

TUGA INNOVATIONS, INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2022

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

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**NOTICE OF NO AUDITOR REVIEW OF THE
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company for the nine months ended April 30, 2022 have been prepared by and are the responsibility of the Company's management, and have not been reviewed by the Company's auditors.

TUGA INNOVATIONS, INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at April 30, 2022 and July 31, 2021

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	April 30, 2022	July 31, 2021
ASSETS		
Current		
Cash	\$ 1,743,232	\$ 471,606
Amounts receivable (Note 7)	74,750	7,419
Prepaid expenses	300,002	-
	<u>2,120,984</u>	<u>479,025</u>
Patents	11,623	11,388
Property plant and equipment	42,890	-
	<u>\$ 2,175,497</u>	<u>\$ 490,413</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 80,219	\$ 113,999
	<u>80,219</u>	<u>113,999</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	6,508,351	795,190
Commitment to issue shares	-	98,606
Contributed surplus	631,015	50,500
Accumulated other comprehensive loss	(18,367)	(9,542)
Deficit	(5,025,721)	(558,340)
	<u>2,095,278</u>	<u>376,414</u>
	<u>\$ 2,175,497</u>	<u>\$ 490,413</u>

Going concern (Note 2)

APPROVED ON BEHALF OF THE BOARD:

"Faizaan Lalani"

Faizaan Lalani

Director

"Daren Hermiston"

Daren Hermiston

Director

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

TUGA INNOVATIONS, INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the three months ended April 30, 2022 and 2021

for the nine months ended April 30, 2022 and for the period from September 1, 2020 (date of inception) to April 30, 2021

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	For the three months ended April 30,		For the nine months ended April 30,	For the period Sep. 1, 2020 to April 30,
	2022	2021	2022	2021
Administrative expenses				
Consulting fees (Note 7)	\$ 308,118	\$ -	\$ 775,047	\$ -
Depreciation	1,276	-	1,276	-
Filing fees	1,364	-	23,210	-
Marketing	239,480	3,204	472,696	7,295
Office and general	76,115	462	127,081	615
Professional fees	84,630	18,009	246,771	54,511
Research and development expenses	347,267	87,718	706,076	87,718
Share-based payments (Notes 6 and 7)	1,526,189	-	2,078,872	-
Travel and promotion	9,032	-	36,352	-
Net loss for the period	(2,593,471)	(109,393)	(4,467,381)	(150,139)
Other comprehensive loss				
Loss on translation of foreign operations	1,050	-	(8,825)	-
Total comprehensive loss for the period	\$ (2,592,421)	\$ (109,393)	\$ (4,476,206)	\$ (150,139)
Basic and diluted loss per share	\$ (0.06)	\$ (0.35)	\$ (0.12)	(1.24)
Weighted average number of common shares outstanding	43,972,551	308,831	37,798,191	121,084

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

TUGA INNOVATIONS, INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**

For the six months ended January 31, 2022 and for the period from September 1, 2020 (date of inception) to January 31, 2021

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	Number of Shares	Share Capital	Share Subscriptions Received	Contributed Surplus	Accumulated other Comprehensive Income	Deficit	Total Shareholders' Equity
Balance, September 1, 2020	1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Founder shares	392,400	149,662	-	-	-	-	149,662
Share subscriptions received	-	-	47,774	-	-	-	47,774
Comprehensive loss for the period	-	-	-	-	-	(150,139)	(150,139)
Balance, April 30, 2021	392,401	\$ 149,662	\$ 47,774	\$ -	\$ -	\$ (150,139)	\$ 47,297
Balance, July 31, 2021	31,176,332	\$ 795,190	\$ 98,606	\$ 50,500	\$ (9,542)	\$ (558,340)	\$ 376,414
Subscriptions received	-	-	4,348,894	-	-	-	4,348,894
Private placement	11,118,750	4,447,500	(4,447,500)	-	-	-	-
Share issue cost cash	-	(272,680)	-	-	-	-	(272,680)
Fair value of agent's warrants issued	-	(102,370)	-	102,370	-	-	-
Share purchase warrants exercised	99,939	24,984	-	-	-	-	24,984
Stock options exercised	20,000	23,000	-	(8,000)	-	-	15,000
Restricted share unit issued	2,080,000	1,592,727	-	(1,592,727)	-	-	-
Share-based payments - RSU	-	-	-	2,006,072	-	-	2,006,072
Share-based payments - Options	-	-	-	72,800	-	-	72,800
Comprehensive loss for the period	-	-	-	-	(8,825)	(4,467,381)	(4,476,206)
Balance, April 30, 2022	44,495,021	\$ 6,508,351	\$ -	\$ 631,015	\$ (18,367)	\$ (5,025,721)	\$ 2,095,278

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

TUGA INNOVATIONS, INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the nine months ended April 30, 2022 and

for the period from September 1, 2020 (date of inception) to April 30, 2021

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	For the nine months ended April 30, 2022	For the period from September 1, 2020 to April 30, 2021
Operating Activities		
Net loss for the period	\$ (4,467,381)	\$ (150,139)
Items not affecting cash:		
Depreciation	1,276	-
Share-based payments	2,078,872	-
Changes in non-cash working capital items related to operations:		
Amounts receivable	(67,331)	-
Prepaid expenses	(303,002)	(96,840)
Accounts payable and accrued liabilities	(33,780)	62,187
Cash used in operating activities	(2,791,346)	(184,792)
Investing Activities		
Property plant and equipment	(44,166)	-
Patent	-	(11,689)
Cash used in investing activities	(44,166)	(11,689)
Financing Activities		
Shares issued for cash	4,388,878	149,662
Shares subscriptions received	-	47,774
Share issue cost – cash	(272,680)	-
Cash provided by financing activities	4,116,198	197,436
Effect of foreign exchange on cash	(9,060)	-
Change in cash for the period	1,271,626	955
Cash, beginning of period	471,606	-
Cash, end of the period	\$ 1,743,232	\$ 955
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
Non-cash Transactions:		
Fair value on shares issued for RSU	\$ 1,592,727	\$ -
Fair value on agent's warrants issued	\$ 102,370	\$ -
Fair value transferred on exercise of stock options	\$ 8,000	\$ -

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

TUGA INNOVATIONS, INC.

Notes to the Condensed Interim Consolidated Financial Statements

April 30, 2022

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

1. CORPORATE INFORMATION

TUGA Innovations, Inc. (the “Company” or “TUGA”) was incorporated on April 7, 2021 under the name 1298562 B.C. Ltd. in British Columbia and is the parent company of TUGA-Global, Inc. (“TUGA-Global”). The Company’s principal business activity is to reduce urban mobility difficulties by developing a three-wheeled, fully electric fore-and-aft 2 seat vehicle. The Company’s registered office is 1200 – 750 West Pender Street, Vancouver, BC V6C 2T8 and its head office is located at 409 Granville Street, Suite 1000, Vancouver, British Columbia V6C 1T2. The principle place of business is Suite 201, 40600 Ann Arbor Road East, Plymouth, Michigan, 48170.

On June 30, 2021, the Company completed the proposed arrangement with TUGA-Global by way of reverse triangular merger under the provisions of the Michigan Business Corporation Act. (the “Merger”). Pursuant to the Merger TUGA-Global became a wholly-owned subsidiary of TUGA for legal purposes and the Company changed its name to TUGA Innovations, Inc. (See Note 5)

On November 30, 2021, the Company filed its long form prospectus and on December 2, 2021, received approval for listing on the Canadian Securities Exchange and commenced trading on December 9, 2021 under the trading symbol “TUGA”. The Company is also trading on the German Borse Frankfurt exchange under the trading symbol “DQ5” and is quoted on the OTC Markets under the trading symbol “TUGAF”.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on June 28, 2022.

(b) Basis of Measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed interim consolidated financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company.

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian Dollars)

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2. BASIS OF PREPARATION – (cont'd)

(c) Going Concern

These condensed interim consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. At April 30, 2022, the Company has not achieved profitable operations, has accumulated losses of \$5,025,721 (July 31, 2021 - \$558,340) since inception and expects to incur further losses in the development of its business.

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

The Company's business financial condition and results of operations may be further negatively affected by economic and other consequences from Russia's military action against Ukraine and the sanctions imposed in response to that action in late February 2022. While the Company expects any direct impacts, of the pandemic and the war in the Ukraine, to the business to be limited, the indirect impacts on the economy and on the mining industry and other industries in general could negatively affect the business.

The above material uncertainties cast significant doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon successful results from its ability to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited consolidated financial statements as at July 31, 2021.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in net loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed interim consolidated financial statements within the next financial year are discussed below:

TUGA INNOVATIONS INC.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – (cont'd)**Going Concern**

The assessment of the Company's ability to continue as a going concern require significant judgement. See Note 2(c).

5. REVERSE TAKEOVER

As described in Note 1, on June 30, 2021, TUGA-Global completed the Merger with TUGA and TUGA-MergeCo, Inc. ("TUGA MergeCo"), a newly incorporated wholly-owned subsidiary of TUGA incorporated under the laws of Michigan on May 6, 2021 for the sole purpose of this merger. As a result of the transaction, the Company issued 24,950,000 common shares to TUGA-Global shareholders at the ratio of 38.2263 to 1 (the "Exchange Ratio").

The transaction constituted a reverse acquisition of TUGA and had been accounted for as a reverse acquisition transaction in accordance with the guidance provided under IFRS 2, *Share-based Payment* and IFRS 3, *Business Combinations*. As TUGA did not qualify as a business according to the definition in IFRS 3, this reverse acquisition was accounted for as an asset acquisition by the issuance of share of the Company, for the net assets of TUGA. The consideration paid was determined as equity settled share-based payment under IFRS 2, at the fair value of the equity of TUGA-Global retained by the shareholders of TUGA based on the fair value of TUGA-Global's common shares on the date of closing of the RTO at \$1.53 per share divided by the Exchange Ratio. As a result of the transaction, the Company assumed 10,100,000 share purchase warrants valued at \$50,500. The share purchase warrants were valued using the Black-Scholes Option Pricing model using the following assumptions: Risk free rate of 0.65%; Volatility of 100%; Stock price of \$0.04; Exercise price of \$0.25 and \$1.00; Dividend yield of Nil% and expected life of 3 years.

For accounting purposes, TUGA-Global has been treated as the accounting parent company (legal subsidiary) and TUGA has been treated as the accounting subsidiary (legal parent) in these condensed interim consolidated financial statements. As TUGA-Global was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these condensed interim consolidated financial statements at their historical carrying value.

Fair value consideration		
6,226,332 notional common shares of TUGA at \$0.04 per share	\$	247,281
Fair value of share purchase warrants assumed		50,500
	\$	297,781
Allocated to the fair value of TUGA's net assets as follows:		
Cash	\$	304,901
Accounts receivable		3,837
Share subscriptions receivable		25,050
Liabilities		(76,007)
Net assets acquired		257,781
Transaction expense	\$	40,000

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

April 30, 2022

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

6. SHARE CAPITAL

(a) Authorized

Unlimited common shares with no par value.

(b) Issued

During the nine months ended April 30, 2022:

On August 27, 2021 and September 23, 2021, the Company issued an aggregate of 11,118,750 subscription receipts (the “Subscription Receipts”) at a price of \$0.40 per subscription receipt for total proceeds of \$4,447,500. Each Subscription Receipt entitles the holder thereof to receive, without payment of additional consideration or further action on the part of the holder, one unit of the Company (a “Unit”) on the date (the “Conversion Date”) that is five (5) Business Days after the later of the date that: (i) the Company obtains a Final Receipt for this Prospectus in Canada; and (ii) the receipt of conditional approval of the Canadian Securities Exchange or any other recognized Canadian or United States stock exchange for the listing (the “Escrow Release Conditions”). Each Unit is comprised of one common share and one-half of one transferable share purchase warrant (the “Qualified Warrants”), with each Qualified Warrant entitling the holder thereof to acquire one common share at a price of \$1.00 for a period of 18 months from the Conversion Date. On August 27, 2021, the Company paid aggregate finder’s fees in the amount of \$54,250 and issued a total of 135,625 finder’s warrants (the “Finder’s Warrants”) in connection with the first tranche closing of the Subscription Receipt private placement. Each Finder’s Warrant is exercisable into a common share at \$0.40 per common share until the date that is the earlier of (i) the date that is two years following the issuance date and (ii) the date that is 18 months from the Conversion Date. As at August 27, 2021, the Company fair valued the finder’s warrants at \$27,125 using the Black-Scholes pricing model with the following weighted average assumptions: expected dividend yield – 0%, share price of \$0.40, expected volatility – 100%, risk-free interest rate – 0.45%, exercise price of \$0.40 and an expected average life of 18 months. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable startup companies.

On December 2, 2021, the Company converted the Subscription Receipts into 11,118,750 units. Each Unit is comprised of one common share and one-half of one transferable share purchase warrant (the “Qualified Warrants”), with each Qualified Warrant entitling the holder thereof to acquire one common share at a price of \$1.00 for a period of 18 months from June 9, 2023. The Company paid a cash finders’ fee of \$179,060 and issued 396,025 Finder’s Warrants. The Company fair valued the finders’ warrants at \$75,245 using the Black-Scholes pricing model with the following weighted average assumptions: expected dividend yield – 0%, share price of \$0.40, expected volatility – 100%, risk-free interest rate – 0.95%, exercise price of \$0.40 and an expected average life of 18 months. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable startup companies.

During the period ended April 30, 2022, the Company issued 99,939 common shares pursuant to the exercise of share purchase warrants at an exercise price of \$0.25 for total proceeds of \$24,985.

During the period ended April 30, 2022, the Company issued 2,080,000 common shares pursuant to the issuance of restricted share units vested. The Company transferred \$1,592,727 from contributed surplus.

During the period ended April 30, 2022, the Company issued 20,000 common shares pursuant to the exercise of stock options at \$0.75 per share for total proceeds of \$15,000. The Company transferred \$8,000 from contributed surplus.

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

6. SHARE CAPITAL – (cont'd)**(b) Issued – (cont'd)**

During the period ended July 31, 2021:

On February 14, 2021, TUGA-Global issued 360,000 common shares at a price of \$0.381 for total consideration of \$137,305. These shares were eliminated upon the RTO and exchanged into the Company's shares.

On April 15, 2021, TUGA-Global issued 32,400 common shares at a price of \$0.381 for total consideration of \$12,357. These shares were eliminated upon the RTO and exchanged into the Company's shares.

On June 1, 2021, TUGA-Global issued 260,292 units at a price of \$1.53 for total cash proceeds of \$398,247. Each unit consist of one common share and 2 share purchase warrants. A total of 260,292 share purchase warrants exercisable are at \$9.56 per share until June 1, 2024 and 260,292 share purchase warrants are exercisable at \$38.23 per share until June 1, 2024. These shares and share purchase warrants were eliminated upon the RTO and exchanged into the Company's shares and share purchase warrants.

On June 30, 2021, a reverse acquisition transaction was completed whereby the Company acquired all of the issued and outstanding 652,692 common shares of TUGA-Global on the basis of 38.2263 for a total of 24,950,000 common shares of the Company issued to the previous shareholders of TUGA-Global (Note 5).

(c) Share Purchase Warrants

The changes in share purchase warrants were as follows:

	April 30, 2022	Weighted Average Exercise Price	July 31, 2021	Weighted Average Exercise Price
Balance, beginning of period	30,000,000	\$ 0.63	-	\$ -
Elimination of TUGA-GLOBAL	-	-	(520,584)	(23.90)
Exchange on ratio of 38.2263 to 1	-	-	19,900,000	0.63
Assumed from TUGA	-	-	10,100,000	0.63
Issued	5,559,375	\$ 1.00	520,584	23.90
Exercised	(99,939)	\$ 0.25	-	-
Balance, end of period	35,459,436	\$ 0.68	30,000,000	\$ 0.63

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

6. SHARE CAPITAL – (cont'd)**(c) Share Purchase Warrants – (cont'd)**

As at April 30, 2022, the Company had share purchase warrants outstanding as follows:

Outstanding	Exercise Price	Expiry Date
5,559,375	\$1.00	June 9, 2023
5,050,000	\$0.25	May 17, 2024
9,850,061	\$0.25	June 1, 2024
5,050,000	\$1.00	May 17, 2024
9,950,000	\$1.00	June 1, 2024
35,459,436		

As at April 30, 2022, the share purchase warrants have a weighted average remaining life of 1.92 years.

(d) Agent's Warrants

The changes in agent's warrants were as follows:

	April 30, 2022	Weighted Average Exercise Price	July 31, 2021	Weighted Average Exercise Price
Balance, beginning of period	-	\$ -	-	\$ -
Issued	531,650	0.40	-	-
Balance, end of period	531,650	\$ 0.40	-	\$ -

As at April 30, 2022, the Company had agent's warrants expiring on June 9, 2023 with a weighted average remaining life of 1.11 years.

(e) Performance Warrants

On June 30, 2021, the Company issued 30,000,000 performance warrants to management and directors of the Company in three equal tranches upon attainment of the following milestones, which expire on June 30, 2025. 10,000,000 performance warrants are exercisable into one common share of the Company with no additional consideration, upon regulatory process are complete in the first targeted geography (California) such that TUGA vehicles may be sold, insured and driven on public roads. 10,000,000 performance warrants are exercisable into one common share of the Company with no additional consideration, when TUGA can successfully communicate with targeted users, take orders and receive their funds (500 pre-orders or orders); and 10,000,000 performance warrants are exercisable into one common share of the Company with no additional consideration, upon TUGA has successfully produced in defined quantities 350 units of the vehicle. This implies that the operational production tooling is in place, partners to supply are identified and supplying in a timely manner and the internal process controls, and financial flows are managed. The Company recorded \$nil in share-based compensation in relation to the performance warrants due to the uncertainty of achieving the milestones at this time.

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6. SHARE CAPITAL – (cont'd)**(f) Escrow Shares**

15,000,000 common shares from the June 30, 2021 share issuances will be held in escrow. Under the escrow agreement, 10% of the shares will be released on the Listing Date with the remaining 90% to be released in equal tranches at six-month intervals over the 36 months following the Listing Date. As at April 30, 2022, 13,500,000 (July 31, 2021 – 15,000,000) common shares are held in escrow with the next release on June 9 2022.

(g) Stock Options

On December 2, 2021, the Company adopted an equity incentive plan under which it is authorized to grant to officers, directors, employees and consultants enabling them to acquire up to 5% of the issued and outstanding common share of the Company. The options can be granted for a maximum of 10 years and vest as determined by the Board of Directors. The exercise price of each option granted may not be less than the fair market value of the common shares. The maximum number of equity available for award shall be equal to 10% of the issued and outstanding shares on a rolling basis.

On December 8, 2021, the Company granted 200,000 stock options to directors of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.40 per share expiring on December 8, 2023. The stock option vest at the date of grant. The fair value of the stock options of \$42,000 was determined using the Black Scholes option valuation model with the following assumptions – Share price on date of grant of \$0.40; Risk-free interest rate of 0.99%; Dividend yield of 0%; Expected life of 2 years; forfeiture rate of 0% and Expected volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable start-up companies. During the period ended April 30, 2022, the Company recorded \$42,000 in share-based payments.

On February 1, 2022, the Company granted 30,000 stock options to consultants of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$1.02 per share expiring on February 1, 2027. The stock option vest at the date of grant. The fair value of the stock options of \$22,800 was determined using the Black Scholes option valuation model with the following assumptions – Share price on date of grant of \$1.02; Risk-free interest rate of 1.79%; Dividend yield of 0%; Expected life of 5 years; forfeiture rate of 0% and Expected volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable start-up companies. During the period ended April 30, 2022, the Company recorded \$22,800 in share-based payments.

On February 23, 2022, the Company granted 20,000 stock options to a consultant of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.75 per share expiring on February 23, 2024. The stock option vest at the date of grant. The fair value of the stock options of \$8,000 was determined using the Black Scholes option valuation model with the following assumptions – Share price on date of grant of \$0.75; Risk-free interest rate of 1.49%; Dividend yield of 0%; Expected life of 2 years; forfeiture rate of 0% and Expected volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable start-up companies. During the period ended April 30, 2022, the Company recorded \$8,000 in share-based payments.

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(Unaudited – Prepared by Management)

6. SHARE CAPITAL – (cont'd)**(g) Stock Options – (cont'd)**

The changes in stock options were as follows:

	April 30, 2022	Weighted Average Exercise Price	July 31, 2021	Weighted Average Exercise Price
Balance, beginning of period	-	\$ -	-	\$ -
Issued	250,000	0.50	-	-
Exercised	(20,000)	0.75	-	-
Balance, end of period	230,000	\$0.48	-	\$ -

As at April 30, 2022, the Company had 230,000 stock options outstanding as follows:

Number of Stock Options	Exercisable	Exercise Price	Expiry Date
200,000	200,000	\$0.40	December 8, 2023
30,000	30,000	\$1.02	February 1, 2027
230,000	230,000		

Restricted Share Unit Plans

On December 2, 2021, the Company adopted a Restricted Share Unit Plan (the “RSU Plan”) whereby the aggregate number of common shares issuable pursuant to the RSU Plan combined with all of the Company’s other security based compensation arrangements, including the Company’s Stock Option Plan, shall not exceed 20% of the Company’s outstanding common shares.

On December 2, 2021, the Company granted 187,500 Restricted Share Unit (“RSU”) to a consultant. After the first four months, the RSU will vest at 15,625 RSU every month thereafter. During the nine months ended April 30, 2022, the Company recognized \$56,302 as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus.

On December 29, 2021, the Company granted 2,100,000 RSU to a consultant and the CFO of the Company. The RSU vest four months after the date of grant. During the nine months ended April 30, 2022, the Company recognized \$1,638,000 as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus.

On January 1, 2022, the Company granted 241,500 RSU to consultants of the Company. 80,500 RSU will vest on April 9, 2022, with the remaining balance vesting at 20,125 RSU every month thereafter with the last vesting on December 9, 2022. During the nine months ended April 30, 2022, the Company recognized \$153,515 as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus.

TUGA INNOVATIONS INC.

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(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

6. SHARE CAPITAL – (cont'd)**(g) Stock Options – (cont'd)***Restricted Share Unit Plans – (cont'd)*

On February 1, 2022, the Company granted 193,524 RSU to a consultant of the Company. 64,508 RSU will vest on June 2, 2022, with the remaining balance vesting at 16,127 RSU every month thereafter with the last vesting on February 2, 2023. During the nine months ended April 30, 2022, the Company recognized \$96,467 as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus.

On February 23, 2022, the Company granted 80,000 RSU to a consultant of the Company. The RSU will vest four months from the date of grant. During the nine months ended April 30, 2022, the Company recognized \$32,727 as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus.

On March 17, 2022, the Company granted 131,046 RSU to a consultant of the Company. 131,046 RSU will vest on July 17, 2022, with the remaining balance vesting at 10,920 RSU every month thereafter with the last vesting on March 17, 2023. During the nine months ended April 30, 2022, the Company recognized \$20,334 as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus.

On April 1, 2022, the Company granted 100,000 RSU to a consultant of the Company. The RSU will vest four months from the date of grant. During the nine months ended April 30, 2022, the Company recognized \$8,724 as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus.

The changes in RSU were as follows:

	April 30, 2022	July 31, 2021
Balance, beginning of period	-	-
Granted	3,033,570	-
Issued	(2,080,000)	-
Balance, end of period	953,570	-

As at April 30, 2022, 243,000 RSU have vested and have not yet been issued.

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7. RELATED PARTY TRANSACTIONS AND BALANCES

The following expenses were incurred with key management personnel of the Company. Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include certain directors and officers. Key management compensation comprises:

Relationship		For the nine months ended April 30, 2022	For the period from September 1, 2020 to April 30, 2021
Consulting fees			
1196019 BC Ltd.	Controlled by Faizaan Lalani, CFO and Director	\$ 75,000	\$ -
Schultz Engineering LLC	Controlled by Kraig Schultz, CTO and Director	\$ 61,477	-
Cesar Barbosa	Vice President	24,093	-
Antonio Camara	Director	24,953	-
Edmundo, Nobre	Director	42,636	-
Red Wave	Controlled by John Hagie, CEO and Director	56,849	-
		285,008	-
Share-based payments			
Faizaan Lalani	CFO	99,000	-
Daren Hermiston	Director	21,000	-
		\$ 405,008	\$ -

Included in accounts receivable as at April 30, 2022 was \$3,539 (July 31, 2021 - \$Nil) in employee advances to directors of the Company.

8. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to identify, pursue and to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain credit worthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject to. Capital of the Company comprises of cash and shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

The Company's investment policy is to invest its cash in financial instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

There were no changes to the Company's approach to capital management during the period ended April 30, 2022.

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9. FINANCIAL INSTRUMENTS AND RISKS

The company is exposed through its operations to the following financial risks:

- Liquidity risk
- Market risk
- Credit risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them unless otherwise stated in the note.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections.

The Company monitors its cash flows to meet the Company's normal operating requirements on an ongoing basis and its planned capital expenditures. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. As at April 30, 2022, the Company had a working capital of \$2,040,765 (July 31, 2021 – working capital of \$365,026).

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. The Company's ability to raise capital to fund the continued research and development of the technology is subject to risks associated with fluctuations in market prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Interest rate risk

The Company is not exposed to significant interest rate risk.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of lithium and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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9. FINANCIAL INSTRUMENTS AND RISKS – (cont'd)

Credit Risk

Financial instruments that potentially expose the Company to credit risk is cash. To minimize the credit risk on cash the Company places the instrument with a high credit quality financial institution. The maximum exposure to loss arising from these advances is equal to their total carrying amounts.

Fair Values

The Company's financial instruments include cash and accounts payable and accrued liabilities. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature. It is impractical to determine the fair value of these financial instruments with sufficient reliability due to the nature of these financial instruments, the absence of secondary market and the significant cost of obtaining external appraisals. The fair value of these financial instruments approximates their carrying value under the effective interest method.

Fair Value Hierarchy

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).