

**Hybrid Power Solutions Inc.**  
**Management Discussion and Analysis**  
**For the three months ended August 31, 2023**  
**(Expressed in Canadian Dollars)**

The following management discussion and analysis (MD&A) of the Company's financial condition and results of operations for the three months ended August 31, 2023, should be read in conjunction with the condensed consolidated interim financial statements as at August 31, 2023 and for the three months ended August 31, 2023 and 2022.

The date of this management's discussion and analysis ("MD&A") is October 30, 2023. Unless otherwise indicated, all financial data in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee. This MD&A has been prepared pursuant to the disclosure requirements under National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators.

All currency amounts are expressed in Canadian dollars, unless otherwise noted.

This MD&A was approved by the Directors on October 30, 2023.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation ("forward-looking information"). Such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below and as detailed under "risks and uncertainties" in this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein is given as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results, except as may be required by applicable securities laws. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward looking information.

**NON-GAAP MEASURES**

Certain financial measures used in this MD&A make reference to certain non-GAAP measures. These non-GAAP measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing a further understanding of results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the financial information of the Company reported under IFRS. Earnings before interest, taxes, depreciation and amortization ("EBITDA") should not be construed as alternatives to net income/loss determined in accordance with IFRS. EBITDA

does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers.

## **NATURE OF BUSINESS**

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 located in Toronto, Ontario. HPS Solar Inc., a wholly owned subsidiary of the Company, was incorporated under the laws of Ontario on March 17, 2022.

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.

## **OPERATIONAL UPDATES**

On August 16, 2023, the Company issued 535 secured convertible debentures (the “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 Debentures will have the following terms: (i) each Debenture will consist of \$1,111.11 principal amount for an aggregate original principal amount (the “Principal Amount”) of \$594,444.44 (the “Loan”); (ii) 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 Debentures (the “Debenture Certificate”)); (iii) the Debentures will mature 12 months from the date of issuance; (iv) Each Debenture is convertible at the option of the Lender, in whole or in part, at any time while any principal or interest remains outstanding, into common shares of the Company (the “Debenture Shares”) at a price of \$0.32 per Debenture Share (the “Conversion”).

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;
- (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

## OVERALL PERFORMANCE:

The following financial information has been summarized from the Company's condensed consolidated interim financial statements for the three months ended August 31, 2023 and 2022:

	<b>Three Months Ended August 31, 2023</b>		<b>Three Months Ended August 31, 2022</b>	
Revenue	\$	438,369	\$	788,680
Cost of revenue		(310,940)		(592,607)
Operating expenses		(1,096,872)		(922,210)
Other expenses		(97,135)		(50,189)
Net loss and comprehensive loss		(1,063,546)		(720,208)
Loss per share – basic and diluted		(0.03)		(0.03)

	<b>Three Months Ended August 31, 2023</b>		<b>Year ended May 31, 2023</b>	
Cash	\$	83,183	\$	2,888
Working capital (deficiency)		(2,893,714)		(2,449,938)
Total assets		3,024,085		2,791,477
Total long-term liabilities		(619,708)		(411,976)
Shareholders' deficiency		(2,893,944)		(2,141,333)

### *Revenue*

For the three months ended August 31, 2023, the Company generated total revenues of \$438,369, a decrease of \$350,311 compared to revenues of \$788,680 for the three months ended August 31, 2022. Revenue for the three months ended August 31, 2023, consisted of the sale and in some cases installation of products including solar panels, portable battery systems, and other energy related products, consulting income and franchise revenues. Revenues from the sale and installation of products decreased from \$787,495 during the three months ended August 31, 2022 to \$417,347 during the three months ended August 31, 2023 as a result of lower sales volumes achieved in the current period. The Company is continuing to focus its efforts on the development, manufacturing and installation of direct-to-consumer cleantech products and formation of its franchisee business run under the Company's subsidiary HPS Solar Inc. The Company's franchise business consists of 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 three months ended August 31, 2023, the Company generated a total of \$18,112 in franchise revenues. Franchise revenue increased by \$17,937 from \$175 recognized during the three months ended August 31, 2022.

### *Cost of Sales and Gross Profit*

For the three months ended August 31, 2023, the Company's costs of sales and gross profit were \$310,940 and \$127,429 respectively, compared to \$592,607 and \$196,073 for the three months ended August 31, 2022. The gross profit margin increased from 24.86% for the three months ended August 31, 2022, to 29.07% for the three months ended August 31, 2023. A higher gross profit margin was realized for the three months ended August 31, 2023 due to a different product mix with higher margins as well as significantly lower international shipping costs for supplies from China.

### *Other income (expenses)*

Other expenses for the three months ended August 31, 2023 and 2022 were \$97,135 and \$50,189, respectively. The increase in other expenses of \$46,946 during the three months ended August 31, 2023, was primarily due to higher interest and accretion expenses related to convertible debentures issued during the three months ended August 31, 2023. There were no convertible debentures outstanding during the three months ended August 31, 2022.

### *Assets*

Total assets as of August 31, 2023 and May 31, 2023, were \$3,024,085 and \$2,791,477, respectively.

The increase in total assets from \$3,024,085 on May 31, 2023 to \$3,024,085 on August 31, 2023, was primarily due to increases in prepaid expenses, amounts receivable, inventory and cash, offset by decreases in property and equipment. The decrease in property and equipment from \$524,731 on May 31, 2023, to \$438,966 on August 31, 2023, was primarily due to the Company receiving a government grant from Northern Ontario Heritage Fund Corporation for \$78,978 specific to the Company's building under construction. The government grant reduced the cost amount of the Company's building under construction. Inventory increased from \$1,424,202 on May 31, 2023, to \$1,503,156 on August 31, 2023, which was due mainly to the timing of shipping of inventory product to end consumers. The increase in prepaid expenses from \$189,483 on May 31, 2023, to \$235,956 on August 31, 2023, was primarily due to the Company incurring deferred financing costs of \$54,788 related to the IPO during the three months ended August 31, 2023.

### *Liabilities*

The total long-term liabilities as of August 31, 2023 and May 31, 2023, were \$619,708 and \$411,976, respectively. The increase in long-term liabilities was primarily due to an increase in loans obtained to finance operations.

### *Shareholders' deficiency*

The shareholders' deficiency as of August 31, 2023 and May 31, 2023 were \$2,893,944 and \$2,141,333, respectively. The increases in shareholders' deficiency are mainly due to losses incurred during the three months ended August 31, 2023.

### *Operating Expenses*

Operating expenses for the three months ended August 31, 2023 and 2022, are summarized as follows (in Canadian Dollars):

<b>For the three months ended August 31,</b>	<b>2023</b>	<b>2022</b>	<b>Change \$</b>	<b>Change %</b>
Advertising expense	89,704	68,591	21,113	31%
General and administrative	101,635	176,912	(75,277)	(43%)
Salaries and benefits	279,257	358,628	(79,371)	(22%)
Professional fees	320,337	309,880	10,457	3%
Research and development	2,276	8,199	(5,923)	(72%)
Share-based compensation	303,663	-	303,663	100%
<b>Total operating expenses</b>	<b>\$ 1,096,872</b>	<b>\$ 922,210</b>	<b>\$ 174,662</b>	<b>19%</b>

For the three months ended August 31, 2023, total expenses increased by \$174,662, compared to the same period in the prior year. The increase is largely a result of the increase in share-based compensation incurred during the three months ended August 31, 2023, which was partially offset by the decrease in general and administrative expenses and salaries and benefits. Share-based compensation of \$303,633 was recognized during the three months ended August 31, 2023 as a result of the vesting of performance warrants issued in April 2023.

Advertising expense increased by \$21,113 from \$68,591 for the three months ended August 31, 2022, to \$89,704 for the three months ended August 31, 2023. The increase was a result of increased advertising efforts to promote the brand name.

General and administrative expenses decreased by \$75,277 compared to the same period of the prior year. The decrease was largely due to the decrease in dues and subscriptions, insurance expenses, office expenses, repairs and maintenance costs, and travel costs.

Salaries and benefits decreased by \$79,371 from \$358,628 for the three months ended August 31, 2022, to \$279,257 for the three months ended August 31, 2023. The decrease was a result of decreased salaries paid to the CEO of the Company and other employees.

## LIQUIDITY AND CAPITAL RESOURCES

### *Working capital deficiency*

Working capital deficiency as of August 31, 2023, and May 31, 2023, was \$2,893,714 and \$2,449,938, respectively.

The increase in working capital deficiency was primarily due to convertible debt issued during the three months ended August 31, 2023, for gross proceeds of \$535,000, as well as an increase in accounts payable due to additional purchases of raw materials. The convertible debenture with total principal amount of \$535,000 is convertible into common shares of the Company at a conversion price of \$0.32 per share.

### *Cash Flows*

A summary of cash flows for the three months ended August 31, 2023 and 2022 is as follows:

<b>Three months ended August 31,</b>	<b>2023</b>	<b>2022</b>	<b>Change</b>
Operating activities	\$ (462,671)	\$ (1,188,929)	\$ 726,258
Investing activities	-	(148,283)	148,283
Financing activities	542,966	1,577,111	(1,034,145)
<b>Change in cash</b>	<b>\$ 80,295</b>	<b>\$ 239,899</b>	<b>\$ (159,604)</b>

Cash used in operating activities decreased by \$726,258. This decrease is largely due to a reduced amount of cash consumed for inventory purchases and prepaid expenses. The Company also received deposits for customer orders towards the end of the three months ended August 31, 2023, which will be fulfilled subsequent to the period.

Cash flows used by investing activities decreased by \$148,283, which is due to the Company purchasing two vehicles and continuing construction of a new office and manufacturing facility in the comparative period, with no similar expenditures occurring during the three months ended August 31, 2023.

Cash flows from financing activities decreased by \$1,034,145, which is primarily due net proceeds on convertible debentures of \$1,732,753 received during the three months ended August 31, 2022 versus

\$481,800 received during the three months ended August 31, 2023. The decrease in cash flow from financing activities was offset by the Company receiving funds of \$176,047 from acquiring additional loans during the three months ended August 31, 2023.

## RELATED PARTY DISCLOSURES

The Company defines its related parties as its key members of management, companies controlled by its key members of management, and family members of its key members management. Key management consists of the Directors and Officers who are responsible for planning, directing, and controlling the activities of the Company.

### *Related party transactions and balances*

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

	<b>August 31, 2023</b>		August 31, 2022	
Salaries and benefits	\$	<b>11,592</b>	\$	26,510
Share-based compensation		<b>303,663</b>		
<b>Total</b>	<b>\$</b>	<b>315,255</b>	<b>\$</b>	26,510

The salaries and benefits in the amount of \$11,592 (2022 - \$26,510) were paid to Francois Byrne, the CEO and shareholder of the Company.

As of August 31, 2023, loans payable included \$192,765 (May 31, 2023 - \$196,244) due to Francois Byrne, the CEO and a shareholder of the Company.

As of August 31, 2023, loans payable included \$204,233 (May 31, 2023 - \$204,233) due to Marie-Claude Renaud, a shareholder of the Company.

As of August 31, 2023, loans payable included \$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.

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 from the Company controlled by CFO for accounting, audit preparation, and audit support services for the three months ended August 31, 2023 (2022 - \$181,183). In addition, the Company controlled by CFO has also provided CFO services, transaction advisory services and consulting services related to Go Public transaction during this period.

## USE OF JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The

impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and the revision affects both the current and future periods.

The following are the judgments that have been made in applying the Company's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

#### *Going concern*

The assumption that the Company will be able to continue as a going concern is subject to critical judgments by management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

#### *Income taxes*

Income assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. The Company believes that its accruals for tax balances are adequate for all open audit years based on its assessment of many factors including past experience, and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. These differences could materially impact net income (loss).

#### *Research and development expenditures*

Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 Intangible Assets are met. Those criteria require that the product is technically, and economically feasible, which management assessed based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any product development costs as of August 31, 2023.

#### *Government assistance*

Government assistance is recognized in the statement of loss and comprehensive loss over the periods in which the Company recognizes as expenses the related costs for which the assistance is intended to reimburse.

The following are the estimates and assumptions that have been made in applying the Company's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

#### *Property and equipment – useful lives*

The Company estimates the useful lives and selects methods used to allocate amortization amounts of property and equipment on a systematic basis. Technical obsolescence of the tangible assets could significantly impact estimated residual useful lives and in turn, carrying values being over or understated.

### *Provision for expected credit losses (ECL)*

For trade receivables and contract assets, the Company applies a simplified approach to calculating ECL. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date, by applying a loss rate to each aging bucket. In estimating the expected credit loss, management takes into account historical experience, current collection trends, age of receivables and when warranted and available, the financial condition of specific counterparties.

### *Sales returns and warranty*

Revenue is recorded net of discounts. The Company provides a 6-month commercial or 12-month standard warranty on its products and a 30-day return period on unused and unopened products. An allowance is made for warranty claims based on estimated expenditures in the remaining warranty period as well as estimated returns.

### *Leases - Estimating the incremental borrowing rate*

The Company cannot readily determine the interest rate implicit in leases where it is the lessee. As such, it uses its Incremental Borrowing Rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of comparable value to the right-of-use asset in a similar economic environment. IBR therefore reflects what the Company “would have to pay”, which requires estimation when no observable rates are available or where the applicable rates need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

### *Leases – Estimating the lease term*

The Company assesses the lease term based on the conditions of the lease and determines whether it will extend the lease at the end of the lease contract or exercise an early termination option. When it is reasonably certain that the extension or early termination options will be exercised, the Company determines the lease to be the lesser of the original lease term, the original lease term plus the extension option, or the remaining lease term assuming exercise of the early termination option. Extension of the lease or exercise of an early termination option could affect future results.

### *Impairment of Long-Lived Assets*

The Company reviews the carrying amounts of its non-financial assets, including property and equipment and right-of-use assets, when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The Company considered various factors including, but not limited to, the condition of its long-lived assets, economic factors that may impact the value of the long-lived assets and any indications of obsolescence.

### *Inventory*

Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined with reference to the estimated selling price. The Company estimates selling price based upon assumptions about future demand and current and anticipated retail market conditions.



## SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the Company's unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in Note 3 to the Company's audited financial statements for the year-ended May 31, 2023.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## PROPOSED TRANSACTIONS

Other than the proposed initial public offering of units by the Company and concurrent listing of the Company's common shares on the Canadian Securities Exchange (CSE) pursuant to the preliminary prospectus for which this MD&A is attached, there are no proposed transactions as at the date of this MD&A.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

### Basis of Fair Value

	Level	August 31, 2023	May 31, 2023
<b>FINANCIAL ASSETS</b>			
<b>FVTPL</b>			
Cash	1	\$ 83,183	\$ 2,888
<b>Other assets, at amortized cost</b>			
Accounts receivable		620,415	494,662
<b>Total financial assets</b>		<b>\$ 703,598</b>	<b>\$ 497,550</b>
<b>FINANCIAL LIABILITIES</b>			
	Level	August 31, 2023	May 31, 2023
<b>Other liabilities, at amortized cost</b>			
Accounts payable and accrued liabilities		2,093,398	1,896,609
Line of credit		-	62,688
Convertible debentures		2,431,220	1,867,418
Loans payable		981,319	756,506
<b>Total financial liabilities</b>		<b>\$ 5,505,937</b>	<b>\$ 4,583,221</b>

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- 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).

The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

The carrying value of the Company's financial instruments approximate their fair values due to their short-term maturities. Cash is measured at fair value on a recurring basis.

## **RISK MANAGEMENT**

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

- a) Market Risk
- b) Credit Risk
- c) Liquidity 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.

The directors and officers have overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The directors and officers review the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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 from previous reported periods unless otherwise stated in the note.

The overall objective of the directors and officers is to set policies that seek to reduce risk as much as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

### **a) Market Risk**

Market risk is the risk of loss that may arise from changes in market factors such as foreign currency exchange, interest rates, and equity price risk.

#### **(i) Foreign Currency 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 large 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 would not have had a material impact on the net loss.

## (ii) 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.

## b) 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 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%

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

## c) 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 has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. Historically, the Company's sources of funding have been through

loans, and loans from the CEO and a shareholder of the Company. The Company's access to financing is uncertain. There can be no assurance of continued access to significant debt or equity funding. The following table displays the Company's ageing undiscounted obligations.

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

	<b>Less than one year</b>	<b>One to two years</b>	<b>Two to three years</b>	<b>More than three years</b>	<b>Total</b>
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

## **RISKS**

### *Limited Operating History*

The Company is subject to many of the risks common to early-stage enterprises, including undercapitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered during these early stages of operations.

### *Limited Business History*

The Company has not had any history of earnings; has not paid any dividends and it is unlikely that the Company will pay any dividends in the immediate or foreseeable future. The Company will generate earnings in the near future. The success of the Company will depend entirely on the expertise, ability, judgment, discretion, integrity and good faith of its management.

The Company has limited financial resources and there is no assurance that additional funding will be available to the Company for further operations or to fulfill its obligations under applicable agreements. There is no assurance that the Company can generate revenues, operate profitably, or provide a return on investment, or that it will successfully implement its plans.

The continued operation of the Company will be dependent upon its ability to generate operating revenues and to procure additional financing. There can be no assurance that any such revenues can be generated or that other financing can be obtained. If the Company is unable to generate such revenues or obtain such additional financing, any investment in the Company may be lost. In such an event, the probability of a profitable resale of the Common Shares would be diminished.

### *Research and Development Activities*

It is important for the Company to continue to invest steadily in research and development. However, because the Company will compete in a constantly evolving market, it may pursue research and

development projects that do not result in viable commercial products. Any failure to translate research and development expenditures into successful new product introductions could have an adverse effect on the Company's business.

#### *Technical Risks*

Technical risks are inherent in the development process, in that an immature technology could present unexpected challenges that exceed the planned time or money to overcome. There can be no guarantee that the Company will be able to overcome technical risks.

#### *Inability to Protect Intellectual Property*

The Company owns certain material intellectual property which is not yet registered. The Company may file patent, trademark and copyright applications in the United States, Canada and in other foreign countries as part of its strategy to protect its intellectual property. However, these registrations may provide only limited protection of the Company's intellectual property.

The Company considers its rights to its products, know-how and trade secrets, to represent a significant portion of its net assets. The Company has, therefore, utilized a combination of security measures, confidentiality policies, contractual arrangements to protect its proprietary formulations and other valuable trade secrets. The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including refusal by regulatory authorities to register trademarks or other intellectual property protections, prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. There can be no assurances that any steps taken by the Company to protect its intellectual property will be adequate to prevent misappropriation or independent third-party development of the Company's intellectual property.

#### *Product Errors or Defects*

Errors or defects in the Company's products could result in losses to the Company's customers or users. The Company's customers and users may seek significant compensation from us for any losses they suffer or cease conducting business with us altogether. Furthermore, a customer or user could share information about bad experiences on social media, which could result in damage to the Company's reputation and loss of future revenue. There can be no assurance that any actions we take in an attempt to limit the Company's exposure to claims would work as expected or be adequate or would otherwise protect us from liabilities or damages with respect to any particular claim. Even if not successful, a claim brought against us by any of the Company's customers or users would likely be time-consuming and costly to defend.

#### *Manufacture or Design Defects*

Our products may contain defects in design and manufacture that may cause them not to perform as expected or that may require repair. The Company offers a six-month commercial warranty or twelve-month standard warranty. The Company also offers a two year or 500 cycle warranty on its batteries, whichever comes first.

#### *Unpredictability of Contract Procurement*

The Company relies on the continued procurement of contracts to sustain its revenues. Significant fluctuations in the procurement of contracts may occur due to several factors, including decreased demand, supply chain deficiencies, unpredictability of the timing of development, and inability to find third party buyers in a timely manner, on favorable terms and conditions, or at all. If the Company does not obtain any

projects or the amount of contracts decreases substantially, this would have a material adverse effect on the Company's profitability, results of operations and financial condition.

#### *Contractual Risk*

The Company is a party to various contracts, and it is always possible that the other contracting parties may not fully perform their obligations. Any dereliction of contractual duties could and may have a material adverse effect on the Company's ability to generate revenue.

#### *Operating Risk and Insurance Coverage*

The Company intends to obtain insurance to protect its assets, operations and employees. While the Company believes insurance coverage can adequately address all material risks to which it may be exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for all risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

#### *Additional Financing*

The continued development of the Company will require additional financing. There is no guarantee that the Company will be able to achieve its current business strategy. The Company intends to fund its business objectives by way of additional offerings of equity and/or debt financing as well as through anticipated positive cash flow from operations in the future. The failure to raise or procure such additional funds or the failure to achieve positive cash flow could result in the delay or indefinite postponement of current business objectives. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on terms acceptable to the Company. If additional funds are raised by offering equity securities, existing shareholders could suffer significant dilution. The Company will require additional financing to fund its operations until positive cash flow is achieved.

#### *Achieving our projected development goals in the announced and expected time frames*

From time to time, the Company sets goals for, and makes statements regarding, the expectations and timing of the accomplishment of certain objectives that are material to our success. The actual timing of these events can vary dramatically. If the Company fails to achieve one or more of these milestones as planned, there is a risk that the Company's operations, financial condition and the price of the Company's Common Shares could be materially adversely affected. In the past, following periods of volatility in the market price of public company securities, shareholders have often instituted class action securities litigation against those companies. There is a risk that the Company could be subject to such litigation.

#### *Brand Image, Reputation and Marketing Initiatives*

Any adverse publicity concerning marketing practices, market trends or consumer dissatisfaction relating directly to the Company or relating to the any of the clean energy industry as a whole may damage the Company's corporate reputation and brand image, undermine customer confidence and reduce long-term demand for its products.

The impact of adverse publicity on the Company's operations may be magnified due to the rapidly changing

media environment. The growing use of social and digital media increases the speed and extent that information or misinformation and opinions can be shared. Negative information about the Company, its brand(s) or products on social and digital media, whether valid or not, could seriously damage its brand(s) and reputation quickly, forcing the Company to actively respond to (and curtail to the extent possible) negative feedback received. If the Company is unable to manage its digital activities and interactions, its product sales, financial condition and operating results could be materially and adversely affected.

The success of the Company's sales and marketing initiatives and practices may be subject to risk, including uncertainties about consumer acceptance, current inventory levels and the ability to communicate key brand and corporate messages to digital audiences. The success of these initiatives is also subject to potential restrictions on product marketing via extensive government regulations and product specific policies. Furthermore, consumers and competitors may challenge certain marketing materials and practices by claiming, among other things, false and misleading advertising. A significant claim of judgement against the Company could result in monetary damages and limit the Company's ability to maintain sales and marketing practices and negatively impact its profitability. Even if such a claim is unsuccessful or unwarranted, the negative publicity surrounding such assertions could negatively impact the Company's business operations.

### *Competition*

The Company's primary competitors have greater substantial financial, marketing and production resources; the Company may not have access to such a wide breadth of resources and therefore it may be unsuccessful in competing against current and future competitors. These competitors have diversified portfolios and likely benefit from greater economies of scale due to their size and global manufacturing capabilities. The Company may also face competition from new and emerging businesses that may enter its existing or future markets.

Many of the Company's competitors and potential competitors have longer operating histories, greater brand recognition and loyalty, facilities devoted to research and development, a larger customer base as well as operations dedicated towards identifying consumer preferences, strong industry relationships with both customers and distributors, as well as significantly greater financial, sales, marketing, manufacturing, distribution, technical, and other resources than the Company has. As a result, they may be able to respond more quickly to customer requirements and devote greater resources towards price-based promotional activities better than the Company can. These competitors may also be able to adapt more quickly to new or emerging technologies and standards and may be able to deliver services that are comparable or superior to that of the Company's services at a far more reduced rate. Such pressures may also restrict the Company's ability to increase prices in response to commodities such as ingredients and equipment, wages and other applicable cost increases. If the Company is unable to compete effectively, its financial condition and operating results may suffer.

### *Negative Cash Flows From Operations*

For the three months ended August 31, 2023, the Company sustained net losses of \$1,063,546 and had negative cash flow from operating activities of \$462,671. The Company continues to have negative operating cash flow. It is possible the Company may have negative cash flow in any future period and as a result, the Company may need to use available cash, including proceeds from the Offering and any future financings to fund any such negative cash flow.

### *Decreased Demand for the Company's Products*

Demand for the Company's products will depend on consumer preferences and how successfully the

Company can predict, identify and interpret the preferences and habits of consumers, and to offer products that appeal to their preferences, including concerns regarding product attributes and ingredients at a competitive cost. If the Company does not accurately predict shifts in consumer preferences or fails to introduce new and improved product offerings, sales could decline. In addition, due to the immense competition within the industry, it is imperative the Company is able to offer an array of products that satisfy the broad spectrum of consumer preferences. If the Company fails to expand their product offerings successfully across product categories or is unable to rapidly develop products in faster growing and more profitable categories, demand for its products will decrease and profitability could suffer.

Additionally, the willingness of consumers to purchase portable battery products depends in part on local economic conditions. The Company must anticipate market trends and the price, performance and functionality requirements of current and potential future customers and must successfully adapt its product offerings to meet these requirements. Failure to do so will have a negative adverse effect on the Company.

There are well documented market trends which suggest demand from consumers shifting from basic to premium products. Customers interested in portable power products are looking for mobile power that is easy to use and maintain but offers the power and portability found in gas generators with the advantages offered by all electric systems. The residential solar market is looking for an easy to operate, attractive power system that can serve not only as a backup power system but also as a way to reduce power costs. While the Company's new products appear to address these demands, it is not possible to predict the level of success that these new products will have in the market. Failure to penetrate these markets in a successful and timely manner will have a negative adverse effect on the Company.

#### *Demand for Solar Power*

The Company may be adversely affected by volatile solar energy market and industry conditions, specifically the demand for the Company's products and services may decline. The solar energy market and industry may from time-to-time experience oversupply, which may adversely affect the Company. Oversupply conditions across the value chain can put pressure on average selling prices, resulting in lower revenue for many industry participants, including the Company. If the supply of solar systems grows faster than demand, demand and the average selling price for our products could be materially and adversely affected.

The solar power market is still at a relatively early stage of development and future demand for solar power products and services is uncertain. Market data for the solar power industry is not as readily available as for more established industries, where trends are more reliably assessed from data gathered over a longer period.

Many factors may affect the viability of solar power technology and the demand for solar power products, including:

- the cost-effectiveness, performance and reliability of solar power products and services, including the Company's solar power projects compared to conventional and other renewable energy sources and products and services;
- the availability of government subsidies and incentives to support the development of the solar power industry;
- the availability and cost of capital, including long-term debt and tax equity, for solar power projects;
- the success of other alternative energy technologies, such as wind power, hydroelectric power, geothermal power, and biomass fuel;
- fluctuations in economic and market conditions that affect the viability of conventional and other renewable energy sources, such as increases or decreases in the prices of oil, gas and other fossil



fuels;

- capital expenditures by end users of solar power products and services, which tend to decrease when the economy slows; and
- the availability of favorable regulation for solar power within the electric power industry and the broader energy industry.

If solar power technology is not suitable for widespread adoption or if sufficient demand for solar power products and services does not develop or takes longer to develop than anticipated, this may be a material adverse effect on the Company's profitability, results of operation and financial condition.

#### *Reliance on Industry Suppliers and Manufacturers*

In order to continue executing its business strategy, the Company will rely on third party suppliers to provide certain goods necessary to enable the Company to manufacture, package and distribute its products, in particular key raw materials and necessary packaging materials. The Company may be unable to arrange for the manufacture of its products in a timely fashion, or at all, if any of its suppliers should cease or interrupt production or otherwise fail to supply the Company, or if certain supply agreements are suspended, terminated or otherwise expire without renewal, the Company's activities and results could be materially adversely affected. The Company's ability to deliver according to market demands and contractual commitments depends significantly on obtaining a timely and adequate supply of materials, equipment components (when and if necessary), production capacity and other vital offerings and solutions on competitive terms.

#### *Access to and Cost of Raw Materials*

The Company is dependent on a sufficient supply of raw materials and any ingredients that are required to meet current and future customer demand for the Company's products. These materials are necessary for the commercial production of the Company's various product offerings. Variations in supply and demand of these materials at global or regional levels, weather conditions, regulatory changes, geopolitical events and an outbreak of a virus could substantially impact the price and availability of both, raw materials and materials needed to package the Company's products, which could result in loss of sales or claims against the Company as well as adversely affect its brand and reputation. Profitability of the Company is sensitive to fluctuations in wholesale prices of these raw materials as well as other factors such as energy, fuel, equipment, labour and shipping costs and other market conditions, all of which are external factors, beyond the Company's control.

#### **OUTSTANDING SHARE DATA**

	<b>August 31, 2023</b>	<b>May 31, 2023</b>	<b>As at October 30, 2023</b>
Common shares	32,100,000	32,100,000	32,100,000
Restricted share units	-	-	-
Warrants	12,348,006	12,348,006	12,348,006
Options	-	-	-