



SPARQ SYSTEMS INC.

**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025

(Expressed in Canadian dollars)

The accompanying unaudited condensed interim financial statements for the three and six months ended June 30, 2026 and 2025 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company. In accordance with National Instrument 51-102 Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that the accompanying unaudited condensed interim financial statements have not been reviewed by an auditor.

SPARQ SYSTEMS INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

As at:	Note	June 30, 2026	December 31, 2025
		\$	\$
Assets			
Current Assets			
Cash and cash equivalents		4,147,995	4,775,481
Accounts and other amounts receivable	4	1,128,420	1,301,647
Inventory	5	673,315	1,234,478
Prepaid expenses and deposits		80,774	82,859
Total current assets		6,030,504	7,394,465
Property and equipment	6	557,371	588,229
Total assets		6,587,875	7,982,694
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		1,173,206	1,161,497
Lease liability – current portion	7	180,450	143,162
Total current liabilities		1,353,656	1,304,659
Warranty provision		106,564	96,168
Lease liability	7	161,467	180,793
Total liabilities		1,621,687	1,581,620
Shareholders' Equity			
Share Capital	8	40,026,018	38,957,068
Contributed Surplus	8,10	8,602,892	8,549,089
Warrants	8	-	458,605
Accumulated other comprehensive loss		(3,160)	(2,889)
Deficit		(43,659,562)	(41,560,799)
Total shareholders' equity		4,966,188	6,401,074
Total liabilities and shareholders' equity		6,587,875	7,982,694

Going concern (Note 2(e))
Commitments and contingencies (Note 12)

Approved on behalf of the Board of Directors:

“Praveen Jain”, Director

“Nishith Goel”, Director

SPARQ SYSTEMS INC.
**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025**

(Expressed in Canadian dollars)

		Three months ended June 30		Six months ended June 30	
	Note	2026	2025	2026	2025
		\$	\$	\$	\$
Revenue		983,220	162,687	1,235,871	162,687
Cost of sales	5	(932,594)	(153,857)	(1,164,244)	(165,783)
Gross profit (loss)		50,626	8,830	71,627	(3,096)
Expenses					
Research and development		459,492	373,917	821,525	713,717
Sales and marketing		22,141	50,157	31,157	89,865
General and administration		675,616	656,730	1,261,243	1,237,421
Depreciation of property and equipment	6	74,129	74,570	148,235	148,422
Stock-based compensation	10	30,280	18,747	64,448	28,626
Total expenses		1,261,658	1,174,121	2,326,608	2,218,051
Loss before other income (expenses)		(1,211,032)	(1,165,291)	(2,254,981)	(2,221,147)
Other income (expense)					
Interest and accretion	7	(11,030)	(14,568)	(21,694)	(30,486)
Interest income		23,149	1,925	63,154	10,186
Foreign exchange (loss) gain		(80,593)	(360,119)	114,759	(367,204)
		(68,475)	(372,762)	156,218	(387,504)
Net loss		(1,279,507)	(1,538,053)	(2,098,763)	(2,608,651)
Other comprehensive loss					
Foreign exchange loss on conversion of subsidiary		(15,367)	-	(271)	-
Net loss and comprehensive loss for the period		(1,294,874)	(1,538,053)	(2,099,034)	(2,608,651)
Basic and diluted loss per share		(0.01)	(0.01)	(0.02)	(0.02)
Weighted average shares outstanding		117,209,917	116,935,108	117,072,512	116,935,108

SPARQ SYSTEMS INC.
**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2026 AND 2025**

(Expressed in Canadian dollars)

	Note	Number of Shares	Common Shares \$	Contributed Surplus \$	Warrants \$	Accumulated Other Comprehensive Income \$	Deficit \$	Total \$
Balance, December 31, 2024		116,935,108	38,957,068	8,476,570	458,605	-	(36,677,961)	11,214,282
Stock-based compensation	10	-	-	28,626	-	-	-	28,626
Net loss for the period		-	-	-	-	-	(2,608,651)	(2,608,651)
Balance, June 30, 2025		116,935,108	38,957,068	8,505,196	458,605	-	(39,286,612)	8,634,257
Balance, December 31, 2025		116,935,108	38,957,068	8,549,089	458,605	(2,889)	(41,560,799)	6,401,074
Stock-based compensation	10	-	-	64,448	-	-	-	64,448
Exercise of warrants		1,468,501	1,046,005	-	(458,605)	-	-	587,400
Exercise of options		30,000	22,945	(10,645)	-	-	-	12,300
Other comprehensive loss		-	-	-	-	(271)	-	(271)
Net loss for the period		-	-	-	-	-	(2,098,763)	(2,098,763)
Balance, June 30, 2026		118,433,609	40,026,018	8,602,892	-	(3,160)	(43,659,562)	4,966,188

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

SPARQ SYSTEMS INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2026 AND 2025

(Expressed in Canadian dollars)

	Note	2026	2025
		\$	\$
Operating activities:			
Net loss for the period		(2,098,763)	(2,608,651)
Items not involving cash			
Depreciation of property and equipment	6	148,235	148,422
Interest and accretion	7,8	21,693	30,486
Foreign exchange		(759)	-
Stock-based compensation	10	64,448	28,626
Changes in non-cash working capital:			
Accounts and other amounts receivable		173,227	1,527,407
Inventory		561,163	11,089
Prepaid expenses and deposits		2,085	9,270
Warranty provision		10,396	-
Accounts payable and accrued liabilities		11,709	266,505
Cash flow used in operating activities		(1,106,566)	(586,846)
Investing activities			
Acquisition of equipment	6	(16,388)	(71,869)
Cash flow used in investing activities		(16,388)	(71,869)
Financing activities:			
Lease payments	7	(104,232)	(101,855)
Exercise of warrants		587,400	-
Exercise of stock options		12,300	-
Cash flow (used in) from financing activities		495,468	(101,855)
Net change in cash and cash equivalents		(627,486)	(760,570)
Cash and cash equivalents at beginning of the period		4,775,481	6,944,918
Cash and cash equivalents at end of the period		4,147,995	6,184,348

SPARQ SYSTEMS INC.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025

(Expressed in Canadian dollars)

1. Nature of business

Sparq Systems Inc. (formerly SPARQ Corp.) (the “**Company**”) was incorporated under the *Business Corporations Act* (Ontario) on November 13, 2018. The address of the Company’s registered and head office is 945 Princess Street, Box 212, Kingston, Ontario K7L 0E9. The common shares are listed for trading on the TSX Venture Exchange (the “**TSXV**”) under the symbol “SPRQ”. The common shares are also quoted for trading on the OTCQB under the symbol “SPRQF” and on the Frankfurt Stock Exchange under the symbol “M26”.

The Company designs and manufactures next generation single-phase microinverters for residential and commercial solar electric applications. The Company has developed a proprietary photovoltaic (“**PV**”) solution called the Quad; the Quad inverter optimizes four PV modules with a single microinverter, simplifying design and installation, and lowering cost for solar power installations when compared to existing market offerings.

2. Basis of presentation, measurement, and consolidation

a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except as disclosed in the notes. They have been prepared in compliance with IFRS Accounting Standards (“**IFRS**”) and its interpretations as issued by the International Accounting Standards Board (“**IASB**”). These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors of the Company on August 21, 2026.

b) Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and share-based compensation transactions which have been measured at fair value.

c) Basis of consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its majority-owned subsidiary, SPARQ Systems India Private Limited (“**SPARQ India**”), which was incorporated under the laws of India. The principal place of business of SPARQ India is in India. Inter-company transactions and balances between the Company and SPARQ India have been eliminated on consolidation. SPARQ India has a reporting date of December 31.

Profit or loss and other comprehensive loss of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

d) Functional and presentation currency

The functional currency of the Company and its subsidiaries is determined using the currency of the primary economic environment in which each entity operates. The functional and presentation currency of the Company is the Canadian dollar. The functional currency of SPARQ India is the Indian Rupee.

SPARQ SYSTEMS INC.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025

(Expressed in Canadian dollars)

e) **Going concern assumption**

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at June 30, 2026, the Company had a deficit of \$43,659,562 (December 31, 2025 - \$41,560,799) and, for the six months ended June 30, 2026, incurred a net loss of \$2,098,763 (June 30, 2025 - \$2,608,651) and negative cash flows from operating activities of \$1,106,566 (June 30, 2025 - \$586,846). The Company has used debt and equity financing from both related and unrelated sources to supplement its operations and will continue to be reliant on additional debt and/or equity financing in order to fully develop its business plan.

Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will be able to generate sufficient returns from operations.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the Company generating revenue and debt and/or equity financing sufficient to fund its cash flow needs.

These circumstances indicate the existence of material uncertainty that casts significant doubt on the ability of the Company to meet its business plan and its obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

These unaudited condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these unaudited condensed interim consolidated financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported expenses and the classifications used in the consolidated statement of financial position. Such differences in amounts could be material.

3. Material accounting policy information

These unaudited condensed interim consolidated financial statements reflect the accounting policies described in Note 3 to the audited financial statements for the year ended December 31, 2025 and accordingly, should be read in conjunction with such audited financial statements and the notes thereto.

Effective January 1, 2026, the Company adopted the Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) and Annual Improvements to IFRS Accounting Standards—Volume 11. Adoption of these amendments did not have a material impact on these unaudited condensed interim consolidated financial statements.

Standards, amendments and interpretations not yet effective

On April 9, 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements to improve reporting of financial performance. IFRS 18 replaces IAS 1 Presentation of Financial Statements. It carries forward many requirements from IAS 1. IFRS 18 applies to annual reporting periods beginning on or after January 1, 2027. Earlier application is permitted. The key new concepts introduced in IFRS 18 relate to: (i) the structure of the statement of profit or loss; (ii) required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements; and (iii) enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes. The Company is currently assessing the impact and efforts related to adopting IFRS 18.

SPARQ SYSTEMS INC.
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025**

(Expressed in Canadian dollars)

4. Accounts receivable

		June 30, 2026		December 31, 2025
Accounts receivable	\$	1,084,580	\$	1,247,318
Sales tax and other receivables		43,840		54,329
	\$	1,128,420	\$	1,301,647

5. Inventory

		June 30, 2026		December 31, 2025
Finished goods	\$	281,277	\$	497,922
Raw materials		673,315		1,017,833
		954,592		1,515,755
Provision		(281,277)		(281,277)
	\$	673,315	\$	1,234,478

Inventory recognized in cost of sales during the six months ended June 30, 2026 was \$1,164,244 (June 30, 2025 – \$165,783, comprising inventory costs of \$153,857 and an inventory write-down of \$11,926). During the six months ended June 30, 2026, inventory provision related to obsolescence of \$nil has been expensed within cost of sales (June 30, 2025 - \$11,926).

6. Property and equipment

	Equipment	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	Right of use asset	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, December 31, 2024	867,222	27,027	91,348	33,615	23,154	529,133	1,571,499
Additions	68,432	-	10,717	12,137	-	36,656	127,942
Balance, December 31, 2025	935,654	27,027	102,065	45,752	23,154	565,789	1,699,441
Foreign currency adjustment	-	-	-	-	-	156	156
Additions	8,103	-	8,285	-	-	100,501	116,889
Balance, June 30, 2026	943,757	27,027	110,350	45,752	23,154	666,446	1,816,486
Accumulated depreciation							
Balance, December 31, 2024	555,136	25,743	72,889	27,490	16,268	115,485	813,011
Depreciation	107,269	440	11,547	13,372	2,361	163,212	298,201
Balance, December 31, 2025	662,405	26,183	84,436	40,862	18,629	278,697	1,111,212
Foreign currency adjustment	-	-	-	-	-	(332)	(332)
Depreciation	53,952	220	5,040	4,890	1,180	82,953	148,235
Balance, June 30, 2026	716,357	26,403	89,476	45,752	19,809	361,318	1,259,115
Net book value							
Balance, December 31, 2025	273,249	844	17,629	4,890	4,525	287,092	588,229
Balance, June 30, 2026	227,400	624	20,874	-	3,345	305,128	557,371

SPARQ SYSTEMS INC.**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025****(Expressed in Canadian dollars)****7. Lease liability**

Balance, December 31, 2024	\$ 434,987
Lease interest	55,641
Additions	36,656
Lease payments	(203,329)
Balance, December 31, 2025	323,955
Lease interest	21,693
Addition	100,501
Lease payments	(104,232)
Balance, June 30, 2026	\$ 341,917
Allocated as:	
Current	\$ 180,450
Long Term	\$ 161,467

On January 1, 2024, the Company finalized a lease for office space for its Kingston, Ontario office. The term of the lease will expire on December 31, 2027. Under the lease, the Company is required to pay a monthly base rent of \$12,931, with an annual increase of 2.5%. At the commencement of the lease, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 13.50%, which was estimated to be Company's incremental borrowing rate in Canada.

On January 1, 2025, the Company entered into a lease for office space for SPARQ India. The term of the lease will expire on December 31, 2029. Under the lease, the Company is required to pay a monthly base rent of \$843, with an annual increase of 5%. At the commencement of the lease, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 13.50%, which was estimated to be Company's incremental borrowing rate in Canada.

On February 26, 2026, the Company entered into a new lease for office space for its Ottawa, Ontario office. The term of the lease will expire on February 28, 2029, subject to the Company's right of renewal. Under the lease, the Company is required to pay a monthly base rent of \$3,023 in the first year of the lease, \$3,077 in the second year of the lease and \$3,143 in the third year of the lease. At the commencement of the lease, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 6.85%, which was estimated to be Company's incremental borrowing rate in Canada.

8. Share capital**Authorized**

An unlimited number of common shares.

Issued

As at June 30, 2026, 118,433,609 common shares were issued and outstanding (December 31, 2025 - 116,935,108).

During the six months ended June 30, 2026, the following common shares were issued:

- (i) 1,468,501 common shares were issued on the exercise of 1,468,501 warrants for aggregate proceeds of \$587,400. The fair value of the warrants (\$458,605) was re-allocated from contributed surplus to share capital on the exercise.

SPARQ SYSTEMS INC.**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025****(Expressed in Canadian dollars)**

- (ii) 30,000 common shares were issued on the exercise of 30,000 stock options (“**Options**”) for aggregate proceeds of \$12,300. The fair value of the Options (\$10,645) was re-allocated from contributed surplus to share capital on the exercise.

Warrants

	Number of Warrants #	Weighted average exercise price \$
Balance, December 31, 2024 and 2025	1,468,501	0.40
Exercise of warrants	(1,468,501)	
Balance, June 30, 2026	-	-

On May 31, 2024, the Company closed the first tranche of a brokered private placement of common shares (the “**Offering**”) by issuing 11,938,745 common shares at a price of \$0.40 per common share for aggregate gross proceeds of \$4,775,498. Pollitt & Co. Inc. (the “**Agent**”) was engaged as the sole agent and bookrunner for the Offering to offer the common shares on a best efforts agency basis. In connection with the closing of the first tranche of the Offering, the Agent received: (i) a cash commission of \$239,212; and (ii) 361,442 compensation warrants (each, a “**Compensation Warrant**”) exercisable at \$0.40 per common share for a period of two years from the closing of the first tranche of the Offering.

On June 7, 2024, the Company closed the second tranche of the Offering by issuing 18,950,975 common shares at a price of \$0.40 per common share for aggregate gross proceeds of \$7,580,390 (for a total of \$12,355,888 for both tranches). In connection with the closing of the second tranche of the Offering, the Agent received: (i) a cash commission of \$450,823; (ii) 1,107,059 Compensation Warrants exercisable at \$0.40 per common share for a period of two years from the closing of the second tranche of the Offering; and (iii) a corporate advisory fee of \$250,000 which was satisfied through the issuance of 625,000 common shares.

On May 30, 2026, the Agent exercised all of the 1,468,501 Compensation Warrants for aggregate proceeds of \$587,400.

As at June 30, 2026 the Company had no warrants outstanding.

9. Loss per share

Loss per share is calculated by dividing loss by the weighted average number of common shares outstanding during the year. In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding Options, warrants and other convertible instruments. In periods where a net loss is reported all outstanding Options, warrants and other convertible instruments are excluded from the calculation of diluted loss per share, as they are all anti-dilutive. No instruments are dilutive.

10. Stock-based compensation

The Company has an omnibus equity incentive plan (the “**Omnibus Plan**”) which provides for a wide range of incentive awards, including Options, deferred share units (“**DSUs**”), restricted share units (“**RSUs**”), performance share units (“**PSUs**”) and other share-based awards (“**Other Share-Based Awards**”), and together with Options, DSUs, RSUs, PSUs, “**Awards**”) to attract, retain and motivate Employees, Directors, Officers and Consultants of the Company (as such terms are defined in the Omnibus Plan). The Omnibus Plan is a “rolling up to 10% and fixed up to 10%” Security Based Compensation Plan, as defined in Policy 4.4 - Security Based Compensation of the TSXV. The Omnibus Plan is a: (a) “rolling” plan pursuant to which the number of common shares that are issuable pursuant to the exercise of Options granted under the Omnibus Plan shall not exceed 10% of the issued and outstanding common shares as at the date of any Option grant; and (b) “fixed” plan under which the number of common shares that are issuable pursuant to all Awards other than Options granted under the Omnibus Plan

SPARQ SYSTEMS INC.
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025**

(Expressed in Canadian dollars)

and under any other security based compensation arrangement, in aggregate is a maximum of 11,693,510 common shares, in each case, subject to adjustment as provided in the Omnibus Plan and any subsequent amendment to the Omnibus Plan. Shareholders approved the initial adoption of the Omnibus Plan at the Company's annual and special meeting held on June 1, 2022.

The following details all Options and DSUs granted under the Omnibus Plan during the six months ended June 30, 2026 and the year ended December 31, 2025. No RSUs, PSUs or Other Share-Based Awards have been issued as of the date hereof.

Stock options

	Number of Options #	Weighted average exercise price \$
Balance, December 31, 2024	11,116,706	0.45
Granted (i)	50,000	0.86
Granted (ii)	50,000	0.75
Expired (ii)	(50,000)	(0.75)
Balance, December 31, 2025	11,166,706	0.45
Exercised	(30,000)	0.41
Granted (iii)	500,000	1.25
Balance, June 30, 2026	11,636,706	0.484

- (i) On May 23, 2025, 50,000 Options were granted to an employee of the Company with an exercise price of \$0.86 per common share. The Options are exercisable for a period of five years and vest one year from the date of grant. The Options were allocated an estimated fair value of \$38,100 using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 2.87%, an expected dividend yield of 0%, an expected stock price volatility of 138%, and an expected life of five years.
- (ii) On June 26, 2025, 50,000 Options were granted to an investor relations consultant of the Company (the "IR Consultant") with an exercise price of \$0.75 per common share. The Options were exercisable for a period of five years and vested 12,500 per quarter (September 26, 2025, December 26, 2025, March 26, 2026 and June 26, 2026). The Options were allocated an estimated fair value of \$37,485 using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 2.87%, an expected dividend yield of 0%, an expected stock price volatility of 138%, and an expected life of five years. These Options expired as the agreement with the IR Consultant was terminated.
- (iii) On June 12, 2026, 500,000 Options were granted to an investor relations consultant of the Company with an exercise price of \$1.25 per common share. The Options are exercisable for a period of three years from the date of grant, and shall vest and become exercisable as to 25% on each of the three, six, nine and twelve month anniversaries from the date of grant. The Options were allocated an estimated fair value of \$459,103 using the Black-Scholes option pricing model to estimate the fair value using the weighted average assumptions of an expected forfeiture rate of 0%, a risk-free interest rate of 2.86%, an expected dividend yield of 0%, an expected stock price volatility of 126%, and an expected life of three years.

The underlying expected stock price volatility for the calculation of the fair value of the Options is based on historical volatility of the Company's common shares. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the Options.

The Options have various vesting terms. In total, \$24,003 of stock-based compensation expense relating to Options was included in the statements of loss and comprehensive loss for the six months ended June 30, 2026, and credited to contributed surplus (June 30, 2025 – \$28,626).

SPARQ SYSTEMS INC.**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025****(Expressed in Canadian dollars)**

As at June 30, 2026, the Company had the following Options outstanding:

Number of Options Outstanding	Exercise Price (\$)	Expiry Date	Number of Options Exercisable	Weighted Average Remaining Life (years)
112,000	0.25	08/09/2029	112,000	3.11
5,025,000	0.50	12/31/2026	5,025,000	0.50
275,000	0.50	02/24/2027	275,000	0.65
200,004	0.385	11/22/2027	158,327	1.40
500,000	0.285	12/01/2027	375,000	1.42
30,000	0.18	04/20/2027	28,750	0.81
150,000	0.18	04/20/2028	124,375	1.81
4,594,702	0.41	06/28/2029	4,594,702	3.00
200,000	0.75	10/18/2029	200,000	3.41
50,000	0.86	05/23/2030	50,000	3.90
500,000	1.25	06/12/2029	-	2.95
11,636,706			10,943,154	1.76

DSUs

Under the Omnibus Plan, the Company will redeem vested DSUs, subject to earlier expiration or cancellation in accordance with the Omnibus Plan by either (in the sole discretion of the board of directors of the Company): (i) issuing common shares from treasury; (ii) delivering common shares acquired on the open market; (iii) making a lump sum payment equal to the value of the issuable number of common shares; or (iv) any combination thereof. On the date of grant, the DSUs are recognized at their fair value based on the price of the common shares on that date.

On May 23, 2025, 1,162 DSUs were granted to an employee of the Company. The DSUs vested one year from the date of grant. On the date of grant, the DSUs had a total fair value of \$1,000 and are recognized as stock-based compensation expense over their vesting period.

On November 27, 2025, 132,605 DSUs were granted to employees of the Company. The DSUs vest one year from the date of grant. On the date of grant, the DSUs had a total fair value of \$80,889 and are recognized as stock-based compensation expense over their vesting period.

During the year ended December 31, 2025, 79,645 DSUs expired. As at June 30, 2026, 606,666 DSUs were issued and outstanding (December 31, 2025 – 606,666).

In total, \$40,445 of stock-based compensation expense relating to DSUs was included in the consolidated statements of loss and comprehensive loss for the six months ended June 30, 2026 and credited to contributed surplus (June 30, 2025 - \$83).

11. Related party transactions

- (a) During the six months ended June 30, 2026, the Company was charged \$200,000 for consulting services provided by PE Consultants Inc., an entity which is controlled by Praveen Jain, the Chief Executive Officer of the Company (June 30, 2025 - \$100,000). These expenses have been recorded in research and development and general and administrative expenses. As at June 30, 2026, \$nil of this amount is included in accounts payable and accrued liabilities (December 31, 2025 – \$nil).
- (b) During the six months ended June 30, 2026 the Company was charged \$18,000 for consulting services provided by CFO Advantage Inc., an entity which is controlled by Kyle Appleby, the Chief Financial Officer of the Company (June 30, 2025 - \$18,000). These expenses have been recorded in general and administrative expenses. As at June 30, 2026, \$18,000 of this amount is included in accounts payable and accrued liabilities (December 31, 2025 – \$nil).
- (c) On June 16, 2022, the Company signed a manufacturing agreement (the “**Manufacturing Agreement**”) with Ti-Lane Precision Electronic Company Limited (“**Ti-Lane**”) to manufacture turn-key Q1200 microinverters for the

SPARQ SYSTEMS INC.**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025****(Expressed in Canadian dollars)**

Company on a high volume basis at Ti-Lane's facility based in Guangdong Province, China. The Manufacturing Agreement had an initial term of three years and was mutually terminated by the Company and Ti-Lane on November 30, 2024. Ti-Lane is a shareholder of the Company and is controlled by Baojun (Robbie) Luo, one of the Company's directors. During the six months ended June 30, 2026, the Company incurred \$nil in charges from Ti-Lane for residual services following termination (June 30, 2025 - \$23,917). As at June 30, 2026, \$nil of this amount is included in accounts payable and accrued liabilities (December 31, 2025 - \$nil).

- (d) Transactions with related parties are incurred during the course of normal operations and initially recorded at fair value. Key management includes directors and officers of the Company. Compensation awarded to key management was comprised of the following for the three and six months ended June 30, 2026 and 2025:

	Three months ended June 30		Six months ended June 30	
	2026	2025	2026	2025
Short-term compensation	\$ 109,000	\$ 109,000	\$ 218,000	\$ 218,000
Share-based payments	-	-	-	-
Total	\$ 109,000	\$ 109,000	\$ 218,000	\$ 218,000

12. Commitments and contingencies*Commitments*

On July 31, 2013, the Company entered into a licensing agreement (the "**PARTEQ Agreement**") with PARTEQ Research and Development Innovations for commercial rights to certain power generation, conversion, and switching technologies used in its products. Pursuant to the terms of the PARTEQ Agreement, the Company is obligated to pay 1% of specified net sales generated from the sale of products using the licensed technology. As at December 31, 2025 and June 30, 2026, \$23,495 has been accrued.

Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As at June 30, 2026 and December 31, 2025, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

13. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

a) Credit risk

Credit risk is the risk of a potential loss to the Company if one party of a financial instrument fails to meet its contractual obligations. The maximum credit exposure as at June 30, 2026 and December 31, 2025 relates to the carrying amount of cash and cash equivalents and accounts receivable. To reduce credit risk, all significant cash balances are placed with major financial institutions. Therefore, credit risk is low.

The Company currently has one customer, which represents 100% of revenue. The Company monitors the creditworthiness of this customer on an ongoing basis and believes the risk of loss to be low based on the customer's payment history and financial standing. The Company does not require collateral or other security in respect of this receivable.

The Company's expected credit loss allowance is estimated using historical loss information, current industry conditions and payment practices, as well as reasonable and supportable forecasts of future economic conditions. Credit risk is assessed based on days outstanding and utilizes both internal credit assessments and publicly available credit information. As a result, the allowance reflects anticipated effects caused by recent market

SPARQ SYSTEMS INC.**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025****(Expressed in Canadian dollars)**

deterioration. As at June 30, 2026, the current expected credit loss allowance was \$nil (December 31, 2025 - \$nil).

Credit risk concentration

The Company's accounts receivable are subject to concentration of credit risk. As at June 30, 2026, one customer accounted for approximately 65% of total accounts receivable (December 31, 2025 – 63%).

The Company monitors the creditworthiness of this customer on an ongoing basis and has not experienced significant collection issues.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the effective management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity at all times to settle obligations and liabilities when due. The Company has the following contractual obligations:

	Less than 1 year	1 to 5 years	Total	Carrying
	\$	\$	\$	value
Accounts payable and accrued liabilities	1,173,206	-	1,173,206	1,173,206
Lease liability	180,450	161,467	341,917	341,917
June 30, 2026	1,353,656	161,467	1,515,123	1,515,123

	Less than 1 year	1 to 5 years	Total	Carrying
	\$	\$	\$	value
Accounts payable and accrued liabilities	1,161,497	-	1,161,497	1,161,497
Lease liability	143,162	180,793	323,955	323,955
December 31, 2025	1,304,659	180,793	1,485,452	1,485,452

c) Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The other financial assets and liabilities of the Company do not represent interest risk because they do not bear interest. The Company does not use financial derivatives to decrease its exposure to interest risk.

d) Tariff uncertainty

Since 2025, the President of the United States has issued executive orders directing the United States to impose new or increased tariffs on certain of its trading partners, including Canada, as part of broader changes to U.S. trade policy. In response, Canada and other countries, including China, have announced or implemented retaliatory counter-tariffs.

The legal authority for certain U.S. tariff measures has been, and may continue to be, subject to challenge. The outcome of any such challenges is uncertain, and judicial, legislative or executive developments could affect the scope, timing or continuation of existing or proposed tariffs, including through the use of alternative statutory or regulatory authorities.

Tariffs, retaliatory measures and related trade-policy changes may change rapidly and could adversely affect global trade flows, the Canadian and international economies and broader economic conditions. Any such developments may adversely affect the Company's business, operations, costs and expenses, revenue, cash flow, profitability, results of operations and financial condition.

SPARQ SYSTEMS INC.**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2026 AND 2025****(Expressed in Canadian dollars)**

The Company has not experienced a material direct impact from tariffs to date. Management continues to monitor developments in US and international trade policy and their potential effects on component costs, supply chains, customer demand and foreign exchange rates.

e) Foreign exchange risk

The Company is exposed to foreign exchange risk from various currencies, primarily the US dollar. Foreign exchange risk arises from sales and purchase transactions as well as recognized financial assets and liabilities that are denominated in a currency other than the Canadian dollar, which is the functional currency of the Company.

The Company's primary objective in managing its foreign exchange risk is to preserve sales values and cash flows and reduce variations in performance. Although management monitors exposure to such fluctuations, it does not employ any external hedging strategies to counteract the foreign currency fluctuations.

The following amounts are denominated in foreign currency:

	Currency	June 30, 2026	December 31, 2025
Cash	US Dollar	\$ 2,170,103	\$ 3,337,948
Cash	Indian Rupee	15,342,564	5,629,901
Accounts Receivable	US Dollar	\$ 5,685	\$ 5,685
Accounts Receivable	Indian Rupee	49,883,025	54,215,539
Accounts Payable	US Dollar	\$ 3,491	\$ 1,730
Accounts Payable	Indian Rupee	67,250,111	64,770,033

As at June 30, 2026, a 1% strengthening of the US dollar and Indian Rupee against the Canadian dollar would result in a gain of approximately \$32,500 in cash, a gain of approximately \$7,700 in accounts receivable and a loss of approximately \$10,300 in accounts payable. A 1% weakening of these currencies would have an equal but opposite effect.

14. Capital management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders. As at June 30, 2026, the Company considered the items included in shareholders' equity of \$4,966,188 as capital (December 31, 2025 - \$6,401,074). The Company manages the capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the Company's business. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing. The Company is not subject to any capital requirements imposed by a regulator. There has been no change in how management has monitored capital during the six months ended June 30, 2026.