no longer impaired, the Company will reverse impairment losses on assets only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Similar to determining if an impairment exists, judgment is required in assessing if a reversal of an impairment loss is required.

d) Share purchase warrants and stock options

Share purchase warrants and stock options are initially valued at fair value, based on the application of the Black-Scholes option pricing model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the volatility of the share price, expected dividend yield, expected term of the warrant or stock option and expected risk-free interest rate.

The shares of the Company have limited trading history and therefore management used the volatility of the shares of four companies that management estimated were similar in nature to the Company activities.

e) COVID-19

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

Expressed in Canadian Dollars

5. DEPOSITS AND PREPAID EXPENSES

	May 31, 2023 $	May 31, 2022 $
Prepaid Equipment	**-**	166,081
Prepaid Marketing and Events	**144,569**	96,239
Prepaid Videos and Advertising	**53,012**	-
Prepaid Investor Relations	**45,846**	-
Prepaid Consulting Fees	**36,532**	-
Prepaid Insurance	**7,674**	4,670
Prepaid Conferences	**14,776**	7,698
Deposits	**52,505**	36,245
Other	**37,200**	1,711
Total	**392,114**	312,644

6. OTHER RECEIVABLES

	May 31, 2023 $	May 31, 2022 $
HST receivable	**334,388**	96,351
Due from related party	**78,073**	62,057
Services Receivable	**51,339**	-
Other	**1,106**	-
Total	**464,906**	158,408

The Company’s exposure to credit risk related to trade and other receivables is disclosed in Note 21.

Expressed in Canadian Dollars

7. PROPERTY AND EQUIPMENT

The following table summarizes the Company's property and equipment as at May 31, 2023 and May 31, 2022:

	Motor Vehicle $	Furniture & Fixtures $	Leasehold Improvement $	Laboratory Equipment $	Computer Equipment $	Research Equipment $	Total $
Cost:							
Balance at May 31, 2021	38,151	5,051	-	-	9,617	16,865	69,684
Additions	-	928	25,232	347,497	37,340	-	410,997
Balance at May 31, 2022	38,151	5,979	25,232	347,497	46,957	16,865	480,681
Additions	40,005	104,953	964,909	1,046,714	16,664	19,703	2,192,948
Balance at May 31, 2023	**78,156**	**110,932**	**990,141**	**1,394,211**	**63,621**	**36,568**	**2,673,629**
Accumulated depreciation:							
Balance at May 31, 2021	2,384	4,800	-	-	4,927	1,748	13,859
Charge for the year	9,538	387	1,349	-	4,282	844	16,400
Balance at May 31, 2022	11,922	5,187	1,349	-	9,209	2,592	30,259
Charge for the year	11,205	9,206	58,185	-	9,831	1,241	89,668
Balance at May 31, 2023	**23,127**	**14,393**	**59,534**	**-**	**19,040**	**3,833**	**119,927**
Carrying amounts:							
At May 31, 2021	35,767	251	**-**	**-**	4,690	15,117	55,825
At May 31, 2022	26,229	792	23,883	347,497	37,748	14,273	450,422
At May 31, 2023	**55,029**	**96,539**	**930,607**	**1,394,211**	**44,581**	**32,735**	**2,553,702**

As at May 31, 2023, the Company had not identified any impairment indicators.

Expressed in Canadian Dollars

8. RIGHT OF USE ASSETS

The following table summarizes the Company's right of use assets as at May 31, 2023 and May 31, 2022:

	Property Leases $
Cost:	
Balance at May 31, 2021	57,592
Additions	192,648
Removed on expiry of lease	(57,592)
Balance at May 31, 2022	192,648
Additions	24,208
Removed on expiry of lease	(48,359)
Balance at May 31, 2023	**168,497**
Accumulated depreciation:	
Balance at May 31, 2021	42,578
Charge for year	27,919
Removed on expiry of lease	(62,047)
Balance at May 31, 2022	8,450
Charge for year	58,093
Removed on expiry of lease	(20,150)
Balance at May 31, 2023	**46,393**
Carrying amounts:	
At May 31, 2021	15,014
At May 31, 2022	184,198
At May 31, 2023	**122,104**

The property leases are for Aduro's research offices located at the Western Sarnia-Lambton Research Park in Sarnia, Ontario and Unit 542 Newbold Street, London, Ontario. Aduro's research equipment is located at the premises.

Expressed in Canadian Dollars

9. INTANGIBLE ASSETS

The following table summarizes the Company's intangible assets as at May 31, 2023 and May 31, 2022:

	Investor Relations Videos $	Patent $	Total $
Cost:			
Balance at May 31, 2021, 2022 and 2023	**45,255**	**76,858**	**122,113**
Accumulated amortization:			
Balance at May 31, 2021	33,628	67,253	100,881
Charge for year	6,709	9,605	16,314
Balance at May 31, 2022	40,337	76,858	117,195
Charge for year	3,552	-	3,552
Balance at May 31, 2023	**43,889**	**76,858**	**120,747**
Carrying amounts:			
At May 31, 2021	11,627	9,605	21,232
At May 31, 2022	4,918	-	4,918
At May 31, 2023	**1,366**	**-**	**1,366**

At May 31, 2023, the Company had not identified any impairment indicators.

Investor relations videos

The Company engaged two production companies with each producing a promotional 3D animation movie for the purpose of implementing a marketing strategy for communicating with, and increasing awareness of the Company's solutions by investors, partners and customers.

Patents

On January 24, 2018, the Company entered into a patent purchase agreement (the "PPA") whereby the Company purchased the seller/assignor's entire right, title and interest (being 7/12 of the rights) in and to the transferred patents (as defined) for a purchase price comprised of the reimbursement of US$60,535 ($76,858) in patent costs incurred (*paid*) and the payment of the greater of 0.1% of purchaser revenues or 1% of purchaser net profit (both as defined) on a quarterly basis during the term "Purchase Price Payable". On August 14, 2020, the Company and the seller/assignor entered into an amendment to the PPA pursuant to which the Purchase Price Payable was settled by issuing 1,500 Class B shares (the "Settlement") to the seller/assignor. The Company determined the fair value of the Settlement was $2,265 and this amount was expensed as the Purchase Price Payable was not a contractual obligation under the PPA.

Development costs

On October 1, 2020, the Company entered into a commercialization services agreement (the "CSA") with Bioindustrial Innovation Canada ("BIC") whereby the Company and certain commercialization service providers will carry out a project titled, "*Development of a Hydrochemolytic Pilot Unit for Upgrading Asphaltene and Waste Plastics*" for the purpose of designing, commissioning and building a revenue generating, pilot-scale start-up unit to process potential customers' feedstock to demonstrate the Company's patented HPU technology. On March 15, 2022, the agreement was amended, and the term of the CSA was changed to January 31, 2023, from March 31, 2022. The total project cost is $1,826,888 (being $445,720 in cash and $1,381,168 in-kind) and Aduro's contribution is $1,396,888 (being $195,720 in cash and $1,201,168 in-kind). Aduro paid the required 100% of its contribution to BIC prior to the start of service. To date BIC has requested a payment of $30,000 which was paid in January 2021 and expensed to research and development. The CSA includes a commercialization rebate estimated to be approximately $250,000 net of taxes. The commercialization rebate accrued to date is $250,000, all of which has been used for payments made by BIC. For the purposes of the financial statements, the commercialization rebate accrued, and the expenses related to the payments made by the BIC have been offset as this treatment reflects the settlement arrangement under the CSA and that the expenses might not have been incurred unless the commercialization rebate was available.

Expressed in Canadian Dollars

Patents controlled by the Company not recognized as an intangible asset

The Company has control over various patents that were not recognized by the Company as an asset as it was not possible to determine whether the assets meet the recognition criteria of IAS 38 Intangible Assets.

The Company has recognized all expenses incurred in developing these patents under Research and development in the Statements of Loss and Comprehensive Loss.

As at May 31, 2023, the Company had incurred $669,026 (May 31, 2022: $556,927) in patent development costs.

10. DEBT

As at May 31, 2023 and May 31, 2022, the Company's debt instruments were as follows:

	May 31, 2023 **$**	**May 31, 2022** **$**
Working capital loan – BDC	**18,869**	38,849
Accrued interest - working capital loan – BDC	**145**	213
Term loan	**8,464**	19,233
Total debt	**27,478**	58,295
Less current portion:		
Working capital loan – BDC	**18,869**	19,980
Accrued interest - working capital loan – BDC	**145**	213
Term loan	**8,464**	10,742
Total current portion	**27,478**	30,935
Total non-current portion	**-**	27,360

<u>Working capital loan – BDC</u>

On August 21, 2017, the Company entered into a loan agreement (the "LA") with the Business Development Bank of Canada (the "BDC") whereby the Company received a $100,000 working capital loan. The loan bears interest at the BDC's floating base rate (5.05% at inception) plus a variance (3.4% at inception). The original term of the loan is 60 months with the principal balance, interest and all other amounts owing under the loan being due and payable by the maturity date. The loan is secured by a personal guarantee from the president of the Company. The outstanding balance and all accrued interest may be repaid at any time without penalty. On September 8, 2020 and on March 17, 2021, the Company and the BDC amended the agreement (the "Amending Letter") which updated the amending and standstill agreement dated September 8, 2020. The Amending Letter outlined the new repayment amounts and repayment dates together with a new maturity date of May 8, 2024. As at May 31 2023, the working capital loan will be repaid by 11 monthly principal payments of $1,665 with a final payment of $554 on May 8, 2024. As at May 31, 2023, the BDC's floating base rate was 8.80% (May 31, 2022 - 5.30%) and the all-in interest rate (floating base rate and variance) was 12.20% (May 31, 2022 - 8.70%).

<u>CEBA</u>

On April 20, 2020, the Company received, through TD Bank Canada Trust, a $40,000 loan ("Loan"). During the initial term expiring on December 31, 2022, the Company is not required to repay any portion of the Loan and no interest will be paid. The Loan can be repaid at any time without penalty. If the Company repays at least 75% of the Loan on or before December 31, 2022, the remaining balance of the Loan will be forgiven ("Early Repayment Forgiveness"). During the extended term starting January 1, 2023, and expiring on December 31, 2025, the Company will pay interest at the rate of 5% per annum on a monthly basis. On September 10, 2021, the Loan was fully redeemed for $30,000 with the balance of $10,000 forgiven under the Early Repayment Forgiveness. Up to the date that the Loan was fully redeemed, there was interest expense of $1,411 recognized but not payable due to the redemption. Included for the year ended May 31, 2022, under Loss on settlement of debt in the Consolidated Statements of Loss and Comprehensive Loss is the gain of $11,411 resulting from the redemption of the Loan.

Expressed in Canadian Dollars

Convertible notes

Between February 1, 2013, and August 30, 2015, the Company entered into seven note purchase agreements (the "NPAs") with investors whereby the investors purchased convertible notes (the "CNs") totaling US$60,797 from the Company. The CNs bear interest at 8.5% to 13% per annum and the principal balance and accrued interest are due and payable on or after maturity. Of this amount, US$4,200 was purchased by an officer of the Company (See Note 13).

Between June 17, 2017, and February 12, 2019, the Company entered into six NPAs with investors whereby the investors purchased CNs totaling $285,000 from the Company. The CNs bear interest at 8.5% per annum, compounded annually and the accrued interest is payable upon the earlier of the maturity date or an equity financing. A $100,000 CN sold on June 17, 2017 was secured on the Company's expected entitlement to a Scientific Research and Experimental Development tax credit for the years ending November 30, 2017 to November 30, 2019.

On January 27, 2020, the Company entered into three NPAs with investors whereby the investors purchased CNs totaling $30,000 from the Company. The CNs bear interest at 8.5% per annum and the accrued interest is payable upon the earlier of the maturity date or a next equity financing.

In August and September 2020, all outstanding NPAs and CNs were amended ("Amendment"). Under the Amendment, the interest rate remained unchanged, but the maturity dates were extended to August 31, 2022 (the "Maturity Date"). In addition, if, prior to the Maturity Date, the First Milestone ("FM") is achieved, then on the FM achievement date, each CN will automatically convert into the number of special warrants as determined under the Amendment by the specified formula based on the greater of i) 5 cents and ii) 65% of the 5 day VWAP prior to the FM achievement date. In the event that an ensuing automatic conversion has not already occurred, all accrued interest is due and payable at the Maturity Date. The Amendment included a restrictive covenant whereby the holders undertake not to: (i) take any action for enforcement of the CN; (ii) make a claim against the Company for default of any term of the CN prior to maturity; and (iii) demand any repayment of interest or principal prior to maturity and confirm that upon completion of the Transaction, their only right under the CN prior to maturity is the entitlement to receive special warrants upon achievement of the FM.

On January 18, 2022, the FM was achieved which resulted in the outstanding balance on the convertible notes being converted into common shares. The convertible notes holders received 1,032,207 common shares with a fair value of $815,443 in settlement of the $558,719 outstanding balance on the notes as of January 18, 2022 resulting in a non-cash loss on the redemption of the convertible notes of $256,724 recognized during the year ended May 31, 2022, and included under Loss on settlement of debt in the Consolidated Statements of Loss and Comprehensive Loss.

Term Loan

On February 17, 2021, the Company entered into a conditional sale contract (the "CS") to purchase a motor vehicle. At the start date of the CS, the balance was $34,771 which is to be repaid by 36 monthly repayments of $966. The interest rate under the CS is fixed at 5.99%.

The Company's exposure to foreign exchange and liquidity risk related to debt is disclosed in Note 21.

Scheduled principal and accrued interest payments

As at May 31, 2023, the scheduled principal and accrued interest until maturity were as follows:

	Working Capital Loan – BDC	**Term loan**	**Total**
	$	**$**	**$**
2024	19,014	8,464	27,478

Expressed in Canadian Dollars

Debt continuity

The net change in debt during the year ended May 31, 2023 and the year ended May 31, 2022 was as follows:

	May 31, 2023 **$**	**May 31, 2022** **$**
Starting balance	**58,295**	656,312
Cash flows:		
Principal debt repayments – working capital loan - BDC	**(19,980)**	(19,980)
Principal repayment – CEBA	**-**	(30,000)
Principal repayment – term loan	**(10,768)**	(10,145)
Non-cash changes:		
Convertible notes extinguished with common shares	**-**	(558,719)
Gain on settlement of CEBA loan	**-**	(10,000)
Accrued interest – convertible notes	**-**	26,949
Accrued interest – working capital loan - BDC	**(69)**	(184)
Changes in foreign exchange rate	**-**	4,062
Ending balance	**27,478**	58,295

11. LEASE LIABILITY

The Company's lease liability as at May 31, 2023 and May 31, 2022 was as follows:

	May 31, 2023 **$**	**May 31, 2022** **$**
Gross lease obligations	**152,867**	219,719
Deferred finance charges	**(22,368)**	(36,370)
Total lease liability	**130,499**	183,349
Less: Current portion	**34,765**	46,126
Non-current portion	**95,734**	137,223

Interest on lease liabilities included in finance costs (Note 16)	**13,644**	2,707
Incremental borrowing rate at Initial Application date	**8.45%**	8.45%
Total cash outflow for the lease liability	**64,550**	29,071

The Company's exposure to liquidity risk related to lease liability is disclosed in Note 21.

12. SHARE CAPITAL

Common and Preferred Shares:

Authorized:

i. Unlimited common shares without par value
ii. Unlimited preferred shares without par value

Issued and outstanding:

As at May 31, 2023, the issued and outstanding common shares of the Company consisted of 63,908,496 common shares and nil preferred shares (May 31, 2022: 52,303,039 common shares and nil preferred shares).

On October 22, 2020, the Company entered into a securities exchange agreement ("SEA") with Aduro's security holders (the "TV"s) and Aduro. On the achievement of the FM on January 18, 2022, 13,333,328 common shares were issued for no additional consideration. The TVs received 12,301,121 common shares while the convertible notes holders received 1,032,207 common shares with a fair value of $815,443 in settlement of the $558,719 outstanding balance on the notes (See Note 10).

On April 8, 2022, the Company issued 2,226,036 units (the "**April 2022 Unit**") at a price of $0.70 per April 2022 Unit for aggregate gross proceeds of $1,558,225. On April 27, 2022, the Company issued 1,134,916 April 2022 Units for aggregate gross proceeds of $794,441. Including both tranches, the cumulative April 2022 Units issued were 3,360,952 for gross proceeds was $2,352,666. Each April 2022 Unit was comprised of one common share of the Company and one Common Share purchase warrant (each, a "**April 2022 Share Warrant**"). Each April 2022 Share Warrant entitles the holder to acquire one additional common share at a price of $1.00 per common share, for a period of two years from the closing date. The warrants are also subject to an acceleration right held by the Company if the shares have a closing price of $1.25 or greater per common share on the Canadian Securities Exchange (or such other exchange on which the Shares may be traded at such time) for a period of ten (10) consecutive trading days at any time from the date that is four months and one day after the closing date. The Company paid $109,784 in finder's fees, and $43,052 in legal fees recorded as share issuance cost, and issued 153,620 finder's warrants (the "**April 2022 Finder Warrants**") to certain finders in connection with the Offering. Each April 2022 Finder Warrant is exercisable into one share at a price of $1.00 per common share for a period of two years after the closing date.

On July 19, 2022, the Company completed a non-brokered private placement pursuant to which it has issued an aggregate of 2,599,579 units (each, a "**July 2022 Unit**"), at a price of $0.72 per July 2022 Unit for gross proceeds of $1,871,697. Each July 2022 Unit is comprised of one common share and one-half of one common share purchase warrant (the "**July 2022 Share Warrant**"). Each July 2022 Share Warrant entitles the holder to acquire one common share at an exercise price of $1.00 per common share for a period of two years from the closing date. The warrants are also subject to an acceleration right held by the Company if the shares have a closing price of $1.25 or greater per common share on the Canadian Securities Exchange (or such other exchange on which the common shares may be traded at such time) for a period of ten (10) consecutive trading days at any time from the date that is four months and one day after the closing date. The Company paid $18,664 in legal fees recorded as share issuance cost.

On April 3, 2023, the Company completed a non-brokered private placement pursuant to which it has issued an aggregate of 4,222,056 units (each, a "**April 2023 Unit**"), at a price of $0.93 per April 2023 Unit for gross proceeds of $3,926,512. Each April 2023 Unit is comprised of one common share and one-half of one common share purchase warrant (the "**April 2023 Share Warrant**"). Each April 2023 Share Warrant entitles the holder to acquire one common share at an exercise price of $1.30 per common share for a period of two years from the closing date. The warrants are also subject to an acceleration right held by the Company if the shares have a closing price of $1.60 or greater per common share on the Canadian Securities Exchange (or such other exchange on which the common shares may be traded at such time) for a period of ten (10) consecutive trading days at any time from the date that is four months and one day after the closing date. The Company paid cash finder's fee of $119,615 and legal fees of $33,495, all of which were recorded as share issuance costs, and issued 128,617 finder's warrants (the "**April 2023 Finder Warrants**") to certain finders in connection with the Offering. Each April 2023 Finder Warrant is exercisable into one share at a price of $1.30 per common share for a period of two years after the closing date.

During the year ended May 31, 2022, 1,700,401 February 2021 Share Warrants were exercised at an exercise price of $0.50 resulting in the issue of 1,700,401 common shares and gross proceeds of $850,201.

During the year ended May 31, 2023, 2,402,403 February 2021 Share Warrants were exercised at an exercise price of $0.50, 1,752,684 May 2021 Share Warrants were exercised at an exercise price of $0.80, 68,875 February 2021 Finder Warrants were exercised at an exercise price of $0.30, 109,860 May 2021 Finder Warrants were exercised at an exercise price of $0.80, 300,000 options were exercised at an exercise price of $0.65, and 150,000 granted Restricted Share Units vested, resulting in the issue of 4,783,822 common shares and gross proceeds of $2,906,899.

As at May 31, 2023, 6,590,129 (May 31, 2022: 13,180,258) common shares were being held in escrow.

Restricted Share Units

On December 29, 2022, the Company awarded 150,000 restricted share units ("RSU") to an officer of the company pursuant to the Company's equity incentive plan. All of the RSUs vested immediately upon the date of award, at which time the Company issued 150,000 common shares. For the year ended May 31, 2023, an expense of $135,000 (2022: $nil) was recognized for services provided based on the vesting conditions of RSU's.

Expressed in Canadian Dollars

Special Warrants

On the closing of the Transaction, the Company issued 26,666,656 special warrants (the "SWs"), consisting of 13,333,328 Class A special warrants (the "ASWs") and 13,333,328 Class B special warrants (the "BSWs") at a deemed price equal to the Company's discounted share price (as defined), to Aduro's special warrant trustee to be held in trust until distributed on the FM achievement date. The SWs are convertible for no additional consideration into the Company's Shares on a one-for-one basis upon the later of the achievement of the FM in the case of the ASWs or the achievement of the second milestone ("SM") in the case of the BSWs, as applicable, and the distribution of the SWs by the trustee. The FM was achieved on January 18, 2022, resulting in the 13,333,328 ASWs distributed and automatically converted on a one-for-one basis into common shares of the Company for no additional consideration. The convertible notes holders received 1,032,207 common shares in settlement of the $558,719 outstanding balance on the notes and the TVs received 12,301,121 common shares. The 13,333,328 BSWs special warrants were issued to the TVs in accordance with the terms of the SEA and were outstanding as at May 31, 2023.

Stock Options:

On June 18, 2021, 50,000 options were granted to an adviser at an exercise price of $0.80 for a term of two years. On February 7, 2022, 300,000 options were granted to an investor relations consultant at an exercise price of $0.75 for a term of two years. On February 22, 2022, the Company granted 1,325,000 options to directors, officers, employees and an adviser at an exercise price of $0.72 for a term of ten years. On June 20, 2022, the Company granted 400,000 stock options to an officer at an exercise price of $0.70 for a term of ten years and 150,000 stock options to a consultant at an exercise price of $0.70 for a term of two years. On December 29, 2022, the Company granted 2,075,000 options to directors, officers, employees and an adviser at an exercise price of $1.00 for a term of five years.

A continuity schedule of the incentive stock options is as follows:

	May 31, 2023		**May 31, 2022**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable, beginning of period/year	5,424,999	$ 0.6781	3,749,999	$ 0.6559
Granted	2,625,000	0.9371	1,675,000	0.7278
Exercised	(300,000)	0.6500	-	-
Cancelled	(516,000)	0.7217	-	-
Outstanding, end of period/year	**7,233,999**	**$ 0.7701**	**5,424,999**	**$ 0.6781**
Exercisable, end of period/year	**5,147,716**	**$ 0.7149**	**3,761,857**	**$ 0.6649**
Weighted average life (years)	**6.80**		**8.35**	

The fair value of the stock options granted were estimated using the Black-Scholes option pricing model based on the following assumption ranges:

Risk-free interest rate	from 0.33% to 3.41%
Expected life	from 2 to 10 years
Expected volatility	from 100% to 211.86%
Dividend rate	Nil

Expressed in Canadian Dollars

For the year ended May 31, 2023, an expense of $1,768,157 (2022: $1,789,547) was recognized for services provided based on vesting conditions of stock options. The amount recognized reflected the vesting duration of the options.

Share Purchase Warrants:

As at May 31, 2023, the following table details the share purchase warrants issued by the Company:

Description	Issue Date	Outstanding at May 31, 2023	Fair value at May 31, 2023	Exercise price	Term (years)
February 2021 Share Warrants	February 4, 2021	1,529,911	$ 151,921	$ 0.50	4
April 2021 Share Warrants	April 23, 2021	2,813,357	$ 289,494	$ 0.50	4
April 2022 Share Warrant	April 8, 2022	2,226,036	$ 645,582	$ 1.00	2
April 2022 Finder Warrants	April 8, 2022	114,720	$ 36,710	$ 1.00	2
April 2022 Share Warrant	April 27, 2022	1,134,916	$ 295,074	$ 1.00	2
April 2022 Finder Warrants	April 27, 2022	38,900	$ 10,946	$ 1.00	2
July 2022 Share Warrant	July 19, 2022	1,299,788	$ 429,543	$ 1.00	2
April 2023 Share Warrant	April 3, 2023	2,111,026	$ 670,668	$ 1.30	2
April 2023 Finder Warrants	April 3, 2023	128,617	$ 43,009	$ 1.30	2
		11,397,271	**$ 2,572,947**		
Weighted average exercise price and remaining term (in years)				**$ 0.8684**	**1.45**

A continuity schedule of the number of share purchase warrants and their carrying amounts is as follows:

	Total
Outstanding and exercisable, May 31, 2021	**10,557,131**
Issued	3,514,572
Cancelled/Expired/Exercised	(1,700,401)
Outstanding and exercisable, May 31, 2022	**12,371,302**
Issued	3,539,431
Cancelled/Expired/Exercised	(4,513,462)
Outstanding and exercisable, May 31, 2023	**11,397,271**

The carrying amounts of the February 2021 Finder Warrants, May 2021 Finder Warrants, April 2022 Finder Warrants, and April 2023 Finder Warrants are recognized as part of contributed surplus while the carrying amount of the other share purchase warrants are included in warrant reserve.

During the year ended May 31, 2022, 1,700,401 February 2021 Share Warrants were exercised at an exercise price of $0.50 resulting in the issue of 1,700,401 common shares and $168,850 being reclassified from warrants reserve to share capital.

During the year ended May 31, 2023, 2,402,403 February 2021 Share Warrants were exercised at an exercise price of $0.50, 1,752,684 May 2021 Share Warrants were exercised at an exercise price of $0.80, 68,875 February 2021 Finder Warrants were exercised at an exercise price of $0.30, 109,860 May 2021 Finder Warrants were exercised at an exercise price of $0.80, resulting in the issue of 4,333,822 common shares and $1,089,750 and $63,847 being reclassified from warrants reserve and contributed surplus, respectively, to share capital. Additionally, 7,070 February 2021 Finder Warrants, 155,749 May 2021 Share Warrant, and 16,821 May 2021 Finder Warrants expired unexercised.

Expressed in Canadian Dollars

The fair value of the warrants issued were estimated using the Black-Scholes option pricing model based on the following assumption ranges:

Risk-free interest rate	from 0.19% to 3.54%
Expected life	from 2 to 4 years
Expected volatility	from 81.10% to 148.58%
Dividend rate	Nil

As at May 31, 2023, 722,569 (May 31, 2022: 1,445,137) April 2021 Share Warrants were being held in escrow.

13. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

Key management personnel are those persons that have authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly, and by definition include all the directors and officers of the Company.

During the years ended May 31, 2023 and 2022, compensation of key management personnel was as follows:

	Year ended May 31, 2023 $	Year ended May 31, 2022 $
Salary and related costs	**444,944**	156,420
Professional fees	**511,378**	427,853
Share-based compensation expense (Note 19)	**904,170**	809,886
	1,860,492	1,394,159

As at May 31, 2023 and May 31, 2022, the outstanding balances for related parties was comprised of the following:

	May 31, 2023 $	May 31, 2022 $
Due to key management personnel	**33,587**	44,579
Due from key management personnel	**78,073**	62,057

These amounts are unsecured, non-interest bearing and have no specific terms of repayment.

On January 18, 2022, there was a CN with a principal balance of US$4,200 and interest payable of US$4,896 outstanding to one of the key management personnel that was extinguished following the achievement of the FM by the Company issuing 21,054 common shares with a fair value of $16,633. Accrued interest recognized as an expense on this CN for the year ended May 31, 2022 was $435.

14. CONTRACTUAL OBLIGATIONS

Investor Cubed Inc.

On February 8, 2022, the Company engaged Investor Cubed Inc. ("Investor Cubed") to provide financial consulting and investor relations services in Canada. The consulting agreement (the "IC Agreement") provides for a fee of $7,500 per month and the granting of 300,000 options on February 7, 2022, vesting quarterly, in equal installments. The IC Agreement will continue monthly for twelve months. Thereafter either party may terminate the IC Agreement, by providing 30 days written notice on or before each three-month period end.

The agreement was amended on September 1, 2022, whereby the term of the agreement was amended to nine months ending on May 31, 2023. The agreement was amended on February 14, 2023, whereby the term of the agreement was amended to twelve months ending on August 31, 2023. The agreement was amended on August 8, 2023, whereby the term of the agreement was extended to October 30, 2023. Starting in October 2022, no monthly fees will be charged. 75,000 options granted on February 7, 2022 and originally vesting on February 7 2023 were cancelled.

Expressed in Canadian Dollars

Investing Publishing LLC

On June 29, 2022, the Company entered into an investor relations agreement with Investment Publishing LLC ("Investment Publishing") to provide investor relations services. The consulting agreement (the "IP Agreement") provides for a fee of $8,000 per month. The IP Agreement will continue on a monthly basis for twelve months and either party may terminate the IP Agreement by providing 30 days written notice. On June 20, 2022, 150,000 Options were granted to the principal of Investment Publishing in his capacity as a consultant of the Company.

Common Cents Media, Social Purpose Corporation

On May 1, 2023, the Company entered into an investor relations agreement with Common Cents Media, Social Purpose Corporation ("Common Cents") to provide marketing services through social media channels and online media distribution. The consulting agreement (the "CS Agreement") provides for a fee of US $15,000 for an initial term of six months to commence on April 10, 2023, and on a month-to-month basis thereafter.

Arrowhead Business and Investment Decisions LLC

On May 1, 2023, the Company entered into an investor relations agreement with Arrowhead Business and Investment Decisions LLC ("Arrowhead") to provide investor relations services and develop the Company's international market awareness. The consulting agreement (the "ABID Agreement") provides for a fee of US $45,000 for an initial term starting May 8, 2023, and ending December 31, 2023. This initial term may be further extended for renewable six-month terms, at a fee of US$ 50,000 per renewed six-month term, subject to earlier termination by 30 days written notice from either party.

15. REVENUE

The Company entered into a collaboration agreement with a confidential publicly traded organisation for execution of a proof of concept and evaluation of the Company's HPU technology. Revenue in the amount of $109,629, recognized in the Statements of Loss and Comprehensive Loss, resulted from services completed during the year ended May 31, 2023 pursuant to the collaboration agreement.

16. FINANCE COSTS

Finance costs recognized in the Statements of Loss and Comprehensive Loss are comprised of the following:

	Year ended May 31, 2023 $	Year ended May 31, 2022 $
Lease finance charges	**13,644**	2,707
Bank Interest	**-**	3,764
Interest on debt:		
Working capital loan – BDC	**3,145**	3,801
Convertible notes	**-**	26,949
CEBA	**-**	264
Term loan	**822**	1,447
Other	**17**	-
Total Finance Costs	**17,628**	38,932

Expressed in Canadian Dollars

17. GENERAL AND ADMINISTRATIVE

General and administrative expenses recognized in the Statements of Loss and Comprehensive Loss are comprised of the following:

	Year ended May 31, 2023 $	Year ended May 31, 2022 $
Investor relations and communication costs	**322,263**	709,990
Conferences	**70,694**	57,305
Automobile	**27,919**	19,857
Bank charges	**8,531**	7,863
Office and general	**191,917**	83,026
Professional fees	**518,704**	618,965
Salary and related costs	**615,276**	102,210
Transfer agent and filing costs	**86,804**	147,725
Travel	**216,325**	116,254
Other	**55,774**	21,476
Total General and Administrative	**2,114,207**	1,884,671

18. RESEARCH AND DEVELOPMENT

Research and development expenses recognized in the Statements of Loss and Comprehensive Loss are comprised of the following:

	Year ended May 31, 2023 $	Year ended May 31, 2022 $
Project related expenses	**808,662**	506,690
Salary costs allocated	**790,807**	389,279
Payments to research partner	**68,878**	49,526
Professional fees – patent development costs	**112,099**	90,917
Consultant fees paid by share based payment (Note 19)	**-**	1,384
Total research and development	**1,780,446**	1,037,796

19. SHARE-BASED COMPENSATION EXPENSE

Share-based compensation expense recognized in the Statements of Loss and Comprehensive Loss is comprised of the following:

	Year ended May 31, 2023 $	Year ended May 31, 2022 $
Expense recognized for services provided based on vesting conditions of stock options (Note 12)	**1,768,157**	1,789,547
Expense recognized for services provided based on vesting conditions of restricted share units (Note 12)	**135,000**	-
Consultant fees for research and development (Note 18)	**-**	1,384
Total share-based compensation expense	**1,903,157**	1,790,931

Expressed in Canadian Dollars

20. INCOME TAXES

The following provides a reconciliation of loss before income taxes to total income taxes recognized in the Statements of Loss and Comprehensive Loss:

	Year ended May 31, 2023 $	Year ended May 31, 2022 $
Loss before income taxes	**(5,863,317)**	(5,080,551)
Statutory rate	**27.00%**	27.00%
Expected income tax recovery	**(1,583,096)**	(1,371,749)
Deductible and non-deductible items	**498,697**	523,174
True-up of prior year amounts	**100,085**	-
Unrecognized benefit of non-capital losses	**984,314**	848,575
Total income taxes	**-**	-

As at May 31, 2023 and May 31, 2022, the nature of the Company's temporary differences was as follows:

	Year ended May 31, 2023 $	Year ended May 31, 2022 $
Tax loss carry forwards	**9,829,000**	5,850,000
Property and equipment and intangible assets	**(312,000)**	7,000
Other temporary differences	**(11,000)**	(11,000)
Finance costs and financing allowance	**279,000**	200,000
Valuation allowance	**(9,785,000)**	(6,046,000)
Total deductible temporary differences not recognized	**-**	-

As at May 31, 2023, the Company has accumulated non-capital losses for the Canadian income tax purposes totalling approximately $9,829,247 (May 31, 2022 – $5,850,195). The losses expire in the following periods:

	Year of Origin	Year of Expiry	Amount $
	2012	2032	30,713
	2013	2033	127,913
	2014	2034	46,501
	2015	2035	75,044
	2016	2036	103,332
	2017	2037	177,009
	2018	2038	347,092
	2019	2039	457,633
	2020	2040	533,468
	2021	2041	902,646
	2022	2042	3,090,215
	2023	2043	3,937,681
Total tax loss carry forwards			9,829,247

Expressed in Canadian Dollars

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Interest rate risk

The Company is exposed to interest rate risk on its working capital loan to the extent that BDC's floating base rate and variance change. A one percent change in the interest rate would have had an immaterial impact on finance costs for the years ended May 31, 2023 and 2022. The remaining debt and lease liability have fixed cost of funds rate until maturity though subject to interest rate fluctuations if refinanced.

Foreign exchange risk

The Company is primarily exposed to foreign currency fluctuations in relation to its US dollar trade payables. U.S. dollar financial instruments subject to foreign exchange risk are summarized below. The Company has assessed the risk and decided not to hedge the risk.

(US$)	May 31, 2023 $	May 31, 2022 $
Cash and cash equivalents	**185**	245
Trade payables	**13,542**	82,976
Net US dollar exposure	**13,727**	83,221

As at May 31, 2023, with other variables unchanged, a $0.10 change in the Canadian dollar against the US dollar would result in a $1,373 pre-tax loss (May 31, 2022: $8,322) from the Company's financial instruments.

Credit risk

Credit risk arises from cash and cash equivalents held with a bank as well as credit exposure to customers in the form of outstanding trade and other receivables but excluding balances receivable from government entities. The maximum exposure to credit risk is equal to the carrying value of the Company's cash which reflects management's assessment of the credit risk which at May 31, 2023 was $4,046,634 (May 31, 2022: $2,110,785).

Impairment losses

The allowance for doubtful accounts in respect of trade and other receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible. At that point, the amounts are considered unrecoverable and are written off against the financial asset directly. The Company did not record any impairment for the years ended May 31, 2023 and May 31, 2022.

Liquidity risk

Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they become due. The Company manages liquidity risk through management of its cash and cash equivalents and working capital balances which is made up of trade payables, other current liabilities, project contributions payable, working capital loans and other debt.

The table below provides an analysis of the expected maturities of the Company's outstanding obligations as at May 31, 2023:

			Due prior to		
	Amount $	2024 $	2025 $	2026 $	2027+ $
Trade payables and other current liabilities	455,048	455,048	-	-	-
Debt (Note 10)	27,478	27,478	-	-	-
Lease liability (Note 11)	130,499	34,765	27,851	31,971	35,912
Total expected maturities	613,025	517,291	27,851	31,971	35,912

Expressed in Canadian Dollars

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company’s income (loss) or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

Capital management

Management is focused on several objectives while managing the capital structure of the Company, specifically:

- Ensuring the Company has the financing capacity to execute its business plan and meet its strategic objectives while capitalizing on opportunities that add value for the Company’s shareholders;
- Maintaining a strong capital base; and
- Safeguarding the Company's ability to continue as a going concern, such that it provides returns for shareholders and benefits for other stakeholders.

22. OPERATING SEGMENTS

Reportable Segments

The business is in early stage focusing on developing environmentally responsible technology for converting end-of-life plastics and tire rubber to specialty chemicals and fuels that replace petroleum, upgrading of heavy crude oils and the transformation of renewable oils into renewable fuels and specialty chemicals. For management purposes, the Company activities are managed and monitored by senior management as one operating segment. The financial statements included are the same financial statements that management uses to monitor the performance of the Company and for the allocation of resources.

Entity Wide Disclosures

As at, and for the year ended May 31, 2023, the Company’s operations and assets were in Canada. As an early-stage development company, the Company was not yet generating sustainable revenues from its development activities.

The revenues of $109,629 for the year ended May 31, 2023 related to revenue earned following the completion of services pursuant to a collaboration agreement with a confidential publicly traded organisation for execution of a proof of concept and evaluation of the Company’s HPU technology (Note 15).

23. SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended May 31, 2023 and 2022, the net change in non-cash working capital balances consists of the following:

	May 31, 2023 **$**	**May 31, 2022** **$**
Trade and other receivables	**(306,498)**	(81,528)
Prepaid expenses	**(79,470)**	(312,644)
Trade payables and other current liabilities	**(315,497)**	57,380
Project contributions payable	**464**	(12,138)
Net change in non-cash working capital balances	**(701,001)**	(348,930)

24. SUBSEQUENT EVENTS

Exercise of options and warrants

Subsequent to May 31, 2023, 150,000 share purchase warrants were exercised at an exercise price of $1.00 and 100,000 options were exercised at an exercise price of $0.75 for total proceeds of $225,000.

Establishing Subsidiary in the Netherlands

On June 1, 2023, the Company established its European subsidiary, Aduro Clean Technologies Europe BV (“ACTE”), at the Brightlands Chemelot Campus based in Sittard-Geleen, Netherlands.

Entered into an Investor Relations Agreement with Outside The Box Capital Inc.

On July 10, 2023, the Company entered into an investor relations agreement with Outside The Box Capital Inc. (“OTBC”) to provide marketing consulting and investor relations services, including marketing services through social media channels and online media distribution. The consulting agreement (the “OTBC Agreement”) provides for a fee of $100,000 for an 8-month term starting July 10, 2023, and ending March 10, 2024. The Company also granted OTBC 75,000 options vesting immediately upon grant, with an exercise price of $1.05, and a one-year term.

Stock Options and Restricted Share Units

On September 11, 2023, the Company granted 750,000 stock options to purchase up to 750,000 common shares in the capital of the Company to certain officers and employees of the Company pursuant to the Company’s Omnibus Equity Incentive Plan (the “Plan”). The Options are exercisable for a period of five years from the date of Grant at a price of $1.09 per common share. The Options will vest on a monthly basis over a period of two years from the date of Grant. The Company also awarded 150,000 restricted share units (“RSU”) to an officer of the company pursuant to the company's new omnibus equity incentive plan. All of the RSUs vested immediately upon the date of award, at which time the Company issued 150,000 common shares.