# MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDING
DECEMBER 31, 2023

Delta
CLEANTECH
CAPTURING SUSTAINABILITY

## INTRODUCTION

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of December 31, 2023 and should be read together with the Delta CleanTech Inc. ("**Delta**" or the "**Corporation**" or "**Company**")) audited consolidated financial statements for the year end period ending December 31, 2023 (the "**Year**" or "**Q4**") and related notes attached thereto (collectively referred to as the "**Financial Statements**"), which are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are stated in Canadian dollars unless otherwise indicated. The Corporation has adopted National Instrument 51-102F1 as the guideline in representing the MD&A. Terms used but not defined in this MD&A shall bear the meaning as set out in Part 1 of National Instruments ("**NI**") 51-102 and NI 14-101 *Definitions* and accounting terms that are not defined herein shall bear the meaning as described or used in IFRS applicable to publicly accountable enterprises.

This MD&A is dated April 29, 2024.

## FORWARD-LOOKING STATEMENTS DISCLAIMER

Statements in this MD&A that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties that may cause the Corporation's actual results or outcomes to be materially different from those anticipated and discussed herein. In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in this MD&A and accompanying Financial Statements, and to not put undue reliance on such forward-looking statements. Forward-looking statements in this MD&A include statements with respect to: the expected performance of the Corporation and operations and the Corporation's intentions to expand its business and operations; the Corporation's expectations regarding revenue, expenses and anticipated cash needs; the Corporation's plans to expand its purification capabilities; the ability of the Corporation to meet consumer demand; the ability of the Corporation to execute on its strategic priorities and objectives; the size of the market that the Corporation operates in; the Corporation's ability to create engineering and distribution channels. Although ***Delta***'*s* management ("**Management**") believes that the expectations reflected in the forward-looking statements are reasonable, Management cannot guarantee future results, levels of activity, performance or achievements, or other future events. Forward-looking statements in this MD&A speak only as of the date on which they are made, and Management is under no duty to update any of its forward-looking statements after the date of this MD&A, other than as required and governed by applicable securities laws.

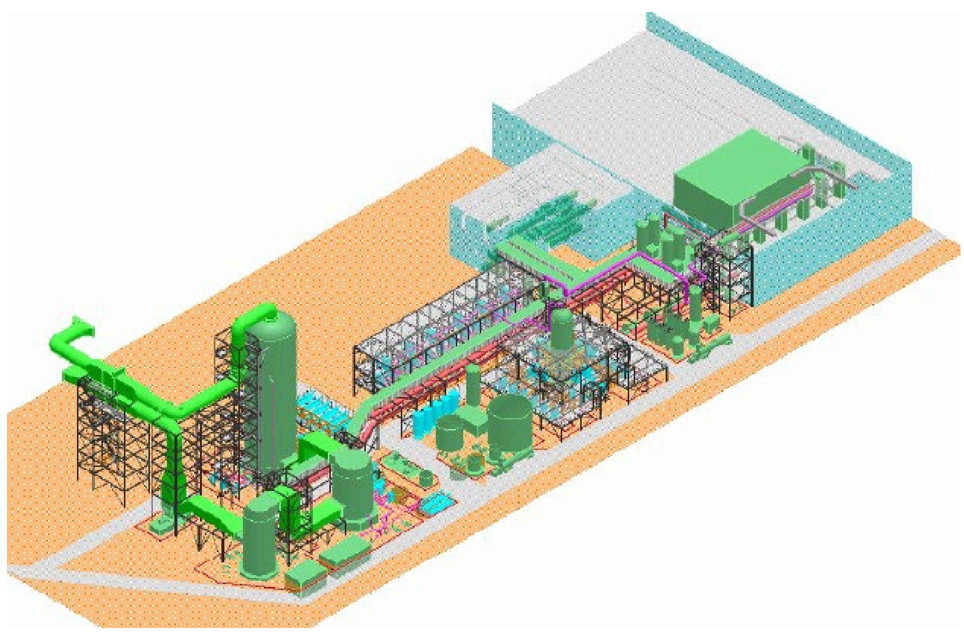
Additional information related to the Corporation is available for view on SEDAR+ at www.sedarplus.ca.

Corporate Overview

***Delta*** is a clean energy technology business that is dedicated to providing proven clean technology solutions that address the Environmental Social Governance ("**ESG**") needs of corporations. The principal activity of ***Delta*** consists of the following five business sectors:

1) $CO_2$ capture;
2) Hydrogen Production ($CO_2$ Capture);
3) Solvent and Ethanol Purification;
4) Methane Collection and Destruction; and
5) Carbon Credit Validation, Certification, and Trading.

***Delta*** provides the above services by bundling its patented process design intellectual property, with $CO_2$ capture, methane destruction and solvent purification. The proprietary and patented technologies are designed to reduce the cost of carbon capture, methane destruction, and solvent and ethanol purification creating compliance and voluntary offset carbon credits. ***Delta's*** projects are engineered to lower capital and operating costs, while at the same time delivering superior performance through energy reduction and lowering emissions. Further, ***Delta* Purification®** is a solvent and glycol purification division, focused on the field of purifying, reclaiming, recycling and reusing solvents and glycols, providing energy processors and heavy industry participants the option of reclaiming and not disposing of these waste materials in underground disposal wells.

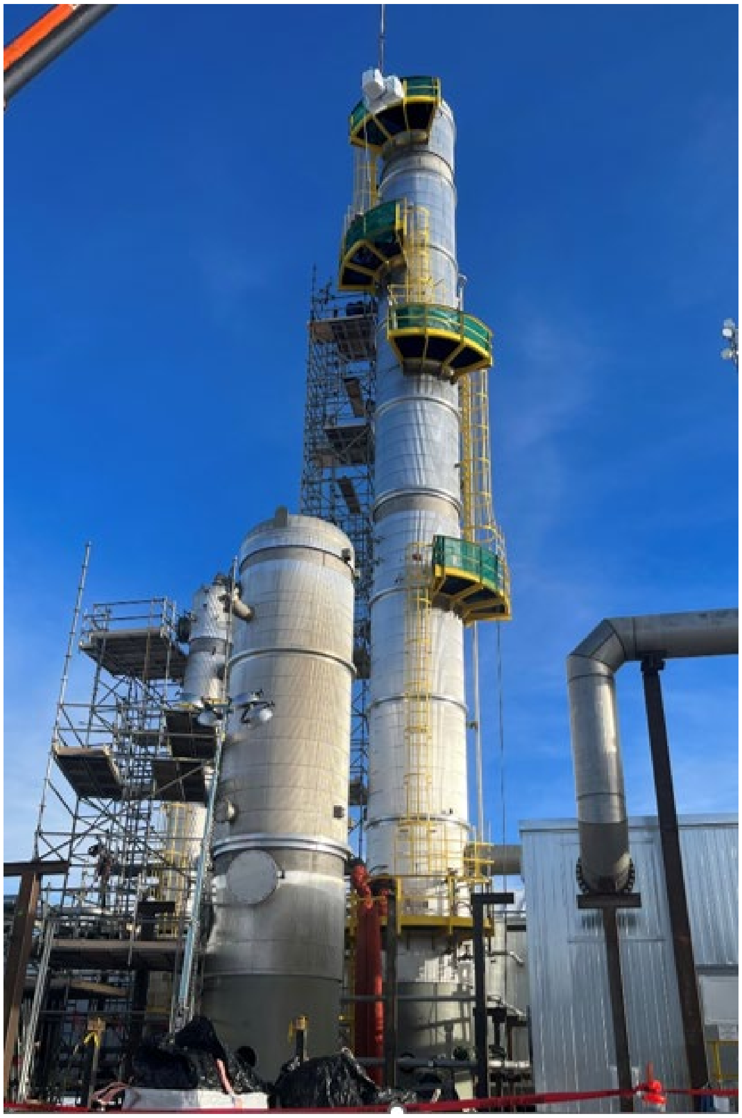


*DELTA CLEANTECH INC.*

***Delta*** has developed proprietary extraction and purification systems for the energy business sector that have been designed to extract $CO_2$ and waste solids from gases and liquids.

The Corporation benefits from its 19-year pedigree, management, experience, proprietary intellectual property, and historic customer branding.

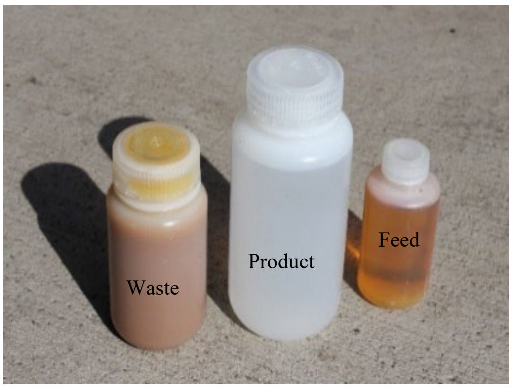
*Delta's Modular designed $CO_2$ capture unit*



*Proprietary Process Design package for CO2 capture plants*

***$CO_2$ Capture and Utilization***

Identity Preserved Waste ("**IPW**") is a recognized industry phrase utilized by energy infrastructure professionals. It refers to the quantification, identity, ownership and liability of air borne, soil borne, and water borne waste. ESG is driving IPW Solutions. An ESG audit will consider IPW and in the process, retain ownership for its disposed waste. ***Delta's*** IPW solutions ($CO_2$ capture, methane destruction and liquids reclamation) assist with mitigating this liability issue for companies.




### *Solvent, Glycol and Ethanol Reclamation Systems*

***Delta* Purification®** is a solvent, glycol and ethanol purification division, focused in the field of purifying, reclaiming, recycling and reusing ethanol, solvents and glycols, providing energy processors and heavy industry participants the option of not disposing of these waste materials in underground disposal wells.

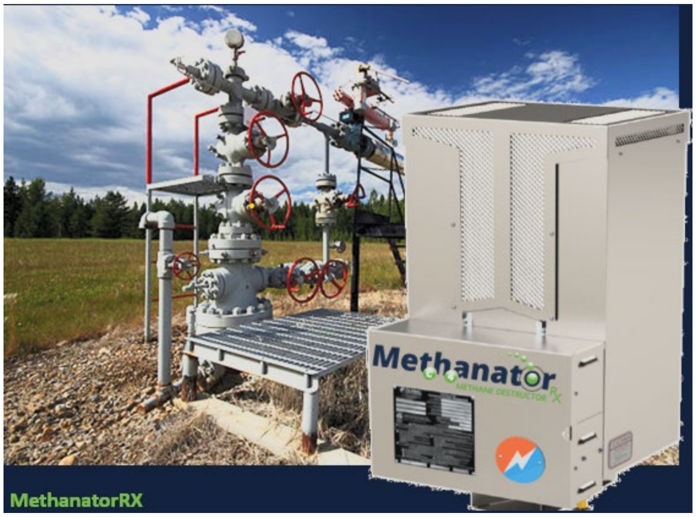
The ***Delta* Purification®** WTO patented System reclaimer unit is like a kidney in the human body, in that it removes the impurities that build up in solvents, ethanol, glycols and liquids used as solvents in commercial clean energy and biomass extraction systems. This system allows these liquids to be reclaimed, recycled, and reused.

The ***Delta* Purification®** System offers the following commercial products:

- ***Delta* Solvent Reclaiming System™** - Reclaiming hydrocarbon-based and other solvents, such as single, mixed, and formulated amines, for use in natural gas processing, ethanol-based solvents and post-combustion $CO_2$ capturing processes.

- ***Delta* Glycol Reclaiming System™** - Reclaims and purifies glycols, such as mono-ethylene glycol and tri-ethylene glycol, used for natural gas dehydration processes.

### *Methane Collection and Destruction*




Wellhead methane, leaked from oil and natural gas production wells, is the result of fissures within the surface casing cement, and can occur in both new and old wells. Rising environmental standards have increased the regulatory focus on greenhouse gas emissions due to the fact that methane's global warming potential contributes 26 + times that of $CO_2$.

The desire to capture and burn this methane in an oxygen free environment allows for the conversion of methane to carbon dioxide, the reduction of the overall greenhouse gas impact of the producing well and can reduce the carbon intensity of the production of both oil and natural gas.

Up until this point, operators with casing bowl methane leaks have relied on expensive remediation activities, with costly and uncertain outcomes. This exercise includes service rigs, perforating units, cement formulators and pumping infrastructure.

***Delta*** has a low-cost technical solution that solves this problem, and a business model to destroy methane. This destruction process further provides an opportunity to convert the destroyed methane into fungible carbon credits. ***Delta*** is currently in the process of building, testing and commercially demonstrating its low volume casing bowl methane destruction unit. Am interested oil and gas company has provided a site where the unit will be tested and demonstrated in the new year.

## President's Comments:

The future of clean technology is materializing. There are four main factors that are driving the industry that are significantly different than in prior years:

1) **Canadian Carbon Taxation** – began at $50.00/T in 2023 and will gradually increase to $170 per ton by 2030. Federal carbon tax increase to $80/T is effective April 1, 2024.
2) **Environmental and Social Governance** – a public commitment to adopting environmental strategies to reduce their environmental footprint.
3) **Commercialization of the capture technology** – the ***Delta*** $CO_2$ capture technology has been perfected over the last 20 years and is fully commercial. (Real projects are not interested in a science experiment.)
4) **Growth of new ways to utilize $CO_2$ as a commodity –** products such as carbon nanotubes, graphene, $CO_2$ injected concrete, and commercial products such as methanol and ethanol, all help to reduce the eventual cost of emissions reduction.

***Delta*** has continued to execute on its plan to become a leader in $CO_2$ capture, solvent reclaiming, methane destruction and carbon credit initiation and trading.

Canada has been slow in approving carbon taxation legislation that was announced in 2022. As a result, carbon emitters have put their projects on hold pending Government taxation approvals prior to moving ahead with their carbon mitigation plans.

***Delta*** has completed two carbon capture engineering projects in 2023. Another engaged Canadian carbon capture engineering project is currently in the build stage scheduled for commissioning in Q2 of 2024. Because of confidentiality requirements, ***Delta*** is unable to formally announce these current projects at this time. ***Delta*** has a substantial number of new business opportunities, that are at various stages of commercial development anticipated to materialize and advance in the coming months.

***Delta*** is implementing a number of exciting new business opportunities:

1. **Methane destruction** – roll out of the Methanator RX™ for casing bowl methane destruction and reporting. Subsequent roll out, there will be a carbon crediting opportunity for Carbon RX Inc. ("**Carbon RX**").

2. **Build Own Operate and Maintain (BOOM)–** $CO_2$ capture projects that ***Delta*** and its partners will own.

3. **Commercial sale of $CO_2$ to commodity purchasers** – to meet the increasing demand for $CO_2$ that is used as a commodity in business operations.

4. **Fluids management centres** – to manage solvents and glycols, using ***Delta's*** patented reclaimer technology.

5. **Owners Engineering Services** – Provide consulting services for company's that require expertise in $CO_2$ capture and solvent reclaiming.

***Delta's*** subsidiary ***Carbon RX™*** IP has been historically utilized for carbon credit origination, aggregation and trading on the Chicago Climate Exchange beginning 2006.

The rules and regulations today are multi-jurisdictional, have been evolving over the past 16 years, are complex and require an in-depth knowledge of how the credits are established, validated, and certified. $CO_2$ management experience is a pre-requisite to high fidelity, carbon credit recognition, validation, and certification.

***Carbon RX*** is developing the digital issuance of carbon credits in collaboration with Pure Sky Registry, LLC ("**Pure Sky**"). Pure Sky, a Delaware corporation of which ***Carbon RX*** owns 49.9978%, will lead, manage, and finance the project development, utilizing WEB3 smart contracts on a digital registry carbon credit platform ("**Registry**"). Pure Sky will be financing the development costs through the issuance of membership fees in the Registry. The completion of the digital registry will allow the free flow of digital carbon credits on the block- chain, and address the digitization needs of ***Carbon RX***.

***Carbon RX*** is developing a customized carbon protocol for application in regenerative agriculture and will submit for approval from the Pure Sky registry in 2024 Q1. An additional protocol for application in BC forest is under development.

***Carbon RX*** continues to secure land for nature-based carbon credits with our First Nations partners. We are resourcing the sales and marketing of future carbon credits. Currently, we are certifying and validating a regenerative carbon project.

***Carbon RX*** will host the 3rd Annual Global First Nations Carbon Summit (https://thecarbonsummit.com/), October , 2024, on Treaty 4Territory with key themes focused on Carbon 101 knowledge transfer, alternative energy, financing instruments and First Nations world view values on land management.

**Carbon Credits:**

***Delta*** entered into a licensing agreement with ***Carbon RX***, whereby ***Delta*** licensed its carbon technology to ***Carbon RX***.

***Carbon RX*** intends to engage Pure Sky, Verra, Gold Standard, and Canadian Standards Association, for the validation of fidelity, certification, and registration of all carbon credits, dependent on the project design and related market needs.

***Carbon RX*** originates, validates fidelity and registers voluntary carbon credits that will incorporate legacy and new industrial processes with technologies. ***Carbon RX*** relies on Pure Sky for the digitization of carbon credits consistent with the platforms blockchain infrastructure. ***Carbon RX*** is employing a new industrial approach regarding methane destruction and proprietary protocol Emission Measurement Units ("**EMU**"), still in the product development phase.

***Carbon RX***'s platform works as follows: ***Carbon RX*** enters into an agreement with the landowner, in order for ***Carbon RX*** to assist in the origination and monetization of carbon credits from the landowner's lands. The ***Carbon RX*** team then visits the land site and/or collects historic data to determine if and how the land qualifies to be eligible for credit origination. One of a series of publicly accepted protocols is applied to the land and submitted to an independent 3rd party registry, for the issuance of credits.

***Carbon RX*** business model is based on earning a percentage of the carbon credits originated with each landowner, as a service provider. ***Carbon RX*** will then sell these credits in the market to generate income.

**Industry Terms applicable to *Carbon RX*:**

**Blockchain**: A decentralized ledger shared among network nodes, securely stores digital information, notably used in cryptocurrencies such as Ethereum. It ensures data integrity without central authority by grouping data into linked blocks, forming an immutable chain and creating a transparent timeline. Each block is timestamped upon addition improving the tracking and tracing of carbon credits and improving the overall integrity of the carbon crediting system.

**Blockchain Platform**: A blockchain platform allows users and developers to create novel uses on top of an existing blockchain infrastructure.

**Carbon Credit**: A carbon credit is a certificate that represents the right to emit one ton of carbon dioxide. These credits can be traded, and the price is set by supply and demand.

**Compliance and Voluntary Carbon Market**: The carbon market is a way of regulating greenhouse gas emissions by providing economic incentives to reduce emissions. There are two types of carbon credits: compliance and voluntary. Compliance carbon credits are created through government-regulated programs, whereas voluntary carbon credits are created through private or voluntary agreements between businesses. A voluntary carbon market works by businesses and individuals buying or selling carbon credits.

**DAO**: Decentralized autonomous organization is an organization constructed by rules encoded as a computer program that is often transparent, controlled by the organization's members and not influenced by a central government. Its purpose is to promote oversight and management of an entity similar to a corporation, without central authority using smart contracts to make decisions

**ESG**: Environmental (carbon reduction, plastics, pollution, water, energy use, recycling) Social (Corporate behavior and structure, ethics, human rights) Governance (diversity and inclusion, pay equity, labour standards, health and safety).

**WEB3 design:** At first the internet was Web 1.0, meaning it was decentralized, with ownership and control of content and platforms distributed among many individuals and businesses. Web 2.0, the current iteration of the internet, evolved thanks to a small number of software companies with user-friendly platforms, like Google, Apple, Facebook (now Meta), and Twitter. With many online consumers, the web grew more centralized, largely owned and controlled by a few corporations. With Web3, developers are making the internet decentralized again. Tech monopolies will no longer have possession and command of the content and platforms users create. Web3 also aims to solve the internet's security and privacy issues.

# SELECTED FINANCIAL INFORMATION

| In Canadian Dollars | Year ending Dec. 31, 2023 | Year ending Dec. 31, 2022 | Year ending Dec. 31, 2021 |
|---|---|---|---|
| **Total revenue** | 1,032,084 | 1,412,984 | 375,000 |
| **Operating loss** | (2,884,465) | (2,838,291) | (2,598,370) |
| **Interest income** | 57,865 | 18,815 | 15,715 |
| **Interest expense** | (7,945) | (909) | (2,075) |
| **Listing fees** | - | - | (562,441) |
| **Stock compensation expense** | (154,206) | (503,154) | (1,042,631) |
| **Loss on sale of assets** | - | (82,931) | (11,792) |
| **Fair value gain (loss) on listed common shares** | 24,989 | 104,906 | (56,643) |
| **Net and comprehensive loss** | (2,821,449) | (2,798,410) | (4,258,236) |
| **Total assets** | 3,302,085 | 5,414,998 | 7,532,823 |
| **Lease liability** | 54,379 | 101,169 | 52,981 |
| **Increase (decrease) in cash** | (117,790) | (358,743) | 759,905 |
| **Cash dividends declared per-share** | NIL | NIL | NIL |

# DELTA CLEANTECH INC.'S QUARTER END FINANCIAL RESULTS

| In Canadian Dollars (other than share amounts) | 3 months ending Dec. 31, 2023 | 3 months ending Dec. 31, 2022 | 3 months ending Sep. 30, 2023 | 3 months ending Sep. 30, 2022 | 3 months ending Jun. 30, 2023 | 3 months ending Jun. 30, 2022 | 3 months ending Mar. 31, 2023 | 3 months ending Mar. 31, 2022 |
|---|---|---|---|---|---|---|---|---|
| **Total Revenues** | 126,747 | 815,234 | 230,077 | 392,793 | 209,708 | 81,251 | 465,552 | 116,700 |
| **Net Income (Loss) from Operations** | (1,054,018) | (1,196,307) | (235,032) | (472,221) | (802,985) | (918,975) | (579,575) | (639,982) |
| **Net Income (Loss)** | (1,006,424) | (583,980) | (513,178) | (357,918) | (1,085,953) | (1,056,084) | (215,894) | (800,428) |
| **Total Assets** | 3,302,085 | 5,414,998 | 3,947,335 | 5,706,800 | 4,339,097 | 5,851,268 | 5,380,972 | 6,755,700 |
| **Long Term Liabilities** | 668 | 49,619 | 49,619 | 4,390 | 49,619 | 4,390 | 49,619 | 4,390 |
| **Shareholders' Equity** | 2,932,145 | 4,879,388 | 3,572,218 | 5,372,260 | 3,674,645 | 5,636,262 | 5,380,972 | 6,568,608 |
| **Cash Flow from Operations** | (130,402) | 30,216 | (1,765,267) | (676,757) | (482,443) | (798,579) | (386,583) | (802,838) |
| **Increase (Decrease) in Cash** | 227,620 | 18,125 | (345,410) | 308,463 | 24,573 | (328,813) | (222,804) | (356,518) |
| **Net Income (Loss), in total, on a per-share basis[1]** | (0.01) | (0.01) | (0.008) | (0.006) | (0.02) | (0.02) | (0.00) | (0.01) |
| **Weighted Average Common Shares** | 64,536,330 | 58,773,468 | 62,922,365 | 58,773,468 | 61,070,291 | 58,671,415 | 60,353,178 | 58,671,415 |

*[1]Net Income (Loss) per common share for the periods has been calculated using the weighted average number of common shares outstanding during the respective periods.*

**CURRENT ENVIRONMENT**

The current state of the economy continues to evolve. The global landscape is dominated by manifesting risks such as energy supply crises, cost of living crises, rising inflation, supply chain crises, and cyberattacks on critical infrastructure. Despite all the risks, Canadian economy is on better footing than most of our peers, with strong economic fundaments to tackle global economic slowdown. In addition, climate change is one of the biggest threats to humanity.

Canada's approach to climate change is versatile, addressing both the reduction of emissions and the adaptation to inevitable changes. The country's current environmental strategy includes significant efforts in carbon capture and storage ("**CCS**") as a key component in mitigating climate change impacts. Environment and Climate Change Canada's 2024-25 Departmental Plan emphasizes rapid reduction of greenhouse gas emissions by 2030 and achieving net-zero emissions by 2050. This aligns with the global commitment under the Paris Agreement to limit global warming. Carbon management technologies are recognized as essential in reaching these goals, with the deployment of such technologies needing to scale up significantly. Despite these efforts, Canada has faced challenges in reducing its carbon emissions, which have risen since 1990.

The federal carbon tax in Canada, which began at $50.00 per tonne in 2023, is set to rise incrementally, reaching $170 per tonne by 2030. This progressive increase is part of the government's strategy to incentivize the reduction of greenhouse gas emissions. As of April 1, 2024, the tax will increase to $80 per tonne. The increase in the carbon tax is a significant step towards Canada's commitment to reducing its carbon footprint and meeting its climate targets.

***Delta*** believes that carbon capture technology is the key to achieving its targets of net-zero emissions in Canada by 2050.The success of carbon capture solutions are expected to capture millions of tonnes of $CO_2$ annually, demonstrating the potential of CCS in contributing to Canada's climate objectives. Overall, Canada's climate strategy is a complex interplay of policies, technologies, and partnerships aimed at a sustainable and resilient future.

**REVENUES**

| | Three months ending Dec. 31, 2022 | Three months ending Dec. 31, 2023 | YTD Dec. 31, 2022 | YTD Dec. 31, 2023 |
|---|---|---|---|---|
| **Total Revenues** | $815,234 | $126,747 | $1,412,984 | $1,032,084 |

Total revenues during the Year were $1,032,084 compared to $1,412,984 for the comparative period ended December 31, 2022. All revenues earned during the Year relate to the $CO_2$ capture business sector. ***Delta's*** ability to showcase its technologies at tradeshows, conferences, competitions, and other means, has gained traction as the global economy recovers and shifts focus on clean technologies. Global opportunities continue to present themselves, as clean technology solutions are sought to address ESG and as ***Delta*** expands its presence.

**OPERATING EXPENSES**

| | Three months ending Dec. 31, 2022 | Three months ending Dec. 31, 2023 | YTD Dec. 31, 2022 | YTD Dec. 31, 2023 |
|---|---|---|---|---|
| **Engineering process design and consulting** | $209,049 | $90,276 | $420,876 | $388,027 |
| **Operating wages and benefits** | 208,918 | 249,316 | 866,019 | 929,194 |
| **Consulting and contractor costs** | 243,328 | 129,071 | 879,705 | 539,511 |
| **Business development** | 11,895 | - | 501,857 | 381,482 |
| **General and administrative** | 182,799 | 325,704 | 763,163 | 840,112 |
| **Stock compensation expense** | 70,108 | (58,649) | 503,154 | 154,206 |
| **Goodwill impairment** | - | 365,622 | - | 365,622 |

Engineering process design and consulting expenses consist of wages and salary expenses incurred specific to revenue. Expenses incurred during the Year were $388,027 compared to $420,876 incurred for the period ending December 31, 2022.

Operating wages and benefits category consists of the wages, salaries, and short-term benefits provided to the Corporations employees. Expenses during the Year were $929,194 compared to $866,019 for the period ending December 31, 2022. Expenses during the Year are higher than the comparative period due to fewer sales in the Year. Fewer operating wages and benefits are applied to engineering, process design and consulting expenses. Year over year, engineering process design, consulting and operating wages and consulting are comparable.

Consulting and contractor costs consist of costs incurred to advance the technologies of ***Delta.*** Expenses incurred in the Year were $539,511 (December 31, 2022 - $879,705). The period costs reflect a decrease due to lower consulting costs incurred resulting from cost cutting measures.

Business development includes salary and consulting costs incurred to advance the business of ***Delta***. Expenses for the Year were $381,482 (December 31, 2022 - $501,857). Reductions were implemented to balance with revenue.

General and administrative costs for the Period were $840,112 (December 31, 2022 - $763,163). General and administrative include licensing, insurance, rent, information technology, travel and other expenses. The Year reported increased licensing, conference, insurance, bad debt and information technology expenses during prior period.

Stock compensation expense of $154,206 (December 31, 2022 - $503,154) is included in operating loss and is the costs associated with stock options and restricted share unit ("**RSU**") expenses during the Year. Stock compensation is a non-cash item.

Goodwill impairment amounts included in operating loss are $365,622 in the Year (December 31, 2022 – $Nil). Goodwill is tested for impairment at the consolidated entity level, as there is only one CGU. The Corporation completed its annual impairment test of goodwill as of December 31, 2023.

The recoverable amount of the Corporation as at December 31, 2023 had been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 22% and cash flows beyond the five-year period are extrapolated using a 3.0% growth. Growth rates range from 9% to 27% over the five year period.. It was concluded that the fair value less costs of disposal did not exceed the value in use. As a result of this analysis, management has recognized goodwill impairment of $365,622 as at December 31, 2023. Goodwill impairment is a non-cash item.

**AMORTIZATION**

| | Three months ending Dec. 31, 2022 | Three months ending Dec. 31, 2023 | YTD Dec. 31, 2022 | YTD Dec. 31, 2023 |
|---|---|---|---|---|
| **Amortization** | $79,337 | $79,424 | $316,501 | $318,394 |

Amortization for the Year was $318,394 and $316,501 for the corresponding period ending December 31, 2022. Amortization consists of expenses taken on property, plant and equipment, right-of-use assets, patents, and the remaining other intangible assets.

**OPERATING LOSS**

| | Three months ending Dec. 31, 2022 | Three months ending Dec. 31, 2023 | YTD Dec. 31, 2022 | YTD Dec. 31, 2023 |
|---|---|---|---|---|
| **Operating loss** | $(1,196,307) | $(1,054,018) | $(2,838,921) | $(2,884,549) |

The Corporation had an operating loss for the Year of $(2,884,549) (December 31, 2022 - $(2,838,921)). The loss is primarily driven by delayed revenue growth due to uncertain $CO_2$ mitigation legislative programs, combined with operating wages, consulting costs and business development costs that are required to advance the technologies, including general and administrative costs incurred during the Year.

Goodwill impairment amounts included in operating loss are $365,622 in the Year (December 31, 2022 – $Nil). Goodwill impairment is a non-cash item.

Stock compensation expense of $154,206 (December 31, 2022 - $503,154) is included in operating loss and is the costs associated with stock options and restricted share unit ("**RSU**") expenses during the Year. Stock compensation is a non-cash item.

Operating loss before goodwill impairment and stock compensation expense is $2,364,721 in the Year and $2,335,767 at December 31, 2022. The year over year changes indicates a consistent trend in earnings, reflecting the stability and resilience of our business model even in challenging market conditions.

**NET AND COMPREHENSIVE LOSS**

| | Three months ending Dec. 31, 2022 | Three months ending Dec. 31, 2023 | YTD Dec. 31, 2022 | YTD Dec. 31, 2023 |
|---|---|---|---|---|
| **Net and comprehensive loss** | $(583,980) | $(1,006,424) | $(2,798,410) | $(2,821,449) |

Included in net and comprehensive loss are interest and the change in the fair value of ***Delta***'s Common Shares listed. Interest on the lease liabilities for the Year was $4,687 (December 31, 2022 - $909). Fair value gain on listed Common Shares includes the unrealized gains and losses on investments, classified and measured at fair value through profit and loss ("**FVTPL**"). Reporting income of $24,989 for the Year and a gain of $104,906 for the comparative year ending December 31, 2022. The net change in the carrying value of the investments is the quoted value in the Period.

The net and comprehensive loss for the Year is $(2,821,449) (December 31, 2022 - $(2,798,410)). 2023 reports fewer revenues than the prior year reported. The loss is primarily driven by slow revenue growth, combined with operating wages and consulting costs that are required to advance the technologies combined with share issuance costs, stock compensation expenses derived from costs relating to stock options and RSU's incurred during the Year and goodwill impairment. ***Delta***'s business model, and that of the industry, is experiencing long sales cycles, ***Delta*** has continued to invest in the people, technology and business development processes towards that plan. ***Delta*** is seeing the result of immense efforts converting to revenue and continues to expect further growth in the coming months.

**TOTAL ASSETS**

Total assets for the Year were $3,302,085 compared to $5,414,998 as at December 31, 2022. The decline is attributable to reduced cash on hand due to operational needs, reduced investments, accounts receivables and accrued receivables, prepaid expenses, right-of-use assets and goodwill impairment, offset by increased government receivables, increased property, plant and equipment and patents. Property, plant and equipment, right-of-use assets, patents and intangible asset values are subject to regular amortization.

**PATENTS**

| | Total $ |
|---|---|
| **Cost:** | |
| Balance, December 31, 2022 | 53,171 |
| Additions | 8,955 |
| **Balance, December 31, 2023** | **62,126** |
| **Accumulated amortization:** | |
| Balance, December 31, 2022 | 3,306 |
| Amortization | 3,825 |
| **Balance, December 31, 2023** | **7,131** |
| **Carrying amounts:** | |
| **Balance, December 31, 2023** | **54,995** |

| | |
|---|---|
| **Cost:** | |
| Balance, December 31, 2021 | 12,244 |
| Additions | 40,927 |
| **Balance, December 31, 2022** | **53,171** |
| **Accumulated amortization:** | |
| Balance, December 31, 2021 | 334 |
| Amortization | 2,972 |
| **Balance, December 31, 2022** | **3,306** |
| **Carrying amounts:** | |
| **Balance, December 31, 2022** | **49,865** |

***Delta*** has completed the WTO patenting, commercialization and the construction and commissioning of the ***Delta*** **Purification System®**. This system reclaims hydrocarbon-based and other solvents, such as single, mixed, and formulated amines, for use in natural gas processing of ethanol-based solvents and post combustion $CO_2$ capturing processes.

**INTANGIBLE ASSETS**

| | PDO engine® $ | LCDesign® CCS $ | Delta Reclaimer® System $ | Carbon RX ™ IP $ | Total $ |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance, December 31, 2022 | 700,000 | 815,000 | 815,000 | 414,000 | 2,744,000 |
| Additions | - | - | - | - | - |
| **Balance, December 31, 2023** | **700,000** | **815,000** | **815,000** | **414,000** | **2,744,000** |
| **Accumulated amortization:** | | | | | |
| Balance, December 31, 2022 | 134,167 | 156,208 | 156,208 | 37,950 | 484,533 |
| Amortization | 70,000 | 81,500 | 81,500 | 20,700 | 253,700 |
| **Balance, December 31, 2023** | **204,167** | **237,708** | **237,708** | **58,650** | **738,233** |

**Carrying amounts:**

| | | | | | |
|---|---|---|---|---|---|
| **Balance, December 31, 2023** | **495,833** | **577,292** | **577,292** | **355,350** | **2,005,767** |

| | PDO engine® $ | LCDesign® CCS $ | Delta Reclaimer® System $ | Carbon RX TM IP $ | Total $ |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance, December 31, 2021 | 700,000 | 815,000 | 815,000 | 414,000 | 2,744,000 |
| Additions | - | - | - | - | - |
| **Balance, December 31, 2022** | **700,000** | **815,000** | **815,000** | **414,000** | **2,744,000** |
| **Accumulated amortization:** | | | | | |
| Balance, December 31, 2021 | 64,167 | 74,708 | 74,708 | 17,250 | 230,833 |
| Amortization | 70,000 | 81,500 | 81,500 | 20,700 | 253,700 |
| **Balance, December 31, 2022** | **134,167** | **156,208** | **156,208** | **37,950** | **484,533** |
| | | | | | |
| **Balance, December 31, 2022** | **565,833** | **658,792** | **658,792** | **376,050** | **2,259,467** |

**Goodwill**

| | Total $ |
|---|---|
| **Cost:** | |
| Balance, December 31, 2022 | 365,622 |
| **Balance, December 31, 2023** | **365,622** |
| | |
| Balance, December 31, 2022 | 365,622 |
| **Balance, December 31, 2023** | **-** |

Goodwill is tested for impairment at the consolidated entity level, as there is only one cash generating unit ("**CGU**"). The Corporation completed its annual impairment test of goodwill as of December 31, 2023.

The recoverable amount of the Corporation as at December 31, 2023 had been determined based on a fair value less cost of disposal calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 24% and cash flows beyond the five-year period are extrapolated using a 2.0% growth.  Growth rates range from 9% to 27% over the five year period. As a result of this analysis, management has recognized goodwill impairment of $365,622 as at December 31, 2023.

**CURRENT LIABILITIES**

Current liabilities are $369,272 for the Year (December 31, 2022 - $485,991). The balance is comprised of accounts payable and accrued liabilities, current portions of the lease liabilities and deferred revenue. The decrease in the Period is primarily due to reduced accounts payable, government payables, deferred revenue.

**GOING CONCERN**

The Company's financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

For twelve months ended December 31, 2023, the Company incurred a net loss of $2,821,449 and had negative operating cash flows of $1,895,669 and cash of $283,382. Based on the Company's current level of expenditures, it will have insufficient cash to fund its operations if sales do not improve and will need to raise additional funds. While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no certainty that these events will occur.

These conditions indicate that there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The financial statements do not include any adjustments to the amounts and classification of assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

**CASH FLOW**

Cash flows used in operating activities for the Year were $(1,895,669) compared to $(2,247,824) as at December 31, 2022. The change is primarily attributable to the net loss of $(2,821,449) offset by reversing amortization, stock compensation expense, and goodwill impairment, offset by fair value gain on listed Common Shares (as these are all non-cash items), and the reported improved change in working capital. Comparative prior period operating activities is reflective of the net loss reported, fair value gain on listed Common Shares, increased stock compensation expense.

Cash flows provided by investing activities were $1,463,874 during the Year and $1,917,581 in the prior comparative period. The Period represents GIC redemption plus interest earning offset by acquired property and equipment, patents. The prior comparative period use of funds was largely affected by the Corporation's GIC redemption of $2,000,000 in cash, and by cash used to acquire property and equipment, patents, and lease payments.

Cash flows provided by financing activities were $314,005 during the Year (December 31, 2022 - $28,500). Cash was received for private placements of $425,000 in **Delta** and $295,000 in **Carbon RX** less advances to associates and lease payments.

Net change in cash position during the Year is reflective of cash used in operations necessary to support the business and cash received from investing and financing activities.

**SHARE CAPITAL**

At December 31, 2023, the Corporation authorized an unlimited number of Common Shares without par value, and an unlimited number of preferred shares ("**Preferred Shares**"). Common Shares are voting, participating and are not subject to restrictions. Preferred Shares may be issued in series. At the end of the Year the Corporation had 85,073,100 (December 31, 2022 – 58,823,000) Common Shares, and Nil Preferred Shares issued and outstanding.

On February 15, 2022, 300,000 restricted share units ("**RSU**") were exercised, and accordingly 300,000 Common Shares were issued. The Corporation has recorded the issuance to share capital offset by contributed surplus $49,500.

On December 22, 2023, the Corporation closed a private placement by issuing 21,250,000 units at a price of $0.02 per unit ("**Unit**"), for the gross proceeds of $425,000 ("Private Placement"). Each Unit consists of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles the holder to purchase one common share ("Warrant Share") of Delta at an exercise price of $0.05 per Warrant Share, for a period of five years from date of issuance. The Common Shares issued, and the Warrant Shares are subject to a hold period under applicable securities law until April 23, 2024.

| Common Shares | As at December 31, 2023 Number | Amount $ | As at December 31, 2022 Number | Amount $ |
|---|---|---|---|---|
| Balance, beginning of year | 58,823,100 | 9,043,155 | 58,523,100 | 8,993,655 |
| RSU's exercised | 5,000,000 | 832,346 | 300,000 | 49,500 |
| Private placement | 21,250,000 | 251,746 | - | - |
| **Balance, end of period** | **85,073,100** | **10,127,247** | **58,823,100** | **9,043,155** |

**SUBSIDIARY SHARES ISSUANCE**

On May 31, 2023, ***Carbon RX*** closed a private placement, by issuing 2,000,000 units at a price of $0.01/unit to 5 subscribers, 3 of whom are directors or executive officers of ***Delta*** and ***Carbon RX***. Each unit consists of 1 ***Carbon RX*** common share and one half of a common share purchase warrant of ***Carbon RX***, with each whole warrant entitling the holder to purchase a common share of ***Carbon RX*** at a price of $0.75, expiring 60 months after issuance.

On August 1, 2023, ***Carbon RX*** closed a private placement, by issuing 550,000 units at a price of $0.50/unit to 3 subscribers. Each unit consists of 1 common share of ***Carbon RX*** and one half of a common share purchase warrant of ***Carbon RX***, with each whole warrant entitling the holder to purchase a common share of ***Carbon RX*** at a price of $0.75, expiring 60 months after issuance.

**WARRANTS**

The Corporation's warrants as at and for the periods ending December 31, 2023, and December 31, 2022, were as follows:

| Warrants | Number | Weighted average exercise price $ | Fair Value of Warrants $ |
|---|---|---|---|
| **Balance, December 31, 2022** | **20,660,250** | **0.48** | **1,375,594** |
| **December 22, 2023 Private Placement** | **10,625,000** | **0.05** | **173,254** |
| **Balance, December 31, 2023** | **31,285,250** | **0.33** | **1,548,848** |

As at December 31, 2023 and December 31, 2022, outstanding warrants to acquire Common Shares of the Corporation were netted against proceeds as follows:

| Number outstand-ing | Grant date | Expiry date | Exer-cise price $ | Grant date fair value $ | Ex-pected life Years | Expected dividend yield % | Risk-free in-terest rate % | Volatil-ity % |
|---|---|---|---|---|---|---|---|---|
| 18,100,000 | January 27, 2021 | January 27, 2025 | 0.50 | 1,267,000 | 4 | 0 | 0.51 | 120 |
| 1,398,750 | January 27, 2021 | January 27, 2025 | 0.20 | 167,850 | 4 | 0 | 0.51 | 120 |
| 1,075,000 | January 29, 2021 | January 29, 2025 | 0.50 | 75,250 | 4 | 0 | 0.51 | 120 |
| 86,500 | April 16, 2021 | April 16, 2025 | 0.50 | 6,055 | 4 | 0 | 0.51 | 120 |
| 10,625,000 | December 22, 2023 | December 21, 2028 | 0.05 | 173,254 | 5 | 0 | 3.38 | 98 |
| **31,285,250** | | | **0.35** | **1,689,409** | **4** | **0** | **1.08** | **116** |

As at December 31, 2023, the warrants outstanding had a weighted average remaining contractual life of 4.5 years. Expected volatility is based on the historical share price of companies in a comparable industry.

**SUBSIDIARY WARRANTS**

On May 31, 2023, ***Carbon RX*** closed a private placement, and issued 1,000,000 warrants to 5 warrant holders, 3 of whom are executive officers of ***Carbon RX***. Each warrant entitles the holder to purchase a common share of ***Carbon RX*** at a price of $0.75, expiring 60 months after issuance.

On August 1, 2023, ***Carbon RX*** closed a private placement, and issued 275,000 warrants to 3 warrant holders. Each warrant entitles the holder to purchase a common share of ***Carbon RX*** at a price of $0.75, expiring 60 months after issuance.

**STOCK OPTION AND RSU PLAN**

Under ***Delta***'s stock option plan and restricted share unit plans, the Corporation is authorized to issue an aggregate of 17,014,620 stock options ("**Stock Options**") and restricted share units ("**RSU**") of which 5,700,000 Stock Options and Nil RSU's are issued as at Year end. On February 19, 2021, 5,300,000 Stock Options were granted to directors, officers, employees, and consultants of the Corporation. These Stock Options, vested in 3 equal tranches, 12 -, 24 – and 36 months after issuance. The exercise price of the Stock Options is equal to $0.20/Common Share. The fair value of the Stock Options is estimated at the grant date using a Black Scholes model, taking into account the terms and conditions on which the Stock Options were granted. The performance condition considered in determining the number of instruments that will ultimately vest assumes all Stock Options will vest given that the Option Holders were appointed, contracted and/or employed as part of the Clean Energy Assets acquisition. The Stock Options expire 4 years after issuance. 500,000 of these Stock Options forfeited on December 31, 2023, due to the resignation of an employee.

On November 1, 2021, an additional 500,000 Stock Options were granted for third party services. The shares vest over 12 months but the services provided have the duration of 6 months. The fair value of the Stock Options is estimated at the grant date using a Black Scholes model, taking into account the terms and conditions on which the Stock Options were granted. The performance condition considered in determining the number of instruments that will ultimately vest assumes all Stock Options will vest over the 6 months that investment services are received. The options vest as follows: 125,000 on February 1, 2022; 125,000 on May 1, 2022, 125,000 on August 1, 2022 and the remaining 125,000 on November 1, 2022, and can be exercised until November 1, 2026. The options are equity settled and have been accounted for as an equity-settled plan. The options outstanding at December 31, 2023 had an exercise price $0.61 and weighted average contract life of 0.9 years.

| | Employee Stock Option Plan | Options for Services |
|---|---|---|
| Dividend yield (%) | - | - |
| Expected volatility (%) | 120 | 120 |
| Risk–free interest rate (%) | 0.51 | 0.29 |
| Expected life of share options | 4 | 5 |
| Stock Price ($) | 0.165 | 0.61 |
| Estimated Fair Value ($) | 0.12 | 0.20 |

On September 29, 2022, 400,000 ***Delta*** Stock Options were granted to ***Delta***'s President and CEO. The options have an exercise price of $0.10 vest in three equal tranches on September 29, 2022, February 19, 2023 and February 19, 2024 and shall expire on February 19, 2025 or such earlier date on which the Stock Options are exercised.

On September 18, 2023, 250,000 ***Delta*** Stock Options were granted to ***Delta***'s Sr VP of Engineering and Technology. The Stock Options had an exercise price of $0.05 vest in three equal tranches over 3 years. These Stock Options forfeited on December 31, 2023, due to the employee's resignation.

| | Participant Stock Option Plan |
|---|---|
| Dividend yield (%) | - |
| Expected volatility (%) | 108.53 |
| Risk–free interest rate (%) | 3.44 |
| Expected life of share options | 2.4 |
| Stock Price ($) | 0.045 |
| Estimated Fair Value ($) | 0.02 |

For the Period the Corporation recorded share-based compensation of $140,179, including $47,500 recognized in **Carbon RX** (December 31, 2022 - $283,625).

| | December 31, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted Average Exercise Price $** | **Number of options** | **Weighted Average Exercise Price $** |
| Balance, beginning of year | 6,600,000 | 0.24 | 6,200,000 | 0.25 |
| Granted | 250,000 | - | 400,000 | 0.10 |
| Forfeited | (1,150,000) | 0.20 | - | - |
| Exercised | - | - | - | - |
| **Balance, end of period** | 5,700,000 | 0.24 | 6,600,000 | 0.24 |

**RESTRICTED SHARE UNITS**

On February 15, 2022, 300,000 RSU's were exercised. The Corporation recorded the issuance to share capital and reduced contributed surplus by $49,500.

On February 19, 2023, 5,000,000 RSU's were issued. The Corporation recorded the issuance to share capital and reduced contributed surplus by $832,346.

On September 18, 2023, 500,000 ***Delta*** RSU's were granted to ***Delta***'s Sr VP of Engineering and Technology. The RSU would vest every 6 months over 2 years, but these RSU's expired on December 31, 2023, due to the employee's resignation.

For the Period, the Corporation recorded share-based compensation related to RSU of $14,127 (December 31, 2022 - $219,529).

| | December 31, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| | **Number of RSU's** | **Weighted Average Exercise Price $** | **Number of RSU's** | **Weighted Average Exercise Price $** |
| Balance, beginning of year | 5,000,000 | 0.165 | 5,300,000 | 0.165 |
| Granted | 500,000 | - | - | - |
| Forfeited | (500,000) | - | - | - |
| Exercised | (5,000,000) | (0.165) | (300,000) | (0.165) |
| **Balance, end of period** | - | 0.165 | 5,000,000 | 0.165 |

**OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation has no off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

Related party transactions include transactions with corporate investors who have representation on the Corporation's Board.

Clearview Financial Services Inc. ("**Clearview**") is a related party due to one common director. During the Period, the Corporation paid $140,004 in consulting (December 31, 2022 - $130,000) and $13,200 in rent expense to Clearview (December 31, 2022 - $10,800). At December 31, 2023, there are amounts payable of $13,606 (December 31, 2022 - $47,121).

During the Year, the Corporation paid $8,400 for motor vehicle allowances to a related party who acts as both a director and an officer (December 31, 2022 - $nil).

On May 31, 2023, Carbon RX closed a private placement, by issuing 2,000,000 units at a price of $0.01 per unit to 5 subscribers, 3 of whom are directors or executive officers of Carbon RX and ***Delta***.

On September 18, 2023, 250,000 ***Carbon RX*** stock options were granted to a senior officer of ***Carbon RX***. The options have an exercise price of $0.50, vest immediately and expire on September 17, 2027 or such earlier date on which the stock options are exercised.

The Corporation has identified all of the directors and officers as its key management personnel. During the Period, the Corporation did not incur transactions with directors and officers, or companies that are controlled by directors or officers of the Corporation, other than disclosed herein.

## SEGMENTED INFORMATION

***Delta's*** business sectors consist of five clean energy technology solution revenue generating pillars.

1) $CO_2$ capture;
2) Hydrogen Production ($CO_2$ Capture);
3) Solvent and ethanol purification;
4) Methane collection and destruction; and
5) Carbon credit validation, certification and trading.

The below table reflects revenue by geographical market, based on location of customer, and by market application.

| Net loss and comprehensive loss for the period December 31, 2023 | $CO_2$ Capture $ | Total $ |
|---|---|---|
| Revenue | | |
| $CO_2$ Capture | | |
| Canada | 868,359 | 868,359 |
| Kazakhstan | 78,607 | 78,607 |
| China | 85,118 | 85,118 |
| Total revenue | 1,032,084 | 1,032,084 |
| COGS | (388,027) | (388,027) |
| Operating expenses | (200,756) | (3,528,522) |
| Net interest income | - | 49,920 |
| FV gain on listed common shares | - | 24,989 |
| Unrealized foreign exchange loss | - | (11,893) |
| **Total** | **-** | **(2,821,449)** |

| Net loss and comprehensive loss for the period December 31, 2022 | $CO_2$ Capture $ | Total $ |
|---|---|---|
| Revenue | | |
| $CO_2$ Capture | | |
| Canada | 1,378,442 | 1,378,442 |
| Kazakhstan | 22,159 | 22,159 |
| China | 12,383 | 12,383 |
| Total revenue | 1,412,984 | 1,412,984 |
| COGS | (420,876) | (420,876) |
| Operating expenses | (297,165) | (3,327,245) |
| Net interest income | - | 17,906 |
| Stock compensation expense | - | (503,154) |
| Loss on investment | - | (82,931) |
| FV gain on listed common shares | - | 104,906 |
| **Total** | | **(2,798,410)** |

**DIRECTOR AND OFFICER COMPENSATION**

The remuneration of key management personnel included in the Statements of Loss were:

| For the period ended | December 31, 2023<br>$ | December 31, 2022<br>$ |
|---|---|---|
| Operating wages and consulting | | |
| Salaries and short-term benefits | 128,000 | 213,060 |
| Consulting | 140,004 | 130,000 |
| Stock based compensation | | |
| Stock Options and RSU's | 59,961 | 209,077 |
| Total key management compensation | 327,965 | 552,137 |

The key management personnel of the Corporation consist of the executive officers and members of the Board. Key management personnel include those persons that have the authority and responsibility for planning, directing, and controlling the activities of the Corporation, directly and indirectly.

The Corporation has employment agreements with the CFO, and a consulting agreement with its President and CEO. Yearly compensation is paid in accordance with the remuneration package agreed upon by the compensation committee and the individual respectively.

Under the directors employment agreement, the Corporation may terminate the agreement without cause, and the employee may terminate for good cause, and in both instances: (i) the Corporation shall be liable to pay, in lieu of notice, or any combination of both, a severance equal to 36 months, based on the base salary and bonus commitments; (ii) all unvested Stock Options and/or RSU will immediately vest and be exercisable. In the event of a change in control, all unvested securities granted or issued shall automatically vest and, at the option of the employee, the employee may resign and be entitled to a lump sum payment equal to the value of his base salary and any bonus, equal to 36 months.

During the Period, $3,000 were paid in director fees (December 31, 2022 - $6,250). In addition to their salaries, senior management and directors also participate in the Corporation's share-based compensation plans. On February 19, 2023, 2,500,000 RSUs, vested and were issued to director Lionel Kambeitz and 2,500,000 RSU's vested and were issued to the Corporation's Corporate Development Officer, Donato Sferra.

**SUBSEQUENT EVENTS**

On February 29, 2024, **Carbon RX** accepted a subscription for 5,000 units at a price of $0.60 per unit for the gross proceeds of $3,000. Each unit entitles the subscriber to one common share of **Carbon RX** and one half of one common share purchase warrant (with each whole warrant a "**Carbon Warrant**"). Each Carbon Warrant entitles the holder to purchase a **Carbon RX** common share for $0.75, expiring February 28, 2026.

On March 13, 2024, the Corporation announced upon receipt of the majority of the minority shareholders approval obtained on March 12, 2024, it had closed tranche 1 of a private placement by issuing 19,400,000 units at a price of $0.02 per unit ("**Unit**"), for the gross proceeds of $388,000. Each Unit consists of one Common Share and one common share purchase warrant ("**Warrant**"). Each Warrant entitles the holder to purchase one Common Share ("Warrant Share") of ***Delta*** at an exercise price of $0.05 per Warrant Share, for a period of five years. The Common Shares issued, and the Warrant Shares are subject to a hold period under applicable securities law until July 14, 2024.

On March 15, 2024, the Corporation announced the closing of tranche 2, the final tranche, of the private placement, by issuing an additional 10,600,000 Units at a price of $0.02 per Unit, for the gross proceeds of $212,000. The Common Shares issued, and the Warrant Shares issuable under tranche 2, are subject to a hold period under applicable securities law until July 16, 2024.

## ADDITIONAL INFORMATION ON DELTA CLEANTECH

***Delta*** invites you to review current and historical press releases and News Express releases.  This material can be viewed on the Corporation's web site at https://deltacleantech.ca/news-releases/.

## RISKS AND UNCERTAINTIES

Risks and uncertainties relate to dependence of $CO_2$ emitters being legislated or provided incentive, to adapt $CO_2$ capture technology and the price of oil for adoption of $CO_2$ EOR.

The preparation of the Financial Statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the Year.

Significant items subject to judgment, estimates and assumptions include: revenue recognition (judgments on principal versus agent relationship, the identification of performance obligations within contracts, and estimation of the allocation of transaction price to different performance obligations), non-financial asset impairment, inventory provision, underlying estimations of useful lives of depreciable assets, fair value of financial instruments, environmental remediation and contingent liabilities, if any.

The Financial Statements are based on Management's best estimates using information available.  Uncertainty regarding the timing of anticipated large-scale market demand for carbon capture technology, related legislative incentives, and uncertainty in financial markets has complicated the estimation process.  Accordingly, the inherent uncertainty involved in making estimates and assumptions may impact the actual results reported in future years by a material amount.

## CHANGES IN ACCOUNTING PRINCIPLES

### Standards issued but not yet effective

*Amendments to IAS 1 - Presentation of Financial Statements ("**IAS 1**")*

In January 2020, amendments were issued to IAS 1, which provide requirements for classifying liabilities as current or non-current. Specifically, the amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

The amendments must be applied retrospectively for annual periods beginning after January 1, 2024. The Corporation is currently assessing the impact, if any, of adoption of the amendment.

The amendments are not expected to have a material impact on the Corporation.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Fair value measurement of financial instruments

When the fair value of financial assets recorded in the Statement of Financial Position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow method.  The inputs to these models are taken from observable markets where possible.

Asset impairment

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated and compared to the carrying amount of the CGU to which the asset belongs. Significant judgements used in the determination of the recoverable amount include the discount rate, forecasted sales and expenses, and the resulting earnings before interest, taxes, depreciation and amortization, as well and working capital and the terminal growth rate. There was no impairment in the Period.

Estimated useful lives of patents and intangibles

Amortization of patents and intangibles are dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Stock compensation and warrants

The Corporation utilizes the Black-Scholes Option Pricing Model to determine the fair value of stock compensation and warrants issued as part of units. The Corporation uses judgment in the evaluation of the input variables in the Black-Scholes Calculation which includes: estimates of the future volatility of the Corporation's share price, forfeiture rates, expected lives of the underlying security, expected dividends and other relevant assumptions.

**FINANCIAL INSTRUMENTS**

For all current assets and liabilities, the difference between cost and fair value is assumed to be negligible due to the short-term maturities of these items. The following table provides a summary, by class and level on the fair value hierarchy, of the financial assets and liabilities that are measured at fair value, together with the carrying amounts included in the Consolidated Statements of Financial Position, as at December 31, 2023 and the Consolidated Statements of Financial Position as at December 31, 2022:

| | | December 31, 2023 | | December 31, 2022 | |
|---|---|---|---|---|---|
| | Level | Carrying amount $ | Fair value $ | Carrying amount $ | Fair value $ |
| **Financial assets** | | | | | |
| *Amortized cost* | | | | | |
| Accounts receivable and accrued receivables | | 82,408 | 82,408 | 397,410 | 397,410 |
| Government receivables | | 11,279 | 11,279 | - | - |
| Advances to associate | | 365,113 | 365,113 | - | - |
| *Fair value through profit and loss* | | | | | |
| Cash | 1 | 283,382 | 283,382 | 401,172 | 401,172 |
| Guaranteed investment certificate | 1 | - | - | 1,500,000 | 1,500,000 |
| Listed Common Shares | 1 | 228,149 | 228,149 | 203,160 | 203,160 |
| Unlisted common shares | 3 | 50,000 | 50,000 | 50,000 | 50,000 |

| | Level | December 31, 2023 Carrying amount | Fair value | December 31, 2022 Carrying amount | Fair value |
|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | |
| *Amortized cost* | | | | | |
| Accounts payable and accrued liabilities | | 310,701 | 310,701 | 351,437 | 351,437 |
| Lease liabilities | | 54,379 | 54,379 | 101,169 | 101,169 |

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Interest from financial instruments is recognized in finance costs.

**FINANCIAL RISK MANAGEMENT**

Management's risk management policies are typically performed as a part of the overall management of the Corporation's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Corporation is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Corporation has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Corporation, management considers the avoidance of undue concentrations of risk. These risks and the actions taken to manage them include the following:

***Credit risk***
The risk of financial loss in the event of failure of a customer or counterparty to a financial instrument to meet its contractual obligation is defined as credit risk. The Corporation's principal exposure to credit risk is in respect to its accounts receivable. In order to reduce the risk on its accounts receivable, the Corporation has adopted credit policies which mandate performing an ongoing credit review of all its customers and establishing allowances for bad debts when the amounts are not collectible. The allowance for bad debt at December 31, 2023 was $Nil.

Due to the nature of ***Delta's*** operations, Management considers accounts receivable outstanding for 90 days or less to be current amounts. Over 90 days are also considered current, if extended terms exist and security is provided, or amounts are subject to contract restrictions and performance markers. The aging of the Corporations accounts receivable at December 31, 2023 is as follows:

| | Current $ | Over 90 Days $ | Total $ |
|---|---|---|---|
| Aging of accounts receivable at December 31, 2023 | 77,281 | 5,127 | 82,408 |
| Aging of accounts receivable at December 31, 2022 | 394,560 | 2,850 | 397,410 |

***Currency risk***
The Corporation is exposed to currency risk as a certain portion of sales and expenses are incurred in US dollars resulting in US denominated accounts receivable and accounts payable. These balances are, therefore, subject to gains and losses due to fluctuations in that currency in relation to the Canadian dollar.

The Canadian dollar equivalent amounts of the balances denominated in US funds at December 31, 2023 are:

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| | $ | $ |
| Cash | 511 | 30,660 |

***Interest rate risk***
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's only interest-bearing financial instrument is the GIC that it holds as at December 31, 2023 at a variable rate of interest (December 31, 2022 - fixed rate of interest).

***Liquidity risk***
Liquidity risk is the risk that the Corporation cannot meet its financial obligations associated with financial liabilities in full. The Corporations' main sources of liquidity are its operations and equity financing. The funds are primarily used to finance working capital and capital expenditure requirements and are adequate to meet the Corporation's financial obligations associated with financial liabilities.

The timing of cash outflows relating to the financial liabilities are outlined in the table below:

| December 31, 2023 | < 1 year | 1-2 years | 3-5 years | Thereafter | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 310,701 | - | - | - | 310,701 |
| Lease liability | 51,659 | 4,305 | - | - | 55,964 |
| **Balance** | **362,360** | **4,305** | **-** | **-** | **366,665** |

| December 31, 2022 | < 1 year | 1-2 years | 3-5 years | Thereafter | Total |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 351,437 | - | - | - | 351,437 |
| Lease liability | 51,550 | 49,619 | - | - | 101,169 |
| **Balance** | **402,987** | **49,619** | **-** | **-** | **452,606** |

***Other risk factors***
Relevant risk factors pertaining to ***Carbon RX*** are as follows: ownership and business plan within Pure Sky; operation of the Registry; the fact that ***Carbon RX*** has no revenues to date; acquisition of and maintenance of market share; growth in and management of operations; development and renewal of contracts; insurance risks such as that the company may not be adequately insured for certain risks, may not be able to be insured at all, or may elect not to insure because of costs; no market for its shares; reliance on First Nations relationships; reliance on management and key employees; foreign operations; tax risk; Registry operations; Pure Sky certification; elimination of carbon tax; competitive markets; reliance on industry participants; reliance on business partners; uncertainty and change in legislation and the economy; raising capital to fund operations; business model could fail or fail to produce desired financial returns; regulatory regime and permitting requirements of business; and protection of intellectual property.

*Signed "Jeffrey Allison"*
**JEFFREY ALLISON**
**PRESIDENT AND CEO**

*Signed "Jacelyn Case"*
**JACELYN CASE**
**CFO**

**To the Shareholders of Delta CleanTech Inc.**
**(“Delta” or the “Corporation”)**

**Management’s Accountability for Management’s Discussion and Analysis and Consolidated Financial Statements**

The audited consolidated financial statements for the year ending December 31, 2023 (“**Financial Statements**”) have been prepared by management in accordance with International Financial Reporting Standards in Canada. Management is responsible for ensuring that these Financial Statements, which include amounts based upon estimates and judgment, are consistent with other information and operating data contained in management’s discussion and analysis for the period ending December 31, 2023 (“**MD&A**”) and reflect Delta’s business transactions and financial position.

Management is also responsible for the information disclosed in the MD&A, including responsibility for the existence of appropriate information systems, procedures, and controls, to ensure that the information used internally by management and disclosed externally is complete and reliable in all material respects.

In addition, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that the Corporation’s assets are appropriately accounted for and adequately safeguarded.

The board of directors (“**Board**”) annually appoints an audit committee which includes directors who are not employees of the Corporation. This committee meets regularly with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. The shareholders' auditors have unrestricted access to the audit committee. The audit committee reviews the interim and annual financial statements, the report of the shareholders' auditors, and the interim and annual management’s discussion and analysis and has delegated authority to approve the interim filings and makes recommendations to the Board regarding annual filings.

Management has reviewed the filings of the Corporation’s MD&A, Financial Statements, and attachments thereto. Based on our knowledge, having exercised reasonable diligence, these annual filings do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, with respect to the period covered by the annual filings. Based on our knowledge, having exercised reasonable diligence, the Financial Statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, the financial performance, and cash flows of the Corporation, as of the date of and for the periods presented in the annual filings.

| | |
|---|---|
| *Signed “Jeffrey Allison”* | *Signed “Jacelyn Case”* |
| **JEFFREY ALLISON** | **JACELYN CASE** |
| **PRESIDENT & CEO** | **CFO** |

# BOARD OF DIRECTORS
# & SENIOR OFFICERS
## Of the Corporation as at December 31, 2023

| | |
|---|---|
| **Directors:** | Jeffrey Allison,<br>Calgary, Alberta,<br><br>Wayne Bernakevitch,<br>Regina, Saskatchewan,<br><br>Lionel Kambeitz,<br>Regina, Saskatchewan,<br><br>Garth Fredrickson<br>Regina, Saskatchewan, |
| **Senior Officers:** | Jeffrey Allison, President & CEO<br>Jacelyn Case, CFO<br>Wayne Bernakevitch, Chairman |
| **Committees of the Board of Directors:** | Audit Committee<br>Compensation Committee<br>Nominating Committee |
| **Members of Audit Committee:** | Lionel Kambeitz, Garth Fredrickson<br>and Wayne Bernakevitch |
| **Members of Compensation Committee:** | Jeffrey Allison and Lionel Kambeitz |
| **Members of Nominating Committee:** | Lionel Kambeitz and Wayne Bernakevitch |

# SHAREHOLDER INFORMATION

**Stock exchange:** **Canadian Securities Exchange;**
**& Frankfurt Stock Exchange**

**Stock symbol:** **CSE:DELT; FRA:66C**

**Common Shares outstanding as of December 31, 2023: 85,073,100**

**Head office and Investor relations address:**

**DELTA CLEANTECH INC.**
#2308 Palisade Drive SW
Calgary, Alberta T2V 3V1
Telephone: (306) 352-6132
Fax: (306) 545-3262
E-mail: investorinfo@deltacleantech.ca

**Sales and Marketing Offices**
**Canada:**
Regina, Saskatchewan
Calgary, Alberta

**Registrar and Transfer Agent:**
Odyssey Trust Company
1230, 300 – 5th Avenue S. W.
Calgary, Alberta T2P 3C4

**Banks:** **RBC**

**Auditors:** **Ernst & Young, Calgary, AB**

**Legal Counsel:** **McDougall Gauley, Barristers and Solicitors**, Regina Saskatchewan
**Gowling WLG**, Calgary Alberta

**Dividend policy:**
No dividends have been paid on any common shares of the Corporation since the date of inception, and it is not contemplated that any dividends will be paid in the immediate or foreseeable future.

**Duplicate Communications:**
Some shareholders may receive more than one copy of the annual report and proxy-related material. This is generally due to ownership of registered shares in addition to non-registered shares; holding shares in more than one account; or purchasing shares from more than one stock brokerage firm. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should notify the investor relations department at the above address.