

TUGA INNOVATIONS, INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

**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 six months ended January 31, 2024 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 January 31, 2024 and July 31, 2023

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

| | January 31 2024 | July 31, 2023 |
|---|----------------------------|--------------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 538,315 | \$ 41,909 |
| Amounts receivable (Note 7) | 24,730 | 71,494 |
| Prepaid expenses | 3,214 | 12,805 |
| | <u>566,259</u> | <u>126,208</u> |
| Furniture and equipment (Note 5) | 33,175 | 37,359 |
| Patents | 12,164 | 12,041 |
| | <u>\$ 611,598</u> | <u>\$ 175,608</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 7) | \$ 1,438,132 | \$ 933,714 |
| Due to related party (Note 7) | 27,835 | - |
| | <u>1,465,967</u> | <u>933,714</u> |
| SHAREHOLDERS' DEFICIT | | |
| Share capital (Note 6) | 7,296,008 | 6,582,443 |
| Contributed surplus (Note 6) | 625,082 | 818,178 |
| Accumulated other comprehensive loss | 60,011 | (13,457) |
| Deficit | (8,835,470) | (8,145,270) |
| | <u>(854,369)</u> | <u>(758,106)</u> |
| | <u>\$ 611,598</u> | <u>\$ 175,608</u> |

Going concern (Note 2)

APPROVED ON BEHALF OF THE BOARD:

"Faizaan Lalani"

Faizaan Lalani

Director

"John Hagie"

John Hagie

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 and six months ended January 31, 2024 and 2023

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

| | For the three months ended January 31, | | For the six months ended January 31, | |
|---|---|--------------|---|----------------|
| | 2024 | 2023 | 2024 | 2023 |
| Administrative expenses | | | | |
| Change in functional currency | \$ - | \$ - | \$ 56,140 | \$ - |
| Consulting fees (Note 7) | 472,365 | 220,375 | 531,909 | 436,213 |
| Depreciation (Note 5) | 2,324 | 2,312 | 4,652 | 4,593 |
| Filing fees | 7,973 | 10,847 | 12,203 | 17,372 |
| Foreign exchange loss | 8,659 | - | 8,659 | - |
| Investor relations | 1,929 | 16,774 | 10,617 | 25,396 |
| Marketing | - | 30,970 | - | 90,891 |
| Office and general | 22,822 | 19,769 | 34,251 | 40,000 |
| Professional fees | 11,470 | 26,219 | 39,127 | 81,137 |
| Research and development expenses (recovery) | 9 | 149,530 | (11,656) | 338,865 |
| Share-based payments (Note 7) | 2,387 | 27,685 | 4,298 | 81,286 |
| Travel and promotion | - | 9,814 | - | 21,455 |
| | 529,938 | 514,295 | 690,200 | 1,137,208 |
| Net loss for the period | (529,938) | (514,295) | (690,200) | (1,137,208) |
| Other comprehensive gain (loss) | | | | |
| Gain (loss) on translation of foreign operations | 49,948 | (594) | 73,468 | (2,205) |
| Total comprehensive loss for the period | \$ (479,990) | \$ (514,889) | \$ (616,732) | \$ (1,139,413) |
| Basic and diluted loss per share | \$ (0.01) | \$ (0.01) | \$ (0.01) | \$ (0.03) |
| Weighted average number of common shares outstanding | 46,235,600 | 44,495,021 | 45,862,802 | 44,495,021 |

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, 2024 and 2023

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

| | Number of Shares | Share Capital | Contributed Surplus | Accumulated other Comprehensive (Loss) Income | Deficit | Total Shareholders' Equity |
|---|-----------------------------|--------------------------|--------------------------------|--|----------------|---|
| Balance, July 31, 2022 | 44,495,021 | \$ 6,535,624 | \$ 719,586 | \$ (23,126) | \$ (6,368,769) | \$ 863,315 |
| Share-based payment | - | - | 81,286 | - | - | 81,286 |
| Total comprehensive loss for the period | - | - | - | (2,205) | (1,137,208) | (1,139,413) |
| Balance, January 31, 2023 | 44,495,021 | \$ 6,535,624 | \$ 800,872 | \$ (25,331) | \$ (7,505,977) | \$ (194,812) |
| Balance, July 31, 2023 | 45,490,004 | \$ 6,582,443 | \$ 818,178 | \$ (13,457) | \$ (8,145,270) | \$ (758,106) |
| Private placement | 53,500,000 | 535,000 | - | - | - | 535,000 |
| Share issue cost - cash | - | (18,829) | - | - | - | (18,829) |
| Restricted share unit issued ("RSU") | 193,524 | 197,394 | (197,394) | - | - | - |
| Share-based payment | - | - | 4,298 | - | - | 4,298 |
| Total comprehensive loss for the period | - | - | - | 73,468 | (690,200) | (616,732) |
| Balance, January 31, 2024 | 99,183,528 | \$ 7,296,008 | \$ 625,082 | \$ 60,011 | \$ (8,835,470) | \$ (854,369) |

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 six months ended January 31, 2024 and 2023
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

| | 2024 | 2023 |
|--|--------------|----------------|
| Operating Activities | | |
| Net loss for the period | \$ (690,200) | \$ (1,137,208) |
| Items not affecting cash: | | |
| Change in functional currency | 56,140 | - |
| Depreciation | 4,652 | 4,593 |
| Foreign exchange loss | 8,659 | - |
| Share-based payments | 4,298 | 81,286 |
| Changes in non-cash working capital items related to operations: | | |
| Amounts receivable | 46,764 | (12,340) |
| Prepaid expenses | 9,591 | 12,278 |
| Accounts payable and accrued liabilities | 495,758 | 248,765 |
| Cash used in operating activities | (64,338) | (802,626) |
| Financing Activities | | |
| Due to related party | 27,835 | 13,925 |
| Shares issued for cash | 535,000 | - |
| Share issue cost – cash | (18,829) | - |
| Cash provided by financing activities | 544,006 | 13,925 |
| Effect of foreign exchange on cash | 16,738 | (4,552) |
| Change in cash for the period | (496,406) | (793,253) |
| Cash, beginning of period | 41,909 | 855,166 |
| Cash, end of the period | \$ 538,315 | \$ 61,913 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period: | | |
| Interest | \$ - | \$ - |
| Income taxes | \$ - | \$ - |
| Non-Cash Transactions: | | |
| RSU issued | \$ 197,394 | \$ - |

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

January 31, 2024

(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 Rua do Moinho Vermelho, 50 2645-449 Alcabideche, Portugal.

On December 2, 2021, the Company received approval from the Canadian Securities Exchange (“CSE”) for the listing of its common shares on the CSE and on December 8, 2021, commenced trading on the CSE under the symbol “TUGA”. The Company is also trading on the German Borse Frankfurt exchange under the trading symbol “DQ5”. On May 5, 2022, the company received approval for trading on the OTC Markets quotation 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 March 28, 2024.

(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. The functional currency of the US subsidiary is Euros (July 31, 2023 – US dollar) (Note 4).

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

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 January 31, 2024, the Company has not achieved profitable operations, has accumulated losses of \$8,835,470 since inception and expects to incur further losses in the development of its business.

The Company's business may be affected by changes in political and market conditions, such as interest rates, availability of credit, inflation rates, changes in laws, and national and international circumstances. Recent geopolitical events, including, relations between NATO and Russian Federation regarding the situation in Ukraine, and the escalation of war between Israel and Hamas in Gaza and potential economic global challenges such as the risk of the higher inflation and energy crises, may create further uncertainty and risk with respect to the prospects of the Company's 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, 2023.

Recent accounting pronouncements and changes in accounting policies

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods are as follows:

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2024, and are not expected to have a material impact on the Company.

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

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:

Going Concern

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

Functional Currency

Prior to August 1, 2023, the functional currency of TUGA-Global's operations and corporate office was US Dollar. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", an entity's functional currency should reflect the underlying transactions, events and conditions relevant to the entity. Determination of the functional currency involves judgment to assess the primary economic environment in which the Company operates in, and this is re-evaluated for each entity or if conditions change. Based on management's evaluation, taking into consideration the currency that mainly influences the price for goods and services, labour, material and other costs of providing goods and services, management determined that the functional currency of TUGA-Global is Euros. The change in functional currency has been accounted for prospectively, with no impact of this change on prior year's comparative information. There was no change in the functional currency of TUGA.

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – (cont'd)**Foreign Exchange Translation**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of loss and comprehensive loss in the period in which they arise. Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income (loss) in the statement of comprehensive income (loss) to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income (loss). Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

The financial position and results of operations whose functional currency is different from the presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date;
- income and expenses are translated at the average exchange rates for the period.

Exchange differences are transferred directly to other comprehensive income (loss) and are included in a separate component of equity titled “Accumulated other comprehensive income or loss”. These differences are recognized in profit or loss in the period in which the operation is disposed of.

5. FURNITURE AND EQUIPMENT

| | Furniture and Fixtures | Computer Equipment | Total |
|--|-----------------------------------|-------------------------------|------------------|
| <u>Cost</u> | | | |
| Balance at July 31, 2022 | \$ 14,075 | \$ 33,925 | \$ 48,000 |
| Foreign exchange | 388 | 933 | 1,321 |
| Balance at July 31, 2023 | 14,463 | 34,858 | 49,321 |
| Foreign exchange | 147 | 356 | 503 |
| Balance at January 31, 2024 | \$ 14,610 | \$ 35,214 | \$ 49,824 |
| <u>Accumulated Depreciation</u> | | | |
| Balance at July 31, 2022 | \$ 720 | \$ 2,126 | \$ 2,846 |
| Depreciation | 2,104 | 7,100 | 9,204 |
| Foreign exchange | (19) | (69) | (88) |
| Balance at July 31, 2023 | 2,805 | 9,157 | 11,962 |
| Depreciation | 1,063 | 3,589 | 4,652 |
| Foreign exchange | 9 | 26 | 35 |
| Balance at January 31, 2024 | \$ 3,877 | \$ 12,772 | \$ 16,649 |
| <u>Net Book Value</u> | | | |
| At July 31, 2023 | \$ 11,658 | \$ 25,701 | \$ 37,359 |
| At January 31, 2024 | \$ 10,733 | \$ 22,442 | \$ 33,175 |

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

6. SHARE CAPITAL**(a) Authorized**

Unlimited common shares with no par value.

(b) Issued

During the six months ended January 31, 2024:

On November 14, 2023, pursuant to the RSU Plan, the Company issued 193,524 common shares in settlement of the RSU and transferred \$197,394 from contributed surplus.

On January 30, 2024, the Company issued an aggregate of 53,500,000 units at a price of \$0.01 per unit for total proceeds of \$535,000 from a company controlled by a director of the Company. Each unit consists of one common share and one common share purchase warrant, with each whole warrant entitling the holder to subscribe for one common share at a price of \$0.09 per share for a period of two years from issuance. In connection to the financing, the Company paid share issue costs of \$18,829 as legal costs.

During the year ended July 31, 2023:

On March 27, 2023, the Company issued an aggregate of 750,000 units at a price of \$0.06 per unit for total proceeds of \$45,000. Each unit consists of one common share and one-half common share purchase warrant, with each whole warrant entitling the holder to subscribe for one common share at a price of \$0.11 per share for a period of two years from issuance. The Company used the residual method with respect to the measurement of shares and warrants issued and a fair value of \$7,500 was allocated to the 375,000 share purchase warrants. In connection to the financing, the Company paid a finders fees of \$2,930.

On April 12, 2023, the Company issued an aggregate of 244,983 units at a price of \$0.06 per unit for total proceeds of \$14,699. Each unit consists of one common share and one-half common share purchase warrant, with each whole warrant entitling the holder to subscribe for one common share at a price of \$0.11 per share for a period of two years from issuance. The Company used the residual method with respect to the measurement of shares and warrants issued and a fair value of \$2,450 was allocated to the 122,492 share purchase warrants.

(c) Share Purchase Warrants

The changes in warrants were as follows:

| | January 31, 2024 | Weighted Average Exercise Price | July 31 2023 | Weighted Average Exercise Price |
|------------------------------|-----------------------------|--|-------------------------|--|
| Balance, beginning of period | 35,956,928 | \$ 0.09 | 35,459,436 | \$ 0.09 |
| Issued | 53,500,000 | 0.09 | 497,492 | 0.11 |
| Balance, end of period | 89,456,928 | \$ 0.09 | 35,956,928 | \$ 0.09 |

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

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

As at January 31, 2024, the Company had share purchase warrants outstanding as follows:

| Outstanding | Exercise Price | Weighted average remaining life | Expiry Date |
|--------------------|-----------------------|--|--------------------|
| *5,559,375 | \$0.09 | | June 1, 2024 |
| *5,050,000 | \$0.09 | | June 1, 2024 |
| *9,850,061 | \$0.09 | | June 1, 2024 |
| *5,050,000 | \$0.09 | | June 1, 2024 |
| *9,950,000 | \$0.09 | | June 1, 2024 |
| **375,000 | \$0.11 | | March 26, 2025 |
| **122,492 | \$0.11 | | April 12, 2025 |
| 53,500,000 | \$0.09 | | January 30, 2026 |
| 89,456,928 | | 1.34 years | |

*In May 2023, the Company repriced an aggregate of 35,459,436 outstanding common share purchase warrants from \$0.25 and \$1.00 to \$0.09 and extended the expiry date to June 1, 2024. Accordingly, the weighted average exercised price has been restated. The 35,459,436 share purchase warrants are subject to an accelerated expiry provision such that if, for any 10 consecutive trading days, the closing price of the company's listed shares exceeds \$0.1125 cents, the term of the warrants will be accelerated to a 30-day exercise period.

**If over a period of 10 consecutive days between the date of issuance and expiry of the warrants, the daily volume weighted average trading price of the common shares exceeds \$0.30, the term of the warrants will be accelerated to a 30-day exercise period.

(d) Finders' Warrants

The changes in finders' warrants were as follows:

| | January 31, 2024 | Weighted Average Exercise Price | July 31, 2023 | Weighted Average Exercise Price |
|------------------------------|-----------------------------|--|--------------------------|--|
| Balance, beginning of period | - | \$ - | 531,650 | \$ 0.40 |
| Expired | - | - | (531,650) | 0.40 |
| Balance, end of period | - | \$ - | - | \$ - |

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

6. SHARE CAPITAL – (cont'd)**(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. Each of the 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. Each of the 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). Each of the 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. Management made an assessment of the probability of achieving the milestones and determined the fair value of the performance warrants is \$nil.

(f) Escrow Shares

On the Listing Date, 15,000,000 common shares are to 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 January 31, 2024, 4,500,000 (July 31, 2023 – 6,750,000) common shares are held in escrow with the next release on June 9, 2024.

(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 10% 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.

On January 11, 2023, 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 \$0.10 per share expiring on January 11, 2025. The stock option vest at the date of grant. The fair value of the stock options of \$6,000 was determined using the Black Scholes option valuation model with the following assumptions – Share price on date of grant of \$0.065; risk-free interest rate of 3.56%; 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 six months ended January 31, 2024, the Company recognized \$Nil (January 31, 2023 - \$6,000) as share-based payment.

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

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

The changes in stock options were as follows:

| | January 31, 2024 | Weighted Average Exercise Price | July 31, 2023 | Weighted Average Exercise Price |
|------------------------------|---------------------|--|------------------|--|
| Balance, beginning of period | 430,000 | \$ 0.30 | 230,000 | \$ 0.48 |
| Issued | - | - | 200,000 | 0.10 |
| Expired | (200,000) | 0.40 | - | - |
| Balance, end of period | 230,000 | \$ 0.22 | 430,000 | \$ 0.30 |

As at January 31, 2024, the Company had 230,000 stock options outstanding as follows:

| Number of Stock Options | Exercisable | Exercise Price | Weighted Average Remaining Life | Expiry Date |
|----------------------------|-------------|-------------------|---------------------------------------|------------------|
| 30,000 | 30,000 | \$1.02 | | February 1, 2027 |
| 200,000 | 200,000 | \$0.10 | | January 11, 2025 |
| 230,000 | 230,000 | | 0.65 years | |

(h) Restricted Share Units

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 10% of the Company’s outstanding common shares. Unless otherwise determined by the Compensation Committee or as set out in any award agreement, the Restricted Share Unit (“RSU”) shall vest and become payable equally at each anniversary date, no later than three years after the date of grant. When the RSU is payable by the Company, the holder will be entitled to receive payment from the Company in settlement of such RSU in a number of common shares equal to the number of RSUs being settled, or in any other form as determined by the board of directors or the Company’s Compensation Committee at its sole discretion in accordance with the RSU Plan.

On December 2, 2021, the Company granted 187,500 RSU to a consultant. After the first four months, the RSU will vest at 15,625 RSU every month thereafter. On June 30, 2022, the Company cancelled 93,750 RSU. As of January 31, 2024, and July 31, 2023, 93,750 RSU are vested, and the shares are not issued.

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 year ended July 31, 2022, 2,000,000 common shares were issued to settle 2,000,000 RSU. As of January 31, 2024, and July 31, 2023, 100,000 RSU are vested, and the shares are not issued.

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

6. SHARE CAPITAL – (cont'd)**(h) Restricted Share Units – (cont'd)**

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. On June 30, 2022, the Company cancelled 93,750 RSU. During the six months ended January 31, 2024, the Company recognized \$Nil (January 31, 2023 - \$4,682) as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus. As of January 31, 2024, and July 31, 2023, 147,750 RSU are vested, and the shares are not issued.

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 six months ended January 31, 2024, the Company recognized \$Nil (January 31, 2023 - \$35,230) as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus. During the six months ended January 31, 2024, the Company issued 193,524 common shares to settle RSUs vested.

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 six months ended January 31, 2024, the Company recognized \$Nil (January 31, 2023 - \$23,013) as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus. As of January 31, 2024, and July 31, 2023, 131,046 RSU are vested, and the shares are not issued.

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. As of January 31, 2024, and July 31, 2023, 100,000 RSU are vested, and the shares are not issued.

The Company will grant 100,000 RSU over a two-year period, with the first granting of 34,000 RSU on August 1, 2022 (granted) and 33,000 RSU on each of August 1, 2023 (granted) and 2024 respectively. These RSU will vest four months from the date of grant. During the six months ended January 31, 2024, the Company recognized \$990 (January 31, 2023 - \$7,140) as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus. As of January 31, 2024 and July 31, 2023, 67,000 RSU are vested, and the shares are not issued.

On August 28, 2022, the Company granted 100,000 RSU with vesting terms of 33,333 RSU on each of August 28, 2023 and 2024 and 33,334 RSU on August 28, 2025. During the six months ended January 31, 2024, the Company recognized \$3,308 (January 31, 2023 - \$5,221) as share-based payment and, as the Company intends to settle the RSU through equity settlement, recorded a corresponding credit to contributed surplus. As at January 31, 2024, 33,333 have vested and the shares are not issued.

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

6. SHARE CAPITAL – (cont'd)**(h) Restricted Share Units – (cont'd)**

The changes in RSU were as follows:

| | January 31, 2024 | July 31, 2023 |
|------------------------------|---------------------|------------------|
| Balance, beginning of period | 900,070 | 766,070 |
| Granted | 33,000 | 134,000 |
| Issued | (193,524) | - |
| Balance, end of period | 739,546 | 900,070 |

As at January 31, 2024, 672,879 (July 31, 2023 – 800,070) RSU have vested and shares have not yet been issued.

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 for the six months ended January 31, 2024 and 2023 comprises:

| Relationship | | 2023 | 2022 |
|--------------------------|--|-----------|------------|
| Consulting fees | | | |
| 1196019 BC Ltd. | Controlled by Faizaan Lalani, CFO and Director | \$ 42,000 | \$ 42,000 |
| Schultz Engineering LLC | Controlled by Kraig Schultz, Former Director | - | 6,567 |
| Smart-TUGA, LDA | Controlled by Cesar Barbosa, VP and director | - | 48,215 |
| Antonio Camara | Director | - | 26,116 |
| Edmundo, Nobre | Director | - | 30,134 |
| Red Wave, Unipessoal LDA | Controlled by John Hagie, CEO and Director | 45,856 | 41,492 |
| | | 87,856 | 194,524 |
| Share-based payments | | | |
| Faizaan Lalani | CFO | - | 3,000 |
| Daren Hermiston | Former Director | - | 3,000 |
| | | - | 6,000 |
| | | \$ 87,856 | \$ 200,524 |

Included in amounts receivable as at January 31, 2024 was \$13,929 (July 31, 2023 - \$12,648) in advances to directors of the Company. These amounts are unsecured non-interest bearing and due on demand.

Included in accounts payable and accrued liabilities at January 31, 2024 is \$287,155 (July 31, 2023 - \$187,355) owed to directors for unpaid consulting fees. These amounts are unsecured non-interest bearing and due on demand.

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

7. RELATED PARTY TRANSACTIONS AND BALANCES – (cont'd)

On January 30, 2024, the Company completed a private placement with a company control by a director of the Company for 53,500,000 units at a price of \$0.01 per unit for total proceeds of \$535,000. Each unit consists of one common share and one common share purchase warrant, with each whole warrant entitling the holder to subscribe for one common share at a price of \$0.09 per share for a period of two years from issuance. Upon completion of the private placement a director will hold approximately 59.95% of the total issued and outstanding shares of the Company on an undiluted basis, or approximately 74.98% on a partially diluted basis, inclusive of all the share purchase warrants and management performance warrants. The director has agreed to not vote more than 19.9% of the Company's outstanding shares. The restriction will remain in place until shareholder approval for the creation of the director as a new control person of the Company has been obtained in accordance with the policies of the CSE. The proceeds from the offering will be used towards working capital.

Due to related party

As at January 31, 2024, a director of the Company advanced \$27,835 (EUR 19,905) (July 31, 2023 - \$Nil) as a short-term loan for working capital. The amount is unsecured, non-interest bearing and is due on demand.

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 January 31, 2024.

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.

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

9. FINANCIAL INSTRUMENTS AND RISKS – (cont'd)**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 January 31, 2024, the Company had a working capital deficiency of \$899,708 (July 31, 2023 working capital deficiency - \$807,506). Historically, the Company's primary source of funding has been the issuance of equity securities for cash; however, there is no assurance of continued access to significant equity funding.

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.

Foreign Currency Risk

The Company may be exposed to foreign currency risk on fluctuations related to cash, amounts receivable from related parties, and accounts payable and accrued liabilities that are denominated in a foreign currency. As at January 31, 2024, the Company held cash denominated in Canadian dollars \$399,898 (July 31, 2023 - \$1,017), accounts receivable of \$13,848 (July 31, 2023 - \$12,546) and accounts payable and accrued liabilities of \$1,115,897 (July 31, 2023 - \$643,922). These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately \$70,000.

The Company currently does not plan to enter into foreign currency future contracts to mitigate this risk.

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.

TUGA INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements

January 31, 2024

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

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, amounts receivable from related parties and accounts payable and accrued liabilities and due to related party. 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;

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).

10. SEGMENTED INFORMATION

The Company operates in one business segment: to develop and market a new class of electric vehicles. Geographic information with respect to the Company's long-term assets are as follows:

| | January 31, 2024 | July 31, 2023 |
|-------------------------------|-----------------------------|--------------------------|
| Portugal | \$ 33,175 | \$ 37,359 |
| United States | 12,164 | 12,041 |
| Total long-term assets | \$ 45,339 | \$ 49,400 |