Hybrid Power Solutions Inc.

Condensed Consolidated Interim Financial Statements
As at August 31, 2023
and
For the three months ended August 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Hybrid Power Solutions Inc. (the "Company") as at August 31, 2023 and 2022 and for the three months ended August 31, 2023 and 2022, have been prepared by, and are the responsibility of, the management of the Company and approved by the Company's Audit Committee and Board of Directors.

Under National Instrument 51-102 Continuous Disclosure Obligations, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity's auditor.

Hybrid Power Solutions Inc.

Condensed Consolidated Interim Statements of Financial Position
As at August 31, 2023 and May 31, 2023
(Unaudited - Expressed in Canadian dollars)

	Notes		**August 31, 2023**		May 31, 2023
ASSETS					
Current assets					
Cash		**$**	**83,183**	$	2,888
Accounts and other receivable	3		**620,415**		494,662
Prepaid expenses and deposits	4		**197,853**		149,144
Inventory	5		**1,503,156**		1,424,202
Total current assets			**2,404,607**		2,070,896
Contract costs	13		**20,378**		22,419
Prepaid expenses and deposits	4		**38,103**		40,339
Property and equipment	6		**438,996**		524,731
Right of use assets	8		**122,001**		133,092
Total assets		**$**	**3,024,085**	$	2,791,477
LIABILITIES AND SHAREHOLDERS' DEFICIENCY					
Current liabilities					
Accounts payable and accrued liabilities	9,18	**$**	**2,093,398**	$	1,896,609
Line of credit	10		**-**		62,688
Return and warranty liability	13		**36,893**		32,678
Contract liabilities	13		**164,277**		111,150
Loans payable	11,18		**525,591**		504,872
Lease liability	8		**46,942**		45,419
Convertible debentures	12		**2,431,220**		1,867,418
Total current liabilities			**5,298,321**		4,520,834
Lease liability	8		**93,140**		105,597
Loans payable	11,18		**455,728**		251,634
Contract liabilities	13		**70,840**		54,745
Total liabilities			**5,918,029**		4,932,810
Shareholders' deficiency					
Share capital	17	**$**	**1,541,012**	$	1,541,012
Reserves			**545,830**		242,167
Convertible debt – conversion option	12		**142,891**		135,619
Deficit			**(5,123,677)**		(4,060,131)
Total shareholders' deficiency			**(2,893,944)**		(2,141,333)
Total liabilities and shareholders' deficiency		**$**	**3,024,085**	$	2,791,477

Nature of operations and going concern (Note 1)

Hybrid Power Solutions Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the three months ended August 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars)

		Three months ended August 31,	
	Notes	**2023**	2022
Revenue	13	**$** 438,369	$ 788,680
Cost of sales	5, 14	310,940	592,607
Gross profit		127,429	196,073
Expenses			
Advertising		**$** 89,704	$ 68,591
General and administrative	15	101,635	176,912
Salaries and benefits	18	279,257	358,628
Professional fees		320,337	309,880
Research and development		2,276	8,199
Share-based compensation	17,18	303,663	-
Total operating expenses		(1,096,872)	(922,210)
Interest and accretion	8,11,12	(121,739)	(25,350)
Foreign exchange		(6,749)	(43,440)
Government assistance	16	14,809	17,701
Other income	19	16,544	900
Net loss before income taxes		**$** (1,066,578)	$ (776,326)
Recovery of deferred income taxes		3,032	56,118
Net loss and comprehensive loss for the period		(1,063,546)	(720,208)
Weighted average number of shares – Basic and diluted		32,100,000	26,867,595
Loss per share – Basic and diluted		**$** (0.03)	$ (0.03)

Hybrid Power Solutions Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency
For the three months ended August 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars)

	Notes	Number of common shares		Share Capital Amount		Reserve		Convertible debt-Conversion option		Deficit		Total shareholders' deficiency
Balance, May 31, 2022		26,778,523	$	114,273	$	-	$	-	$	(1,205,933)	$	(1,091,660)
Shares issued for services		221,477		37,752				-		-		37,752
Issuance of convertible debt, net of issuance costs		-				-		135,619		-		135,619
Convertible debt issuance costs – warrants		-		-		27,690		-		-		27,690
Net loss for the period		-		-		-		-		(720,208)		(720,208)
Balance, August 31, 2022		27,000,000	$	152,025	**$**	27,690	**$**	135,619	**$**	(1,926,141)	**$**	(1,610,807)
Balance, May 31, 2023		32,100,000	$	1,541,012	$	242,167	$	135,619	$	(4,060,131)	$	(2,141,333)
Issuance of convertible debt, net of issuance costs	12	-		-		-		7,272		-		7,272
Share-based compensation	17	-		-		303,663		-		-		303,663
Net loss for the period		-		-		-		-		(1,063,546)		(1,063,546)
Balance, August 31, 2023		**32,100,000**	**$**	**1,541,012**	**$**	**545,830**	**$**	**142,891**	**$**	**(5,123,677)**	**$**	**(2,893,944)**

Hybrid Power Solutions Inc.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)
For the three months ended August 31, 2023 and 2022

	Notes		2023		2022
Operating activities					
Net loss for the period		$	**(1,063,546)**	$	(720,208)
Items not affecting cash:					
Accrued interest and accretion			**105,092**		24,732
Deferred income tax recovery	12		**(3,032)**		(56,118)
Depreciation			**17,847**		16,266
Government assistance	6,11		**56,218**		17,701
Bad debt expense	15		**143**		-
Shares issued for services	17		**-**		37,752
Share-based compensation	17		**303,663**		-
Non-cash working capital items:					
Accounts receivable			**(125,896)**		(137,276)
Prepaid expenses			**(46,473)**		(261,404)
Inventory			**(78,954)**		(303,747)
Contract costs			**2,041**		(19,923)
Accounts payable and accrued liabilities			**296,789**		194,881
Deferred revenue			**69,222**		10,376
Deferred grants			**-**		8,039
Return and warranty liability			**4,215**		-
Net cash used in operating activities			**(462,671)**		(1,188,929)
Investing activities					
Purchase of property and equipment			**-**		(148,283)
Net cash used in investing activities			**-**		(148,283)
Financing activities					
Line of credit			**(62,688)**		(81,660)
Proceeds from loans payable			**104,497**		-
Repayments of loans payable	11		**(37,574)**		(59,800)
Lease payments	8		**(14,619)**		(14,182)
Government assistance			**71,550**		-
Net proceeds from convertible debentures			**481,800**		1,732,753
Net cash provided by financing activities			**542,966**		1,577,111
Change in cash			**80,295**		239,899
Cash, beginning of period			**2,888**		107,633
Cash, end of period		$	**83,183**	$	347,532
Supplemental cashflow disclosure					
Interest paid		$	**16,647**	$	10,612
Taxes paid		$	**-**	$	-
Agent's warrants issued		$	**-**	$	-

1. NATURE OF OPERATIONS AND GOING CONCERN

Hybrid Power Solutions Inc. (the "Company") was incorporated on December 7, 2015, under the laws of Ontario, and continued into British Columbia under the Business Corporations Act (British Columbia) on June 13, 2022. Its head office is located at 208-333 Terminal Avenue, Vancouver, British Columbia, V6A 4C1, and its manufacturing facility is in Toronto, Ontario. HPS Solar Inc., a wholly owned subsidiary of the Company, was incorporated under the laws of Ontario on March 17, 2022.

On July 22, 2022, the Company amalgamated with its parent company Hybrid Power Solutions Inc. (formerly 2494760 Ontario Inc.). On July 23, 2022, the Company completed a forward split of all issued and outstanding common shares on a 1 existing share for 10,000 post-subdivision common shares for a total of 1,110,000 issued and outstanding post subdivision common shares. On July 26, 2022, the Company completed a second forward split of all issued and outstanding common shares on a 1 existing share for 24.12479488340 post-subdivision common shares for a total of 27,000,000 issued and outstanding post-subdivision common shares. Prior to the first forward splits, the Company had 111 shares issued and outstanding. An additional 9,180 shares were issued prior to the second forward split, which then added additional 221,477 shares to the pool after the second split. Except where otherwise indicated, all historical share numbers and per share amounts have been adjusted on a retroactive basis to reflect the share reorganization and forward split.

The Company designs and manufactures patent pending portable battery systems and customized energy solutions for a variety of industrial markets, including the mining, railway, public transit, and construction sectors. During the year ended May 31, 2023, the Company, through its wholly owned subsidiary, HPS Solar Inc., introduced a franchise network of solar power installers that operate under the Company's trademark and offer the sale and installation of the Company's products.

During the year ended May 31, 2023, the Company filed a preliminary long-form prospectus and is in the process of having their common shares listed on the Canadian Securities Exchange.

2. BASIS OF PRESENTATION

Statement of compliance
These unaudited condensed consolidated interim financial statements ("financial statements"), including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These financial statements do not include all of the disclosures required for annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended May 31, 2023, which were prepared in accordance with International Reporting Standards ("IFRS").

Basis of presentation and measurement
These financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are stated at fair value. In addition, they have been prepared using the accrual basis of accounting, except for the cash flow information.

The accounting policies, estimates, and judgments applied in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year-ended May 31, 2023. The Company's interim results are not necessarily indicative of its results for a full year.

Going concern

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will be able to continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

2. BASIS OF PRESENTATION (continued)

Going concern (continued)

The Company has not generated positive cash flows from operations and relies on financing cash inflows to maintain operations. During the three months ended August 31, 2023, the Company incurred a net loss of $1,063,546 (2022 - $720,208) and as of August 31, 2023, had an accumulated deficit of $5,123,677 (May 31, 2023 - $4,060,131). As of August 31, 2023, the Company had a working capital deficit of $2,893,714 (May 31, 2023 - $2,449,938). The Company's ability to continue as a going concern is dependent upon raising additional capital or evaluating strategic alternatives, and/or generating profitability and positive cash flows. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern assumption was not appropriate for these condensed consolidated interim financial statements, adjustments would be necessary to the statement of financial position classifications used. Such adjustments could be material.

Basis of consolidation

These financial statements include the accounts of the Company and its subsidiary. Subsidiaries are those entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to variable returns from its activities. Details of the Company's subsidiary are follows:

SUBSIDIARIES	OWNERSHIP PERCENTAGE	JURISDICTION OF INCORPORATION
HPS Solar Inc.	100%	Ontario, Canada

Inter-company balances and transactions are eliminated on consolidation.

The financial statements were approved and authorized for issuance on October 30, 2023, by the Board of Directors.

3. ACCOUNTS AND OTHER RECEIVABLE

		August 31, 2023		May 31, 2023
Accounts receivable	$	293,082	$	181,987
Royalty and franchise fee receivable		14,889		22,432
Sales taxes receivable		312,444		290,243
	$	**620,415**	**$**	**494,662**

4. PREPAID EXPENSES AND DEPOSITS

		August 31, 2023		May 31, 2023
Deferred share issuance costs	$	155,555	$	104,463
Prepaid advertising		2,474		5,825
Prepaid insurance		-		-
Prepaid technology		33,508		34,636
Prepaid inventory		17,363		20,306
Prepaid services		8,045		8,045
Prepaid software subscription		3,260		-
Security deposit		14,647		14,647
Other deposits		1,104		1,561
	$	**235,956**	**$**	**189,483**
Current portion		197,853		149,144
Long-term portion		38,103		40,339

5. INVENTORY

		August 31, 2023		May 31, 2023
Finished goods	$	389,165	$	291,861
Raw materials		1,113,991		1,132,341
	$	**1,503,156**	**$**	**1,424,202**

During the three months ended August 31, 2023, the cost of inventories recognized as an expense totalled $310,940 (2022 - $592,607). During the three ended August 31, 2023 and 2022, the Company did not impair any inventory.

6. PROPERTY AND EQUIPMENT

Cost		Computer equipment		Equipment		Vehicles		Building Under Construction		Total
Balance, May 31, 2022	**$**	**4,307**	**$**	**53,091**	**$**	**-**	**$**	**66,329**	**$**	**123,727**
Additions		3,133		45,434		141,759		268,403		458,729
Disposition		-		(29,434)		-		-		(29,434)
Balance, May 31, 2023	**$**	**7,440**	**$**	**69,091**	**$**	**141,759**	**$**	**334,732**	**$**	**553,022**
Government grants		-		-		-		(78,978)		(78,978)
Balance, August 31, 2023	**$**	**7,440**	**$**	**69,091**	**$**	**141,759**	**$**	**255,754**	**$**	**474,044**
Accumulated Depreciation										
Balance, May 31, 2022	**$**	**1,382**	**$**	**3,801**	**$**	**-**	**$**	**-**	**$**	**5,183**
Depreciation		2,009		18,736		6,364		-		27,109
Disposition		-		(4,001)		-		-		(4,001)
Balance, May 31, 2023	**$**	**3,391**	**$**	**18,536**	**$**	**6,364**	**$**	**-**	**$**	**28,291**
Depreciation		570		3,824		2,363		-		6,757
Balance, August 31, 2023	**$**	**3,961**	**$**	**22,360**	**$**	**8,727**	**$**	**-**	**$**	**35,048**
Carrying Amounts										
As of May 31, 2023	$	4,049	$	50,555	$	135,395	$	334,732	$	524,731
As of August 31, 2023	**$**	**3,479**	**$**	**46,731**	**$**	**133,032**	**$**	**255,754**	**$**	**438,996**

Included in property and equipment is an equipment under lease with net book value of $33,196, the contractual lease payments on this lease are included in note 15.

During the three months ended August 31, 2023, the Company received $56,218 in government grants from the Northern Ontario Heritage Fund Corporation (“NOHFC”) INVEST North Program for reimbursement of eligible costs incurred on its building under construction. The Company also received a low interest term loan from NOHFC of $71,550 (Note 11), where the discount on initial recognition of $22,760 was also recognized as a government grant against the cost of building under construction.

7. LEASES

During the year ended May 31, 2022, the Company entered into a lease agreement for manufacturing and office space for a term of five years. Upon the commencement of the lease, the Company recognized a right-of-use asset of $221,820 and a lease liability of $221,820 using an incremental borrowing rate of 10%.

8. LEASES (continued)

The below table shows the continuity of the right-of-use asset:

Right of use asset		
Cost:		
Balance, May 31, 2022	$	221,820
Addition		-
Balance, May 31, 2023	$	221,820
Addition		-
Balance as at August 31, 2023	**$**	**221,820**
Accumulated depreciation:		
Balance as at May 31, 2022	$	44,364
Depreciation		44,364
Balance as at May 31, 2023	$	88,728
Depreciation		11,091
Balance as at August 31, 2023	$	**99,819**
Net carrying value:		
At May 31, 2023	$	133,092
At August 31, 2023	**$**	**122,001**

The continuity of the Company's lease obligation is below:

Lease liabilities		
Balance, May 31, 2022		190,473
Addition		-
Interest		17,270
Payments		(56,727)
Balance, May 31, 2023	$	151,016
Addition		-
Interest		3,685
Payments		(14,619)
Balance, August 31, 2023	**$**	**140,082**
Current portion		46,942
Non-current portion	**$**	**93,140**

At August 31, 2023, the Company is committed to minimum lease payments as follows:

Maturity analysis		
Less than one year	$	58,851
One to five years		101,564
Total undiscounted lease liabilities	$	160,415
Unamortized interest		(20,333)
Total lease liabilities – discounted	**$**	**140,082**

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payables and accrued liabilities consists of the following:

		August 31, 2023		May 31, 2023
Accounts payable	**$**	**1,695,496**	$	1,551,185
Accrued liabilities and other		**250,796**		174,567
Credit cards payable		**122,501**		165,188
Sales taxes payable		**24,605**		5,669
	$	**2,093,398**	$	1,896,609

10. LINE OF CREDIT

The Company has an operating line of credit with Meridian Credit Union of up to $100,000. The line of credit bears interest of prime plus 2.75% computed daily and compounded monthly. The line of credit is secured by a general security agreement and by guarantees and postponement of claims by the CEO. As of August 31, 2023, the line of credit balance is $Nil (May 31, 2023 - $62,688).

11. LOANS PAYABLE

A continuity of the Company's loans payable is set out below:

	BDC Loans (a, b, c and d)	CEBA Loans* (e)	Driven Financial (f, and g)	Shareholders Loans (h)	Scotiabank Auto loans (i, and j)	American Express loan (k)	Meridian OneCap Loan (l)	Treewalk Promissory Note (m)	Grenke Deposit (n)	NOHFC term loan (o)	Total
Balance, May 31, 2022	**$ 242,332**	**$ 37,822**	**$ 38,863**	**270,094**	**$ -**	**$ -**	**$ -**	**$ -**	**-**	**-**	**589,111**
Addition	50,000	-	-	290,390	159,308	150,000	30,439	-	-	-	680,137
Interest	19,013	-	1,425	-	2,828	5,308	1,129	-	-	-	29,703
Accretion	2,411	2,178	-	-	-	-	-	-	-	-	4,589
Gain on debt	(16,320)	-	-	-	-	-	-	-	-	-	(16,320)
Repayments	(143,699)	-	(40,288)	(160,007)	(25,078)	(155,308)	(6,334)	-	-	-	(530,714)
Balance, May 31, 2023	**$ 153,737**	**$ 40,000**	**$ -**	**$ 400,477**	**$ 137,058**	**$ -**	**$ 25,234**	**$ -**	**-**	**-**	**756,506**
Addition	-	-	-	4,497	-	-	-	100,000	100,000	48,789	253,286
Interest	3,850	-	-	-	1,048	-	339	121	-	-	5,358
Accretion	1,088	-	-	-	-	-	-	-	2,073	582	3,743
Repayments	(9,683)	-	-	(7,976)	(9,789)	-	(1,727)	-	(8,399)	-	(37,754)
Balance, August 31, 2023	**$ 148,992**	**$ 40,000**	**$ -**	**$ 396,998**	**$ 128,317**	**$ -**	**$ 23,846**	**$ 100,121**	**93,674**	**49,371**	**981,319**
Current portion	23,333	40,000	-	396,998	35,684	-	5,748	-	21,197	2,631	525,591
Non-current portion	$ 125,659	$ -	$ -	$ -	$ 92,633	$ -	$ 18,098	$ 100,121	72,477	46,740	455,728

***Canada Emergency Business Account**

11. LOANS PAYABLE (continued)

(a) On April 7, 2020, the Company entered into a loan facility for up to $135,000 with the Business Development Bank of Canada ("BDC"). The loan facility had an interest rate equal to BDC's floating base rate, minus 1.75% and a maturity date of March 31, 2023. The loan was personally guaranteed by the CEO of the Company. During the year ended May 31, 2023, the Company fully repaid all interest and principal on the loan of $108,386.

(b) On April 19, 2021, the Company entered into a loan facility for up to $70,000 with the BDC. The loan facility has an interest rate equal to BDC's floating base rate, plus 3.71% and a maturity date of March 1, 2028. The loan is personally guaranteed by the CEO of the Company. During the three months ended August 31, 2023, the Company repaid $4,691 (2022 - $4,527) of the loan and incurred interest of $1,774 (2022 - $1,688). As at August 31, 2023, the loan balance is $53,472 (May 31, 2023 - $56,389).

(c) On March 19, 2022, the Company entered into a loan facility for up to $70,000 with the BDC. The loan facility has an interest rate equal to BDC's floating base rate, plus 4.57% and a maturity date of August 18, 2028. The loan is personally guaranteed by the CEO of the Company. During the three months ended August 31, 2023, the Company repaid $4,992 (2022 - $1,882) of the loan and incurred interest of $2,076 (2022 - $1,901). As at August 31, 2023, the loan balance is $58,333 (May 31, 2023 - $61,250);

(d) On October 19, 2022, the Company entered into a loan facility for up to $50,000 with the BDC. The loan facility does not bear interest and matures on September 17, 2028. The loan is personally guaranteed by the CEO of the Company. During the three months ended August 31, 2023, the Company repaid $Nil (2022 - $Nil) of the loan. The loan was fair valued at $33,680 using a discount rate of 12.00%, which was determined to be a market rate. The difference between the face value of the loan and the fair value of the loan of $16,320 was recognized as other income during the year ended May 31, 2023. The Company recognized accretion expense on the loan facility of $1,088 for the three months ended August 31, 2023 (2022 - $Nil). As at August 31, 2023, the loan balance is $37,187 (May 31, 2023 - $36,098);

(e) On April 20, 2020, the Company was approved and received a $40,000 loan under the Canada Emergency Business Account ("CEBA") program. The loan is non-interest bearing and eligible for $10,000 forgiveness if repaid by January 18, 2024. The Company recorded the $10,000 forgivable portion as government grant income during the year ended May 31, 2020. As the loan was issued at below market rates, the initial fair value of the loan was determined to be $23,196, which was determined using an estimated effective interest rate of 10%. The difference between the face value of the loan and the fair value of the loan of $6,804 was recognized as government grant income on initial recognition;

On August 1, 2021, the Company received an additional $20,000 under the CEBA program. The additional loan is non-interest-bearing and eligible for $10,000 forgiveness if repaid by January 18, 2024. The Company has recognized the $10,000 forgivable portion as government grant income during the year ended May 31, 2022. As the loan was issued at below market rates, the initial fair value of the loan was determined to be $8,282, which was determined using an estimated effective interest rate of 10%. The difference between the face value of the loan and the fair value of the loan of $11,718 was recognized as government grant income on initial recognition.

During the three months ended August 31, 2023, the Company recorded accretion expense of $Nil (2022 - $918) on the loans. As at August 31, 2023, the carrying value of the loan and additional loan totalled $40,000 (May 31, 2023 - $40,000);

11. LOANS PAYABLE (continued)

(f) On September 9, 2021, the Company entered into a loan agreement for $150,000 with the Driven Financial. Under the terms of the agreement the Company is required to make weekly blended payments of $4,308, the loan has an effective interest rate of 10.91% and the cost of borrowing is a fixed amount of interest for the entire term. During the year ended May 31, 2023, the Company fully repaid the loan principal and accrued interest;

(g) On November 18, 2021, the Company entered into another loan agreement for $81,000 with the Driven Financial. Under the terms of the agreement the Company is required to make weekly blended payments of $4,536, the loan has an effective interest rate of 7.24% and the cost of borrowing is a fixed amount of interest for the entire term. During the year ended May 31, 2023, the Company fully repaid the loan principal and accrued interest;

(h) From time to time, the Company receives loans from the shareholders of the Company. The loans are non-interest-bearing, unsecured and due on demand. During the three months ended August 31, 2023, the Company received shareholders' loans of $4,497 (year ended May 31, 2023 - $290,390). As of August 31, 2023, the shareholders' loans totaled $396,998 (May 31, 2023 – $400,477) (Note 18). The shareholders' loan includes mortgage proceeds personally received by the shareholder and transferred to the Company. The proceeds were for the construction of the Company's building under construction. The mortgage is between the lender and the shareholder, and the Company is the guarantor for this mortgage. The total proceeds from the mortgage were $300,000, of which $294,507 was transferred to the Company after legal proceeds of $5,493 were paid upon closing. The loan is repayable by December 15, 2026;

(i) On October 17, 2022, the Company entered into an auto loan agreement for $93,788 with Scotiabank. The loan bears interest at 4.60% per annum and matures on October 17, 2026. The loan is secured against the vehicle purchased. During the three months ended August 31, 2023, the Company repaid $6,430 (2022 - $Nil) of the loan and accrued $912 in interest (2022 - $Nil). As of August 31, 2023, the loan balance is $75,643 (May 31, 2023 - $81,161);

(j) On August 26, 2022, the Company entered into an auto loan agreement for $65,520 with Scotiabank. The loan bears interest of 0.99% annually and matures on August 26, 2027. The loan is secured against the vehicle purchased. During the three months ended August 31, 2023, the Company repaid $3,359 (2022 - $Nil) of the loan and accrued $136 in interest (2022 - $Nil). As of August 31, 2023, the loan balance is $52,674 (May 31, 2023 - $55,897);

(k) On November 21, 2022, the Company entered into a loan agreement for $150,000 with American Express. The loan bears interest of 13.5% annually and a maturity date of May 22, 2023. The loan was personally guaranteed by the CEO of the Company. During the year ended May 31, 2023, the Company fully repaid the loan principal and accrued interest;

(l) On September 15, 2022, the Company entered into a loan agreement for $30,439 with Meridian OneCap to purchase equipment. The loan bears interest of 5.474% annually and matures on September 27, 2027. The loan is secured by the equipment purchased. During the three months ended August 31, 2023, the Company repaid $1,727 (2022 - $Nil) of the loan and accrued interest of $339 (2022 - $Nil). As of August 31, 2023, the loan balance is $23,846 (May 31, 2023 - $25,234);

(m) On August 28, 2023, the Company entered into a payment agreement with Treewalk Consulting Inc. ("Treewalk"), a corporation controlled by the Company's Chief Financial Officer ("CFO"). The agreement specifies payment terms for $688,137 in outstanding accounts payable owed to Treewalk as follows:

a. $38,137 in accounts payable is due immediately;

11. LOANS PAYABLE (continued)

b. $100,000 in accounts payable will be converted to an unsecured promissory note with the principal balance of $100,000, bearing interest at 15% per annum and due on the earlier of: (a) August 28, 2025; and (b) the completion of an equity financing(s) by the Company (occurring after the completion of the IPO) for minimum gross proceeds of $3,000,000;

c. On closing of the IPO, the Company will pay Treewalk $400,000;

d. The Company will facilitate a $150,000 investment by Treewalk concurrent with and on the same terms as the IPO offering.

As a result of the Company entering into the payment agreement, $100,000 in accounts payable was reclassified as a promissory note to loans payable with a fair value of $100,000 on initial recognition. During the three months ended August 31, 2023, the Company repaid $Nil on the promissory note and accrued $121 (2022 - $Nil) in interest. As at August 31, 2023 the promissory note balance was $100,121 (May 31, 2023 - $Nil).

(n) On June 22, 2023, the Company entered into an agreement with GC Leasing Ontario Inc. ("Grenke"), whereby Grenke would purchase certain equipment from the Company with a value of $100,000. Grenke provided the full $100,000 as deposit until the equipment was delivered. Subsequent to received the deposit, the sale was not completed nor the equipment delivered and it was agreed that the Company would repay the deposit amount through 48 blended principal and interest payments of $2,545, paid quarterly. The effective interest rate on the deposit amount is 11.42%. During the three months ended August 31, 2023, the Company repaid $8,399 (2022 - $Nil) against the deposit and accrued interest of $2,073 (2022 - $Nil);

(o) On May 15, 2023, the Company entered into a loan and conditional contribution agreement with North Ontario Heritage Fund Corporation ("NOHFC"), the agreement closed in June 2023. Under the agreement, a loan and conditional contribution of up to $450,000 is intended to provide government assistance towards the construction of the Company's building under construction (Note 6). Funds under the agreement are advanced once the Company has spent on eligible expenses and only after approval is received by NOHFC subsequent to their review of supporting documentation.

Funds advanced under the agreement are allocated between a loan and conditional contribution as follows:

(i) 44% of funds advanced are considered a conditional contribution;

(ii) the remaining 56% of funds advanced are considered a term loan bearing 5.95% interest per annum and maturing on the 7th anniversary subsequent to the commencement date of 48 blended principal and interest payments. The commencement date of the 48 blended principal and interest payments is the earlier of: (a) March 31, 2025, and (b) the date in which the loan is fully drawn.

During the three months ended August 31, 2023, $56,218 (2022 - $Nil) was advanced under the agreement as a contribution and credited as a government grant against the cost of the Company's building under construction (Note 6). An additional $71,550 was advanced related to the term loan portion. On initial recognition, the low interest term loan portion was determined to have a fair value of $48,790 with the discount amount of $22,760 being recognized as a government grant and also credited against the cost of the Company's building under construction (Note 6). The term loan is amortized using an effective interest rate of approximately 15%. During the three months ended August 31, 2023, the Company accrued accretion of $582 (2022 - $Nil) against the term loan. As at August 31, 2023, the outstanding term loan was $49,371 (May 31, 2023 - $Nil).

12. CONVERTIBLE DEBTENTURES

$328,500 Convertible Debenture Financing

On July 27, 2022, the Company closed a financing of non-transferable unsecured convertible debentures of $328,500. The debentures bear no interest and are payable two years from the closing date. If the Company fails to file a preliminary long form prospectus in connection with a going public transaction one-year from the closing date, the debentures will accrue interest at the rate of 10% per annum, payable on a semi-annual basis. If the Company files the preliminary prospectus, but does not complete an initial public offering ("IPO") for minimum gross proceeds of $5,000,000 within 180 days from the date the Company receives a receipt from applicable securities commissions for the preliminary prospectus then:

- the maturity date will automatically be extended to five years from the closing date and
- the debentures will bear interest at the prime rate, subject to the Company's prepayment right

If both events occur then the debentures will accrue interest for the first two years at a penalty rate of 10% per annum until the earlier of the conversion date and the date all of the principal amount has been repaid, subject to the prepayment. The preliminary long-form prospectus was filed on April 14, 2023; therefore, no interest will accrue on the debenture.

If the Company completes a going public transaction, the principal amount will automatically be converted into common shares of the Company at a price of $0.02 per share on either the date the shares are listed on a recognized stock exchange in Canada or United States or a date that is within 10 business days (before or after) the listing date, subject to any applicable stock exchange acceptance and securities law.

Upon initial recognition, the convertible debentures were presented as a liability and the embedded conversion feature has been presented as equity as the fixed-for-fixed criteria is met. The fair value of the convertible debentures (host debt) on initial recognition in the amount of $291,216 was measured using a discount rate of 12%, which was determined to be a market rate for similar unsecured debt without the conversion feature. The residual amount of $37,284 was allocated to equity (conversion feature). Debt issuance costs of $12,578 was prorated and allocated to convertible debenture and equity in the amount of $11,230 and $1,348 respectively. The convertible debenture was amortized at an effective interest rate of 15.13%. During the three months ended August 31, 2023, the Company recognized $10,652 (2022 - $4,061) in accretion expense.

$1,170,000 and $458,500 Convertible Debenture Financings

$1,170,000 Convertible Debenture Financing

On August 3, 2022 the Company closed a brokered private placement of $1,170,000 non-transferable unsecured convertible debentures of the Company. The debentures will bear no interest and are payable to the agent on behalf of the subscribers two years from the closing date. If the Company fails to file a preliminary long form prospectus in connection with a going public transaction one-year from the closing date, the debentures will accrue interest at the rate of 10% per annum, payable on a semi-annual basis. If the Company files the Preliminary Prospectus, but does not complete an initial public offering for minimum gross proceeds of $5,000,000 within 180 days from the date the Company receives a receipt from applicable securities commissions for the Preliminary Prospectus then:

- the maturity date will automatically be extended to five years from the Closing Date and
- the debentures will bear interest at the prime rate, subject to the Company's prepayment right

The preliminary long-form prospectus was filed on April 14, 2023; therefore, no interest will accrue on the debenture.

12. CONVERTIBLE DEBTENTURES (continued)

In consideration for the Agent's services, the Company paid the agent:

- A cash commission equal to 4.0% of the gross proceeds; and
- Compensation warrants equal to 4.0% of the principal amount of debentures issued. The warrants will be exercisable into common shares of the Company at a price of $0.20 per share for a period of 24 months from the closing date

Pursuant to the August 3, 2022 engagement letter, the agent will also act as sole and exclusive agent for the Company's IPO of a minimum of 12,500,000 units at a price of $0.40 per unit and a maximum if up to 15,000,000 units for gross proceeds of a minimum of $5,000,000 and a maximum of up to $6,000,000. As consideration the Agent will receive consideration of:

- Cash commission of 8.0% of the gross proceeds received by the Company from the sale of units (including those issued pursuant to the exercise of the Over-Allotment Option and excluding any units sold to President's list subscribers), provided that the IPO cash commission shall be reduced to 4.0% of the gross proceeds received by the Company from the sale of units to President's List Subscribers

- Compensation warrants equal to 8.0% of the principal amount of units issued pursuant to the IPO (including those issued pursuant to the exercise of the over-allotment option and excluding any units sold to President's list subscribers) provided that the number of IPO Agent's Warrants shall be reduced to 4.0% of the Principal Amount of Units sold to President's List subscribers. The warrants will be exercisable into Units of the Company at a price of $0.40 per unit for a period of 24 months from the closing date of the IPO.

- A work fee in the amount of $45,000 (plus GST) for providing corporate finance services in connection with the offering and the IPO offering payable to the Agent from the proceeds of the IPO Offering on closing of the IPO

The Agent has the option to purchase or sell up to an additional 15% units, on the same terms and conditions as the IPO, which will be exercisable by giving written notice to the Company at any time up to 48 hours prior to closing. The Company is entitled to designate to the Presidents List certain subscribers to be included in the Brokered Offering and certain subscribers to be included in the IPO Offering for up to $250,000 Units.

$458,500 Convertible Debenture Financing

On August 18, 2022, the Company approved additional non-brokered private placement of non-transferrable unsecured convertible debentures for gross proceeds of up to $458,500. The Debentures will bear no interest and are re-payable two years from the closing date of the offering or 180 days from the date the Company receives a receipt for the preliminary prospectus.

If the Company fails to file a preliminary long form prospectus in connection with a going public transaction one-year from the closing date, the debentures will accrue interest at the rate of 10% per annum, payable on a semi-annual basis. If the Company files the Preliminary Prospectus, but does not complete an initial public offering for minimum gross proceeds of $5,000,000 within 180 days from the date the Company receives a receipt from applicable securities commissions for the Preliminary Prospectus then:

- the maturity date will automatically be extended to five years from the Closing Date and
- the debentures will bear interest at the prime rate, subject to the Company's Prepayment right

12. CONVERTIBLE DEBTENTURES (continued)

Upon initial recognition, the $1,170,000 and $458,500 convertible debenture financings were presented as a liabilities and the embedded conversion features have been presented as equity as the fixed-for-fixed criteria is met. The fair value of the convertible debentures (host debt) on initial recognition of $1,454,018 was measured using a discount rate of 12%, which was determined to be a market rate for similar unsecured debt without the conversion feature. The residual amount of $174,482 was allocated to equity (conversion feature). The issuance costs of $174,359 was prorated and allocated to convertible debenture and equity in the amount of $155,678 and $18,681 respectively. The issuance costs included the value of 213,000 agents' warrants of $27,690, which was determined using the Black-Scholes pricing model with the following inputs and assumptions: Stock price - $.20; Exercise price - $.20; Dividend yield - $Nil; Expected volatility – 124.91%; Risk free interest rate 3.37% and expected life of 2 years.

The convertible debentures are amortized at an effective interest rate of 22.86%. During the three months ended August 31, 2023, the Company recognized $78,930 in accretion expense (2022 - $9,760).

If both events occur then the debentures will accrue interest for the first two years at a penalty rate of 10% per annum until the earlier of the conversion date and the date all of the principal amount has been repaid, subject to the Prepayment. If the Company completes a going public transaction, the principal amount will automatically be converted into units of the Company at a price of $0.20 per unit on either the date the Shares are listed on a recognized stock exchange in Canada or United States or a date that is within 10 business days (before or after) the listing date, subject to any applicable stock exchange acceptance and securities law.

Each debenture unit will be comprised of one common share of the Company and one-half of one transferable common share purchase warrant. Each debenture warrant is exercisable into one common share at $0.60 per debenture warrant share for a period of two years from the conversion date, subject to acceleration, such that if the daily volume weighted average trading price of the Shares exceeds $0.80 on each of those 15 consecutive days, then the Warrants will expire in 30 days following notice.

The debenture units issuable upon conversion (including all underlying securities) will be subject to voluntary resale restrictions as follows:

- 10% of the debenture units (including all underlying securities) released on the listing date;
- 40% of the debenture units (including all underlying securities) released six months after the listing date; and
- 50% of the debenture units (including all underlying securities) released twelve months after the listing date;

Shares issuable upon conversion will be subject to voluntary resale restrictions as follows:

- 25% of the Shares released on the listing date;
- 25% of the Shares released four months after the listing date;
- 25% of the Shares released eight months after the listing date; and
- 25% of the Shares released twelve months after the listing date;

$535,000 Convertible Debenture Financing

On August 16, 2023, the Company issued 535 secured convertible debentures to an arm's length party, for an aggregate purchase price of $535,000 in order to provide funds for the Company's operations prior to the close of the Company's initial public offering. The convertible debentures have the following terms:

- each convertible debenture will consist of $1,111.11 principal amount for an aggregate original principal amount of $594,444.44;

- the Principal Amount will not bear interest (except that the Principal Amount will bear interest at an additional rate of 25% per annum if an event of default occurs (as defined in the certificate representing the convertible debentures;
- the convertible debentures will mature 12 months from the date of issuance on August 16, 2024;
- Each convertible debenture is convertible at the option of the lender, in whole or in part, at any time while any principal or interest amounts remains outstanding, into common shares of the Company at a price of $0.32

Upon initial recognition, the convertible debentures were presented as a liability and the embedded conversion feature has been presented as equity as the fixed-for-fixed criteria is met. The fair value of the convertible debentures (host debt liability) in the amount of $523,558 was measured using a discount rate of 13.5%, which was determined to be a market rate for similar unsecured debt without the conversion feature. The residual amount of $11,442 was allocated to equity (conversion feature). The debt issuance costs of $53,200 was prorated and allocated to convertible debenture and equity in the amount of $52,062 and $1,138 respectively.

The convertible debenture was amortized at an effective interest rate of 16.22%. During the three months ended August 31, 2023, the Company recognized $2,724 (2022 - $Nil) in accretion expense.

During the three months ended August 31, 2023, the Company recorded a deferred tax recovery of $3,032 (2022 - $56,118) against the conversion option on initial recognition of convertible debentures.

13. REVENUE

Disaggregation of revenue from contracts with customers

The Company generates revenue from selling portable battery systems and customized energy solutions and its newly formed franchise business. The following table presents a disaggregation of revenue by source:

		August 31, 2023		August 31, 2022
Royalty revenue	$	**6,604**	$	-
Advertising revenue		**5,503**		-
Franchise fee revenue		**3,905**		175
Other revenue		**2,100**		-
Franchise revenue		**18,112**		175
Product and installation sales		**417,347**		787,495
Consulting and other revenue		**2,910**		1,010
Total	**$**	**438,369**	**$**	788,680

Revenue is generated in two geographical markets, being Canada and the United States.

The following table presents a disaggregation of revenue by geographic markets:

		August 31, 2023		August 31, 2022
Canada	$	**401,044**	$	709,750
United States		**37,325**		78,930
Total	**$**	**438,369**	**$**	788,680

13. REVENUE (continued)

The Company provides either a 6-month commercial or a 12-month standard warranty and a 30-day return period for products shipped. As at August 31, 2023, the Company has recorded a provision of $36,983 (May 31, 2023 - $32,678) in expected replacement parts and director labour on future warranty claims and expected returns.

Contract assets and liabilities

As at August 31, 2023 and May 31, 2023 the Company had the following contract assets:

		August 31, 2023		May 31, 2023
Contract assets - Contract costs*	**$**	**20,378**	**$**	22,419

*The Company incurs various costs to obtain contracts, in the form of sales commissions payable upon securing new franchisees and sign-up bonuses payable upon the receipt of payment of the initial franchise fee.

The continuity of contract liabilities is summarized in the table below:

		Three months ended August 31, 2023		Year-ended May 31, 2023
Balance, beginning	**$**	**165,895**	**$**	638,025
Additions to contract liabilities		144,664		130,789
Revenue earned during the period/year		(75,442)		(602,919)
Balance, ending	**$**	**235,117**	**$**	165,895
Current portion		164,277		111,150
Non-current portion	**$**	**70,840**	**$**	54,745

The current portion of contract liabilities consist mainly of consideration received from customers for orders received and paid for but not yet delivered. Non-current portion of contract liabilities consists of franchise fees received in advance, which will be recognized in revenue over the period of the contract. The amounts deferred include the unrecognized portion of the initial franchise fee related to access to franchise right.

14. COST OF SALES

Cost of sales for the three months ended August 31, 2023 and 2022 is summarized in the table below.

		August 31, 2023		August 31, 2022
Parts, materials and direct labour	**$**	**286,728**	**$**	565,769
Shipping		**24,212**		26,838
Total	**$**	**310,940**	**$**	592,607

15. GENERAL AND ADMINISTRATIVE EXPENSES

The following is a breakdown of general and administrative expenses for the three months ended August 31, 2023 and 2022:

		August 31, 2023		August 31, 2022
Automotive	**$**	**3,197**	$	3,122
Bad debts		**143**		-
Bank and transaction charges		**15,890**		25,929
Brokerage fees		**955**		19,880
Delivery		**5,691**		22,128
Depreciation		**17,847**		16,266
Dues and subscriptions		**13,806**		22,933
Consulting		**-**		-
Education and training		**2,000**		859
Insurance		**6,747**		7,981
Meal and entertainment		**2,225**		1,924
Office		**9,617**		17,364
Rent		**10,927**		9,550
Repairs and maintenance		**1,758**		9,042
Telephone and internet		**3,493**		6,503
Utilities		**3,083**		1,862
Travel		**4,256**		11,569
Total	**$**	**101,635**	**$**	176,912

16. GOVERNMENT ASSISTANCE

		August 31, 2023		August 31, 2022
CanExport SME's Program ("CanExport")		**-**		9,260
National research council Industrial Research Assistance Program ("NRC IRAP")		**-**		8,441
Norther Ontario Heritage Fund Corporation ("NOHFC") People and Talent Program		**14,809**		-
Total	$	**14,809**	$	17,701

During the three months ended August 31, 2023, the Company recognized $Nil (2022 - $9,260), received from CanExport as government assistance. CanExport's SME's Program is designed to provide direct financial assistance to small and medium-sized enterprises seeking to develop new export opportunities and markets, especially in high-growth emerging markets. The Company applied for the grant to support expansion into the Southwestern US by identifying potential representatives or agents and meet potential clients.

During the three months ended August 31, 2023, the Company recognized $Nil (2022 - $8,441), respectively, in NRC IRAP as government assistance. The NRC IRAP provides advice, connections, and funding to help Canadian small and medium-sized businesses increase their innovation capacity and take ideas to market.

16. GOVERNMENT ASSISTANCE (continued)

During the three months ended August 31, 2023, the Company recognized $14,809 (2022 - $Nil), received from NOHFC as government assistance. NOHFC's People and Talent Workforce Development Program is designed to provide financial assistance to organizations in order to strengthen and develop Northern Ontario's workforce through business partnerships by offering internships. During the three months ended August 31, 2023, the Company received $14,809 from NOHFC for eligible wages paid to an intern.

17. SHARE CAPITAL AND RESERVES

Authorized capital

The Company is authorized to issue an unlimited number of common shares without par value.

Issued share capital

As of August 31, 2023, the Company had 32,100,000 (May 31, 2023 – 32,100,000) shares outstanding.

During the three months ended August 31, 2023:

The Company did not issue any common shares.

During the three months ended August 31, 2022:

On July 25, 2022, the Company issued 221,447 shares to an employee as payment for commissions with a fair value of $37,752.

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, May 31, 2023	**12,348,006**	**$**	**0.01**
Granted	-		-
Expired	-		-
Balance, August 31, 2023	**12,348,006**	**$**	**0.01**

17. SHARE CAPITAL AND RESERVES (continued)

As at August 31, 2023, the following warrants were outstanding and exercisable:

Outstanding Number of Warrants	Exercisable Number of Warrants	Exercise Price	Expiry Date
213,000	213,000	$0.20	August 19, 2024
8,000	8,000	$0.20	August 19, 2024
37,840	37,840	$0.30	February 9, 2025
89,166	89,166	$0.30	March 24, 2025
9,000,000	-	$0.000001	Determined based on
3,000,000	-	$0.000001	milestone achievement
12,348,006	**348,006**		

The Company granted 213,000 agents' warrants during three months ended August 31, 2022, pursuant to the issuance of convertible debentures (Note 12). A value of $27,690 was assigned to the warrants using the Black-Scholes option pricing model with the following inputs: Stock price - $.20; Exercise price - $.20; Dividend yield - $Nil; Expected volatility – 124.91%; Risk free interest rate 3.37% and expected life of 2 years.

During the year-ended May 31, 2023, the Company issued 9,000,000 performance warrants (the "Management Performance Warrants") as an incentive to key management personnel. The Management Performance Warrants are exercisable for one common share of the Company, at an exercise price of $0.000001 per share upon completion of the following three milestone events:

- 3,000,000 management performance warrants will vest upon the Company, on a consolidated basis, successfully generating $5,000,000 in revenue within twelve (12) months after the listing date;
- 3,000,000 management performance warrants will vest upon the Company, on a consolidated basis, successfully generating $10,000,000 in revenue within twenty-four (24) months after the listing date;
- 3,000,000 management performance warrants will vest upon the Company, on a consolidated basis, successfully generating 30,000,000 in revenue within thirty-six (36) months after the listing date;

Upon vesting, the Management Performance Warrants will be exercisable for one (1) year from the occurrence of each exercise event. A fair value of $2,700,000 was assigned to the management performance warrants based on the price of the Company's most recent financing of $0.30/share. During the three months ended August 31, 2023, the Company recognized $303,663 (2022 - $Nil) in share-based compensation related to the management performance warrants.

On April 3, 2023, the Company issued 3,000,000 performance warrants (the "Personnel Performance Warrants") as an incentive to personnel. The Personnel Performance Warrants are exercisable for one Common Share upon the Company completing equity and/or debt financings for minimum gross proceeds of $5,000,000 within two (2) years of the listing date.

Upon vesting, the Performance Warrants will be exercisable for one (1) year. A value of $900,000 was assigned to the performance warrants based on the price of the Company's most recent financing of $0.30/share. During the three months ended August 31, 2023, the Company recognized $Nil (2022 - $Nil) in share-based compensation related to the management performance warrants.

As of August 31, 2023, the weighted average remaining contractual life of outstanding warrants, excluding Management Performance Warrants and Personnel Performance Warrants is 1.17 years (May 31, 2023 – 1.43).

18. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Key management personnel comprise officers and directors of the Company.

Remuneration attributed to key management personnel for three months ended August 31, 2023 and 2022 are summarized as follows:

		August 31, 2023		August 31, 2022
Salaries and benefits	**$**	**11,592**	**$**	26,510
Share-based compensation		**303,663**		-
Total	**$**	**315,255**	**$**	26,510

As of August 31, 2023, loans payable (Note 11) included:

- $192,765 (May 31, 2023 - $196,244) due to the CEO and a shareholder of the Company. The loan is non-interest-bearing, unsecured and due on demand.
- $101,121 (May 31, 2023 - $Nil) owing under a promissory note due to a corporation controlled by the Company's CFO. The promissory note bears interest at 15% per annum, is unsecured and is due on the earlier of: (a) August 28, 2025, and (b) the date that the Company completes an equity financing(s) (occurring after the completion of the IPO) for a minimum gross proceeds of $3,000,000;
- $204,233 (May 31, 2023 - $204,233) due to a shareholders of the Company. The loan is non-interest-bearing, unsecured and due on demand.

As of August 31, 2023, accounts payable included $701,345 (May 31, 2023 - $672,336) owing to a company controlled by the CFO. The Company incurred a total of $114,837 (2022 - $181,183) from the company controlled by the CFO for accounting, audit preparation, and audit support services for the three months ended August 31, 2023. In addition, the company controlled by the CFO has also provided CFO services, transaction advisory services and consulting services related to Go Public transaction during this period. The fees were included in professional services line item.

19. OTHER INCOME

Other income for the three months ended August 31, 2023 and 2022 is summarized in the table below.

		August 31, 2023		August 31, 2022
Shipping income	**$**	**6,544**	**$**	-
Grant income		**10,000**		-
Sublease		**-**		900
Total	**$**	**16,544**	**$**	900

20. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, price risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

20. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt and equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The Company has cash as of August 31, 2023, in the amount of $83,183 (May 31, 2023 - $2,888), in order to meet short-term liabilities of $5,180,621 (May 31, 2023 - $4,520,834). There is no assurance that financing will be available or, if available, that such financing will be on terms acceptable to the Company. The Company monitors its risk of shortage of funds by monitoring the maturity dates of its existing liabilities. The Company's accounts payable and accrued liabilities are due between immediately and within 90 days of August 31, 2023.

The amounts disclosed in the table are the contractual undiscounted payments as of August 31, 2023:

	Less than one year	One to two years	Two to three years	More than three years	Total
Accounts payable and accrued liabilities	2,093,398	-	-	-	2,093,398
Line of credit	-	-	-	-	-
Convertible debentures	2,431,220	-	-	-	2,431,220
Lease contract liabilities	58,851	101,564	-	-	160,415
Loans payable	559,845	237,592	113,489	100,830	1,011,756
	5,143,314	339,156	113,489	100,830	5,696,789

The convertible debentures included in the table above automatically convert into common shares of the Company upon successful completion of an Initial Public Offering ("IPO") (see Note 12 for additional information on the conversion).

Credit risk

Credit risk is the risk of loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, and accounts receivable. The Company limits its exposure to credit loss by placing its cash with high quality financial institutions. The Company mitigates credit risk by evaluating the creditworthiness of customers prior to conducting business with them and monitoring its exposure for credit losses with existing customers. During the three months ended August 31, 2023, the Company incurred $143 in bad debt expense (2022 - $Nil).

The following table provides disclosures about credit risk exposure and expected credit losses on individual trade and other receivables as at August 31, 2023:

	Aging Bucket					
	Current	Overdue 1-30 days	Overdue 31-60 days	Overdue 61-90 days	Overdue 91+ days	Total
Gross carrying amount	53,853	14,155	54,648	54	226,247	348,967
Loss allowance	(2,185)	(1,148)	(6,652)	(9)	(45,891)	(55,885)
Net	51,668	13,007	48,006	45	180,356	293,082
ECL rate	4%	8%	12%	17%	20%	16%

20. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

The continuity of expected credit losses is summarized in the table below:

		Three months ended August 31, 2023		Year-ended May 31, 2023
Balance, beginning	$	57,741	$	47,044
Additions to expected credit loss allowance recognized during the period /year		1,144		7,697
Ending expected credit losses	**$**	**55,885**	**$**	54,741

Foreign exchange rate risk

Currency risk is the risk of loss due to the fluctuation of foreign exchange rates and the effects of these fluctuations on foreign currency denominated monetary assets and liabilities. A portion of the Company's transactions occur in US dollars; therefore, the Company is exposed to foreign currency risk at the end of the reporting period through its US dollars denominated trade receivables, accounts payable and accrued liabilities. A change of 1% in the U.S./CDN exchange rate will have immaterial impact on the net loss.

The balances held in USD are summarized below:

		August 31, 2023		May 31, 2023
Cash (overdraft)	$	(14)	$	63
Accounts receivable		18,256		32,907
Accounts payable and accrued liabilities		(163,348)		(81,076)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to interest rate risk arises primarily from their loans. The Company does not expect any significant effect on the Company's profit or loss arising from the effects of reasonably possible changes to interest rates on interest bearing financial instruments at the end of the financial year.

Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The Company depends on external financing to fund its activities. The Company considers its capital structure to consist of shareholders' deficiency, line of credit, loans payable, and convertible debentures. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or sell assets to fund operations. Management reviews its capital management approach on a regular basis. The Company is not subject to externally imposed capital requirements, and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2023.