# Hybrid Power Solutions Inc.

Condensed Consolidated Interim Financial Statements

As at November 30, 2023
and
For the three and six months ended November 30, 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 November 30, 2023 and for the three and six months ended November 30, 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
(Unaudited - Expressed in Canadian dollars)

| As at | Notes | | **November 30, 2023** | | May 31, 2023 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets | | | | | |
| Cash | | **$** | **109,210** | $ | 2,888 |
| Accounts and other receivable | 3 | | **641,343** | | 494,662 |
| Prepaid expenses and deposits | 4 | | **403,236** | | 149,144 |
| Inventory | 5 | | **1,280,931** | | 1,424,202 |
| Total current assets | | | **2,434,720** | | 2,070,896 |
| Contract costs | 12 | | **18,882** | | 22,419 |
| Prepaid expenses and deposits | 4 | | **35,867** | | 40,339 |
| Property and equipment | 6 | | **412,625** | | 524,731 |
| Right of use assets | 7 | | **110,910** | | 133,092 |
| Total assets | | **$** | **3,013,004** | $ | 2,791,477 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | 8,17 | **$** | **2,424,105** | $ | 1,896,609 |
| Line of credit | 9 | | **68,432** | | 62,688 |
| Return and warranty liability | 12 | | **66,036** | | 32,678 |
| Contract liabilities | 12 | | **209,690** | | 111,150 |
| Loans payable | 10,17 | | **542,183** | | 504,872 |
| Lease liability | 7 | | **48,504** | | 45,419 |
| Convertible debentures | 11 | | **501,626** | | 1,867,418 |
| Total current liabilities | | | **3,860,576** | | 4,520,834 |
| Lease liability | 7 | | **80,368** | | 105,597 |
| Loans payable | 10,17 | | **453,924** | | 251,634 |
| Contract liabilities | 12 | | **65,684** | | 54,745 |
| Total liabilities | | | **4,460,552** | | 4,932,810 |
| Shareholders' deficiency | | | | | |
| Share capital | 16 | **$** | **3,633,630** | $ | 1,541,012 |
| Shares to be issued | 16 | | **160,000** | | - |
| Reserves | 16 | | **1,935,750** | | 242,167 |
| Convertible debt – conversion option | 11 | | **7,272** | | 135,619 |
| Deficit | | | **(7,184,200)** | | (4,060,131) |
| Total shareholders' deficiency | | | **(1,447,548)** | | (2,141,333) |
| Total liabilities and shareholders' deficiency | | **$** | **3,013,004** | $ | 2,791,477 |

Nature of operations and going concern (Note 1)

# Hybrid Power Solutions Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited - Expressed in Canadian dollars)

| | | Three months ended November 30, | | Six months ended November 30, | |
|---|---|---|---|---|---|
| | Notes | **2023** | 2022 | **2023** | 2022 |
| Revenue | 12 | **$** 603,398 | $ 1,260,820 | **$** 1,041,767 | $ 2,049,500 |
| Cost of sales | 5, 13 | 454,695 | 648,010 | 765,635 | 1,240,617 |
| Gross profit | | 148,703 | 612,810 | 276,132 | 808,883 |
| Expenses | | | | | |
| Advertising | | **$** 36,020 | $ 72,841 | **$** 125,724 | $ 141,432 |
| General and administrative | 14 | 120,290 | 256,445 | 221,925 | 433,357 |
| Salaries and benefits | 17 | 343,804 | 277,814 | 623,061 | 636,442 |
| Professional fees | | 204,815 | 233,955 | 525,152 | 543,835 |
| Research and development | | 1,521 | 32,175 | 3,797 | 40,374 |
| Share-based compensation | 16,17 | 1,389,920 | - | 1,693,583 | - |
| Total operating expenses | | (2,096,370) | (873,230) | (3,193,242) | (1,795,440) |
| Interest and accretion | 7,10,11 | (147,211) | (102,372) | (268,950) | (127,722) |
| Foreign exchange | | (2,133) | 17,439 | (8,882) | (26,001) |
| Government assistance | 15 | 30,449 | 57,412 | 55,258 | 75,113 |
| Other income | 18 | 6,039 | 1,550 | 12,583 | 2,450 |
| Net loss before income taxes | | **$** (2,060,523) | $ (286,391) | **$** (3,127,101) | $ (1,062,717) |
| Recovery of deferred income taxes | | - | - | 3,032 | 56,118 |
| Net loss and comprehensive loss for the period | | (2,060,523) | (286,391) | (3,124,069) | (1,006,599) |
| Weighted average number of shares – Basic and diluted | | 32,100,000 | 26,778,522 | 32,100,000 | 26,933,444 |
| Loss per share – Basic and diluted | | **$** (0.06) | $ (0.01) | **$** (0.10) | $ (0.04) |

*The accompanying notes form an integral part of these condensed consolidated interim financial statements*

# Hybrid Power Solutions Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency
For the three and six months ended November 30, 2023 and 2022
(Unaudited - Expressed in Canadian dollars)

| | Note | Number of common shares | | Share Capital Amount | | Shares to be issued | | 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 | | - | | - | | - | | - | | - | | (1,006,599) | | (1,006,599) |
| **Balance, November 30, 2022** | | 27,000,000 | $ | 152,025 | **$** | - | **$** | 27,690 | **$** | 135,619 | **$** | (2,212,532) | **$** | (1,897,198) |
| | | | | | | | | | | | | | | |
| **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 | 11 | - | | - | | - | | - | | 7,272 | | - | | 7,272 |
| Conversion of convertible debt | 11 | 24,567,500 | | 2,092,618 | | - | | - | | (135,619) | | - | | 1,956,999 |
| Share subscriptions received in advance | 16 | - | | - | | 160,000 | | - | | - | | - | | 160,000 |
| Share-based compensation | 16 | - | | - | | - | | 1,693,583 | | - | | - | | 1,693,583 |
| Net loss for the period | | - | | - | | - | | - | | - | | (3,124,069) | | (3,124,069) |
| **Balance, November 30, 2023** | | **56,667,500** | **$** | **3,633,630** | **$** | **160,000** | **$** | **1,935,750** | **$** | **7,272** | **$** | **(7,184,200)** | **$** | **(1,447,548)** |

# Hybrid Power Solutions Inc.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)
For the six months ended November 30,

| | Notes | 2023 | 2022 |
|---|---|---|---|
| **Operating activities** | | | |
| Net loss for the period | | $ **(3,124,069)** | $ (1,006,599) |
| Items not affecting cash: | | | |
| Accrued interest and accretion | | **175,443** | 124,195 |
| Deferred income tax recovery | 11 | **(3,032)** | (56,118) |
| Depreciation | | **35,627** | 35,278 |
| Bad debt (recovery) expense | 14 | **(7,118)** | 71,271 |
| Gain on debt | | **-** | (16,320) |
| Shares issued for services | 16 | **-** | 37,752 |
| Share-based compensation | 16 | **1,693,583** | - |
| Non-cash working capital items: | | | |
| Accounts receivable | | **(139,563)** | (256,487) |
| Prepaid expenses | | **(249,620)** | 118,007 |
| Inventory | | **143,271** | (626,613) |
| Contract costs | | **3,537** | (16,911) |
| Accounts payable and accrued liabilities | | **627,495** | 309,738 |
| Deferred revenue | | **109,479** | (391,410) |
| Deferred grants | | **-** | 16,480 |
| Return and warranty liability | | **33,358** | 2,390 |
| Net cash used in operating activities | | **(701,609)** | (1,655,347) |
| **Investing activity** | | | |
| Purchase of property and equipment | | **(720)** | (280,770) |
| Net cash used in investing activity | | **(720)** | (280,770) |
| **Financing activities** | | | |
| Net proceeds from convertible debentures | 11 | **481,800** | 1,732,753 |
| Share subscriptions received in advance | 16 | **160,000** | - |
| Line of credit | | **5,744** | (81,660) |
| Proceeds from loans payable | | **104,497** | 389,747 |
| Repayments of loans payable | 10 | **(75,438)** | (153,022) |
| Lease payments | 7 | **(29,238)** | (28,364) |
| Government assistance | | **161,286** | - |
| Net cash provided by financing activities | | **808,651** | 1,859,454 |
| Change in cash | | **106,322** | (76,663) |
| Cash, beginning of period | | **2,888** | 107,633 |
| **Cash, end of period** | | $ **109,210** | $ 30,970 |
| **Supplemental cashflow disclosure** | | | |
| Interest paid | | $ **66,798** | $ 31,275 |
| Taxes paid | | $ **-** | $ - |
| Agent's warrants issued | | $ **-** | $ 27,690 |

*The accompanying notes form an integral part of these condensed consolidated interim financial statements*

## 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.

On November 29, 2023, the Company's common shares became listed on the Canadian Securities Exchange ("CSE") under the symbol HPSS. On December 1, 2023 the Company closed its initial public offering ("IPO", Note 20) and began trading on the CSE on December 4, 2023.

## 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.

**2. BASIS OF PRESENTATION (continued)**

**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.

The Company has not generated positive cash flows from operations and relies on financing cash inflows to maintain operations. During the six months ended November 30, 2023, the Company incurred a net loss of $3,124,069 (2022 - $1,006,599) and as of November 30, 2023, had an accumulated deficit of $7,184,200 (May 31, 2023 - $4,060,131). As of November 30, 2023, the Company had a working capital deficit of $1,425,856 (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 January 29, 2024, by the Board of Directors.

**3. ACCOUNTS AND OTHER RECEIVABLE**

| | | November 30, 2023 | | May 31, 2023 |
|---|---|---|---|---|
| Accounts receivable | $ | 326,688 | $ | 181,987 |
| Royalty and franchise fee receivable | | 14,889 | | 22,432 |
| Sales taxes receivable | | 299,766 | | 290,243 |
| | **$** | **641,343** | **$** | **494,662** |

## 4. PREPAID EXPENSES AND DEPOSITS

| | | November 30, 2023 | | May 31, 2023 |
|---|---|---|---|---|
| Deferred share issuance costs | $ | 256,955 | $ | 104,463 |
| Prepaid advertising | | - | | 5,825 |
| Prepaid technology | | 30,163 | | 34,636 |
| Prepaid inventory | | 135,000 | | 20,306 |
| Prepaid services | | - | | 8,045 |
| Prepaid software subscription | | 2,338 | | - |
| Security deposit | | 14,647 | | 14,647 |
| Other deposits | | - | | 1,561 |
| | **$** | **439,103** | **$** | **189,483** |
| Current portion | | 403,236 | | 149,144 |
| Long-term portion | | 35,867 | | 40,339 |

## 5. INVENTORY

| | | November 30, 2023 | | May 31, 2023 |
|---|---|---|---|---|
| Finished goods | $ | 236,284 | $ | 291,861 |
| Raw materials | | 1,044,647 | | 1,132,341 |
| | **$** | **1,280,931** | **$** | **1,424,202** |

During the three and six months ended November 30, 2023, the cost of inventories recognized as an expense totalled $454,695 and $765,635 (2022 - $648,010 and $1,240,617), respectively. During the six ended November 30, 2023, the Company did not impair any inventory (2022 - $Nil).

## 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** |
| Additions | | 720 | | **-** | | **-** | | **-** | | 720 |
| Government grants | | - | | - | | - | | (99,380) | | (99,380) |
| **Balance, November 30, 2023** | **$** | **8,160** | **$** | **69,091** | **$** | **141,759** | **$** | **235,352** | **$** | **454,362** |
| **Accumulated Depreciation** | | | | | | | | | | |
| **Balance, May 31, 2022** | **$** | **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** | **$** | **6,364** | **$** | **-** | **$** | **28,291** |
| Depreciation | | 1,072 | | 7,649 | | 4,725 | | - | | 13,446 |
| **Balance, November 30, 2023** | **$** | **4,463** | **$** | **26,185** | **$** | **11,089** | **$** | **-** | **$** | **41,737** |
| **Carrying Amounts** | | | | | | | | | | |
| As of May 31, 2023 | $ | 4,049 | $ | 50,555 | $ | 135,395 | $ | 334,732 | $ | 524,731 |
| **As of November 30, 2023** | **$** | **3,697** | **$** | **42,906** | **$** | **130,670** | **$** | **235,352** | **$** | **412,625** |

Included in property and equipment is an equipment under lease with net book value of $30,983 (May 31, 2023 - $35,410), the contractual lease payments on this lease are included in note 7.

During the six months ended November 30, 2023, the Company received $70,966 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 low interest term loans from NOHFC of $90,320 (Note 11), where the discount on initial recognition of $28,414 (Note 10) 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%.

**7. LEASES (continued)**

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

| **Right of use asset** | | |
|---|---|---|
| **Cost:** | | |
| Balance, May 31, 2022 | $ | 279,039 |
| Addition | | - |
| Balance, May 31, 2023 | $ | 279,039 |
| Addition | | - |
| **Balance as at November 30, 2023** | **$** | **279,039** |
| | | |
| **Accumulated depreciation:** | | |
| Balance as at May 31, 2022 | $ | 101,583 |
| Depreciation | | 44,364 |
| Balance as at May 31, 2023 | $ | 145,947 |
| Depreciation | | 22,182 |
| **Balance as at November 30, 2023** | $ | **168,129** |
| | | |
| **Net carrying value:** | | |
| At May 31, 2023 | $ | 133,092 |
| **At November 30, 2023** | **$** | **110,910** |

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 | | 7,094 |
| Payments | | (29,238) |
| **Balance, November 30, 2023** | **$** | **128,872** |
| Current portion | | 48,504 |
| **Non-current portion** | **$** | **80,368** |

At November 30, 2023, the Company is committed to minimum lease payments as follows:

| **Maturity analysis** | | |
|---|---|---|
| Less than one year | $ | 59,226 |
| One to five years | | 86,570 |
| Total undiscounted lease liabilities | $ | 145,796 |
| Unamortized interest | | (16,924) |
| **Total lease liabilities – discounted** | **$** | **128,872** |

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | | November 30, 2023 | | May 31, 2023 |
|---|---|---|---|---|
| Accounts payable | $ | **2,012,547** | $ | 1,551,185 |
| Accrued liabilities and other | | **303,565** | | 174,567 |
| Credit cards payable | | **87,729** | | 165,188 |
| Sales taxes payable | | **20,264** | | 5,669 |
| | $ | **2,424,105** | $ | 1,896,609 |

## 9. 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 November 30, 2023, the line of credit balance is $68,432 (May 31, 2023 - $62,688).

## 10. 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 | - | - | - | 4,496 | - | - | - | **100,000** | 100,000 | 90,320 | 294,816 |
| Interest | 7,577 | - | - | 25,010 | 2,024 | - | 659 | 3,871 | - | - | 39,141 |
| Accretion | 2,200 | - | - | - | - | - | - | - | 4,619 | 2,677 | 9,496 |
| Government assistance | - | - | - | - | - | - | - | - | - | (28,414) | (28,414) |
| Repayments | (21,104) | - | - | (15,268) | (19,577) | - | (3,455) | - | (16,034) | - | (75,438) |
| **Balance, November 30, 2023** | **$ 142,410** | **$ 40,000** | **$ -** | **$ 414,715** | **$ 119,505** | **$ -** | **$ 22,438** | **$ 103,871** | **$ 88,585** | **$ 64,583** | **$ 996,107** |
| Current portion | 23,333 | 40,000 | - | 414,715 | 35,978 | - | 5,827 | - | 21,807 | 523 | 542,183 |
| Non-current portion | $ 119,077 | $ - | $ - | $ - | $ 83,527 | $ - | $ 16,611 | **$ 103,871** | **$** 66,779 | **$** 64,060 | **$** 453,924 |

***Canada Emergency Business Account**

**10. 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 six months ended November 30, 2023, the Company repaid $9,330 (2022 - $9,215) of the loan and incurred interest of $3,496 (2022 - $3,381). As at November 30, 2023, the loan balance is $50,555 (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 six months ended November 30, 2023, the Company repaid $9,914 (2022 - $6,898) of the loan and incurred interest of $4,081 (2022 - $3,554). As at November 30, 2023, the loan balance is $55,417 (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 six months ended November 30, 2023, the Company repaid $1,860 (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. During the six months ended November 30, 2023, the Company repaid $1,860 (2022 - $Nil) of the loan and recognized accretion expense on the loan facility of $2,200 (2022 - $336). As at November 30, 2023, the loan balance is $36,438 (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 six months ended November 30, 2023, the Company recorded accretion expense of $Nil (2022 - $1,857) on the loans. As at November 30, 2023, the carrying value of the loan and additional loan totalled $40,000 (May 31, 2023 - $40,000). Subsequent to November 30, 2023 the loans were repaid (Note 20).

**10. 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 six months ended November 30, 2023, the Company received shareholders' loans of $4,496 (year ended May 31, 2023 - $290,390). As of November 30, 2023, the shareholders' loans totaled $414,715 (May 31, 2023 – $400,477) (Note 17).

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 interest bearing at 9.45% per annum and 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 six months ended November 30, 2023, the Company repaid $12,857 (2022 - $1,783) of the loan and accrued $1,761 in interest (2022 - $359). As of November 30, 2023, the loan balance is $70,062 (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 six months ended November 30, 2023, the Company repaid $6,720 (2022 - $3,200) of the loan and accrued $263 in interest (2022 - $160). As of November 30, 2023, the loan balance is $49,443 (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 six months ended November 30, 2023, the Company repaid $3,455 (2022 - $2,879) of the loan and accrued interest of $659 (2022 - $394). As of November 30, 2023, the loan balance is $22,437 (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;

**10. 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 (Note 20).

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 six months ended November 30, 2023, the Company repaid $Nil on the promissory note (2022 - $Nil) and accrued $3,871 (2022 - $Nil) in interest. As at November 30, 2023 the promissory note balance was $103,871 (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 receiving 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 six months ended November 30, 2023, the Company repaid $16,034 (2022 - $Nil) against the deposit and accrued interest of $4,619 (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 incurred 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 7$^{th}$ 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 six months ended November 30, 2023, $70,966 (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 $90,320 was advanced related to the term loan portion. On initial recognition, the low interest term loan portions were determined to have a fair value of $61,906 with the discount amount of $28,414 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 six months ended November 30, 2023, the Company accrued accretion of $2,677 (2022 - $Nil) against the term loan. As at November 30, 2023, the outstanding term loan was $64,583 (May 31, 2023 - $Nil).

## 11. 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 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 six months ended November 30, 2023, the Company recognized $10,652 (2022 - $14,908) in accretion expense.

Prior to closing of the Company's IPO, on November 30, 2023, the full principal balance of the July 27, 2022 unsecured convertible debentures was converted into 16,425,000 common shares of the Company (Note 16).

**$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

**11. CONVERTIBLE DEBTENTURES (continued)**

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

On November 9, 2023, a waiver and extension was granted to the Company on the convertible debentures so that the original 180 day deadline for IPO completion (October 14, 2023) was extended to January 13, 2024.

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:

**11. CONVERTIBLE DEBTENTURES (continued)**

- 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

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 six months ended November 30, 2023, the Company recognized $78,930 in accretion expense (2022 - $85,750).

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;

Prior to closing of the Company's IPO, on November 30, 2023, the full principal balance of the August 3, 2022 unsecured convertible debentures was converted into 8,142,500 common shares and 4,071,250 warrants of the Company (Note 16).

## 11. CONVERTIBLE DEBTENTURES (continued)

### $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 six months ended November 30, 2023, the Company recognized $30,130 (2022 - $Nil) in accretion expense.

During the six months ended November 30, 2023, the Company recorded a deferred tax recovery of $3,032 (2022 - $56,118) against the conversion option on initial recognition of convertible debentures.

## 12. 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:

| | | **Six months ended November 30, 2023** | | Six months ended November 30, 2022 |
|---|---|---|---|---|
| Royalty revenue | $ | **15,447** | $ | 2,966 |
| Advertising revenue | | **12,872** | | 2,472 |
| Franchise fee revenue | | **9,061** | | 2,477 |
| Other revenue | | **5,650** | | 548 |
| **Franchise revenue** | | **43,030** | | 8,463 |
| Product and installation sales | | **995,827** | | 2,040,027 |
| Consulting and other revenue | | **2,910** | | 1,010 |
| **Total** | **$** | **1,041,767** | **$** | 2,049,500 |

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

### 12. REVENUE (continued)

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

| | | **Six months ended November 30, 2023** | | Six months ended November 30, 2022 |
|---|---|---|---|---|
| Canada | $ | **889,026** | $ | 1,603,727 |
| United States | | **152,741** | | 445,773 |
| **Total** | **$** | **1,041,767** | **$** | 2,049,500 |

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 November 30, 2023, the Company has recorded a provision of $66,036 (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 November 30, 2023 and May 31, 2023 the Company had the following contract assets:

| | | **November 30, 2023** | | May 31, 2023 |
|---|---|---|---|---|
| Contract assets - Contract costs* | **$** | **18,882** | **$** | 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:

| | | **Six months ended November 30, 2023** | | Year-ended May 31, 2023 |
|---|---|---|---|---|
| Balance, beginning | **$** | **165,895** | **$** | 638,025 |
| Additions to contract liabilities | | 571,450 | | 130,789 |
| Revenue earned during the period/year | | (461,971) | | (602,919) |
| **Balance, ending** | **$** | **275,374** | **$** | 165,895 |
| Current portion | | 209,690 | | 111,150 |
| **Non-current portion** | **$** | **65,684** | **$** | 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.

### 13. COST OF SALES

Cost of sales for the six months ended November 30, 2023 and 2022 is summarized in the table below.

| | | **November 30, 2023** | | November 30, 2022 |
|---|---|---|---|---|
| Parts, materials and direct labour | **$** | **708,127** | **$** | 1,167,644 |
| Shipping | | **57,508** | | 72,973 |
| **Total** | **$** | **765,635** | **$** | 1,240,617 |

## 14. GENERAL AND ADMINISTRATIVE EXPENSES

The following is a breakdown of general and administrative expenses for the six months ended November 30, 2023 and 2022:

| | | **November 30, 2023** | | November 30, 2022 |
|---|---|---|---|---|
| Automotive | **$** | **10,301** | $ | 9,547 |
| Bad debts (recovery) | | **(7,118)** | | 71,271 |
| Bank and transaction charges | | **29,725** | | 47,500 |
| Brokerage fees | | **325** | | 27,624 |
| Delivery | | **13,142** | | 38,514 |
| Depreciation | | **35,627** | | 35,278 |
| Dues and subscriptions | | **19,230** | | 2,911 |
| Consulting | | **-** | | 83,621 |
| Education and training | | **2,075** | | 5,022 |
| Insurance | | **17,090** | | 13,888 |
| Meal and entertainment | | **5,255** | | 11,904 |
| Office | | **37,576** | | 33,264 |
| Rent | | **24,857** | | 12,495 |
| Repairs and maintenance | | **5,546** | | 3,754 |
| Telephone and internet | | **9,557** | | 14,587 |
| Utilities | | **3,732** | | 2,889 |
| Travel | | **15,005** | | 19,288 |
| **Total** | **$** | **221,925** | **$** | 433,357 |

## 15. GOVERNMENT ASSISTANCE

| | | **November 30, 2023** | | November 30, 2022 |
|---|---|---|---|---|
| Canada Digital Adoption Program Grant | | **-** | | 15,000 |
| CanExport SME's Program ("CanExport") | | **-** | | 18,520 |
| Canada-Ontario Job Grant ("COJG") | | **-** | | 4,200 |
| Colleges and Institutes Canada Career Launcher ("Career Launcher") | | **-** | | 12,632 |
| National research council Industrial Research Assistance Program ("NRC IRAP") | | **23,526** | | 8,441 |
| Norther Ontario Heritage Fund Corporation ("NOHFC") People and Talent Program | | **14,809** | | - |
| Other | | **16,923** | | 16,320 |
| Total | $ | **55,258** | $ | 75,113 |

## 15. GOVERNMENT ASSISTANCE (continued)

During the three and six months ended November 30, 2023, the Company recognized $Nil and $Nil (2022 - $Nil and $15,000), respectively, in Canada Digital Adoption Grant Program as government assistance. The Canada Digital Adoption Grant Program provides up to $15,000 for for-profit companies or sole proprietorships to boost their business technology through hiring a digital advisor.

During the three and six months ended November 30, 2023, the Company recognized $Nil and $Nil (2022 - $9,260 and $18,520), received from CanExport as government assistance. CanExport's Small and Medium-sized Enterprise'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 and six months ended November 30, 2023, the Company recognized $Nil and $Nil (2022 - $4,200 and $4,200) in COJG as government assistance. The COJG supports eligible training costs up to a maximum per trainee. Under the terms of the COJG the Company qualifies as a small employer and can receive the following funding:

a) Contributions of 5/6th of eligible training costs up to a maximum of $10,000 per person
b) New hires (unemployed individuals) or previously employed persons who were laid-off and are being re-hired in a different position, may be eligible for 100% funding up to $15,000 per trainee. New hires are defined as any person(s) currently unemployed, who are not yet working with the employer but the employer plans on hiring them as a result of the training.

During the three and six months ended November 30, 2023, the Company recognized $Nil and $Nil (2022 - $12,632 and $12,632) received from the Career Launcher Program. The Program connects employers with skilled students and grads by providing up to $35,000 towards an intern's salary and training expenses, in the form of a wage subsidy, the Company is eligible for $25,000.

During the three and six months ended November 30, 2023, the Company recognized $8,721 and $23,526 (2022 - $Nil and $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.

During the three and six months ended November 30, 2023, the Company recognized $Nil and $14,809 (2022 - $Nil and $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 six months ended November 30, 2023, the Company received $14,809 from NOHFC for eligible wages paid to an intern.

## 16. 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 November 30, 2023, the Company had 56,667,500 (May 31, 2023 – 32,100,000) shares outstanding.

## 16. SHARE CAPITAL AND RESERVES (continued)

*During the six months ended November 30, 2023:*

On November 30, 2023, the Company issued 16,425,000 common shares upon the conversion of the July 27, 2022 Convertible Debentures (Note 11). As a result of the full conversion of the July 27, 2022 Convertible Debentures, the Company reclassified $1,728,182 from its convertible debenture liability and conversion option to share capital.

On November 30, 2023, the Company issued 8,142,500 units upon the conversion of the August 3, 2022 Convertible Debentures, for a total of 8,142,500 common shares and 4,071,250 common share purchase warrants. Each warrant is exercisable at a price of $0.60 until November 29, 2025. As a result of the full conversion of the August 3, 2022 Convertible Debentures, the Company reclassified $364,436 from its convertible debenture liability and conversion option to share capital.

*During the six months ended November 30, 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** | **$** | **0.01** |
| Granted | 4,071,250 | | 0.60 |
| Expired | - | | - |
| **Balance, November 30, 2023** | **16,419,256** | **$** | **0.57** |

As at November 30, 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 |
| 4,071,250 | 4,071,250 | $0.60 | November 29, 2025 |
| 9,000,000 | - | $0.000001 | Determined based on |
| 3,000,000 | - | $0.000001 | milestone achievement |
| **16,419,256** | **4,419,256** | | |

The Company granted 213,000 agents' warrants during six months ended November 30, 2022, pursuant to the issuance of convertible debentures (Note 11). 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.

**16. SHARE CAPITAL AND RESERVES (continued)**

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 six months ended November 30, 2023, the Company recognized $607,326 (2022 - $Nil) in share-based compensation related to the management performance warrants with a corresponding credit to reserves.

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 six months ended November 30, 2023, the Company recognized $Nil (2022 - $Nil) in share-based compensation related to the management performance warrants.

On November 29, 2023, the Company issued 4,071,250 warrants upon the conversion of the August 3, 2022 convertible debentures. Each warrant is exercisable at a price of $0.60 until November 29, 2025.

As of November 30, 2023, the weighted average remaining contractual life of outstanding warrants, excluding Management Performance Warrants and Personnel Performance Warrants is 1.92 years (May 31, 2023 – 1.43).

***Stock Options***

On November 29, 2023, the Company granted 4,758,838 stock options to officers, employees and consultants, at a price of $0.40 per share, exercisable for a period of five years. The stock options vest over periods starting on the initial grant date up to November 29, 2025.

During the six months ended November 30, 2023, the Company recognized share-based compensation totalling $55,678 (2022 - $Nil) in relation to the grant of its stock options with a corresponding credit to reserves.

The weighted average grant date fair value of the stock options granted during the six months ended November 30, 2023 was $0.28 (2022: $Nil) per option. Option pricing models require the use of highly subjective estimates and assumptions including expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates. The fair value of stock options was estimated on the measurement date using the Black-Scholes Option Pricing Model.

**16. SHARE CAPITAL AND RESERVES (continued)**

***Stock Options (continued)***

| The assumptions used to calculate the fair value were as follows: | **November 30, 2023** | **November 30, 2022** |
|---|---|---|
| Risk free rate of interest | 3.60% | Nil |
| Expected life of options | 5 years | Nil |
| Exercise price of options | $0.40 | Nil |
| Expected annualized volatility | 126% | Nil |
| Expected dividend rate | Nil | Nil |

The Company has limited trading history, and therefore expected annualized volatility was determined through the use of comparable companies that are publicly listed.

A summary of the changes in the Company's stock options during the six months ended November 30, 2023 are as follows:

| | **Number of options** | **Weighted average exercise price** |
|---|---|---|
| Outstanding, May 31, 2023 | - | - |
| Granted | 4,758,838 | 0.40 |
| Outstanding, November 30, 2023 | 4,758,838 | $ 0.40 |

As at November 30, 2023, the following options were outstanding:

| **Options outstanding** | **Options exercisable** | **Exercise price** | **Expiry date** | **Remaining contractual life (years)** |
|---|---|---|---|---|
| 4,758,838 | 185,000 | $0.40 | November 29, 2028 | 5.00 |

***Restricted Share Units ("RSUs")***

On November 29, 2023, the Company granted 3,000,000 RSUs to consultants of the Company, which vested immediately.

On November 29, 2023, the Company granted a further 875,000 RSUs to directors and a consultant of the Company. 10% of the RSUs vested immediately and 15% will vest every six months after November 29, 2023.

On November 29, 2023, the Company granted a further 50,000 RSUs to a director of the Company. The RSUs will vest over 24 months subsequent to November 29, 2023, with 25% vesting every 6 months.

The fair value of each RSU was determined through estimating the value of one common share issued on closing of the Company's IPO unit offering at $0.40 per unit. A Black-Scholes Option Pricing model was used to impute the price of one common share in the unit offering, with the following assumptions:

**16. SHARE CAPITAL AND RESERVES (continued)**

***Restricted Share Units ("RSUs")***

| The assumptions used to calculate the fair value were as follows: | **November 30, 2023** | **November 30, 2022** |
|---|---|---|
| Risk free rate of interest | 4.07% | Nil |
| Expected life of warrants | 2 years | Nil |
| Exercise price of warrants | $0.60 | Nil |
| Expected annualized volatility | 99% | Nil |
| Expected dividend rate | Nil | Nil |

At the discretion of the Board of Directors, RSUs may be settled in equity, cash or a combination of both. The fair value of RSUs, which are settled in equity, are recognized as a share-based payment with a corresponding increase in reserves, over the vesting period.

During the six months ended November 30, 2023, the Company recognized share-based payments of $1,030,579 (2022 – $Nil) relating to the vesting of the RSUs with a corresponding credit to reserves. Subsequent to November 30, 2023, the vested RSUs were settled (Note 20).

As at November 30, 2023, the Company had 3,925,000 RSUs outstanding (2022 – Nil) of which 3,087,500 were vested, but not settled.

A summary of the changes in the Company's RSUs during the six months ended November 30, 2023 are as follows:

| | **Number of Restricted Share Units** |
|---|---|
| Balance, May 31, 2023 | - |
| Granted | 3,925,000 |
| Balance, November 30, 2023 | 3,925,000 |

## 17. 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 six months ended November 30, 2023 and 2022 are summarized as follows:

| | | **November 30, 2023** | | November 30, 2022 |
|---|---|---|---|---|
| Salaries and benefits | $ | **24,342** | $ | 34,310 |
| Share-based compensation | | **632,061** | | - |
| **Total** | $ | **656,403** | $ | 34,310 |

As of November 30, 2023, loans payable (Note 10) included:

a) $84,025 (May 31, 2023 - $87,545) due from the CEO of the Company. The loan is non-interest-bearing, unsecured and due on demand.
b) $294,507 (May 31, 2023 - $283,789) due to the CEO of the Company in relation to mortgage proceeds personally received by the CEO and transferred to the Company. The loan is interest bearing at 9.45% per annum and repayable by December 15, 2026;
c) $103,871 (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;
d) $204,232 (May 31, 2023 - $204,233) due to a shareholder of the Company. The loan is non-interest-bearing, unsecured and due on demand.

As of November 30, 2023, accounts payable included $872,896 (May 31, 2023 - $672,336) owing to a company controlled by the CFO. The Company incurred a total of $287,284 (2022 - $181,183) from the company controlled by the CFO for accounting, audit preparation, audit support services and accrued late fees for the six months ended November 30, 2023. In addition, the company controlled by the CFO has 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.

## 18. OTHER INCOME

Other income for the six months ended November 30, 2023 and 2022 is summarized in the table below.

| | | **November 30, 2023** | | November 30, 2022 |
|---|---|---|---|---|
| Shipping income | **$** | **12,583** | **$** | - |
| Sublease | | **-** | | 2,200 |
| Other | | **-** | | 250 |
| **Total** | **$** | **12,583** | **$** | 2,450 |

## 19. 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.

### 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 November 30, 2023, in the amount of $109,210 (May 31, 2023 - $2,888), in order to meet short-term liabilities of $3,860,576 (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 November 30, 2023.

The amounts disclosed in the table are the contractual undiscounted payments as of November 30, 2023:

| | **Less than one year** | **One to two years** | **Two to three years** | **More than three years** | **Total** |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 2,424,105 | - | - | - | 2,424,105 |
| Line of credit | 68,432 | - | - | - | 68,432 |
| Convertible debentures | 594,444 | - | - | - | 594,444 |
| Lease contract liabilities | 59,226 | 86,570 | - | - | 145,796 |
| Loans payable | 550,100 | 175,132 | 239,050 | 116,828 | 1,081,110 |
| | 3,696,307 | 261,702 | 239,050 | 116,828 | 4,313,887 |

The convertible debentures included in the table above automatically convert into common shares of the Company upon successful completion of an IPO (see Note 11 for additional information on the conversion).

## 19. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

### 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 six months ended November 30, 2023, the Company incurred a bad debt recovery of $7,118 (2022 – expense of $71,271).

The following table provides disclosures about credit risk exposure and expected credit losses on individual trade and other receivables as at November 30, 2023:

| | Aging Bucket | | | | | |
|---|---|---|---|---|---|---|
| | **Current** | **Overdue 1-30 days** | **Overdue 31-60 days** | **Overdue 61-90 days** | **Overdue 91+ days** | **Total** |
| Gross carrying amount | 197,532 | 20,392 | - | 5,190 | 152,196 | 375,310 |
| Loss allowance | (7,934) | (1,638) | - | (834) | (38,216) | (48,622) |
| Net | 189,598 | 18,754 | - | 4,356 | 113,980 | 326,688 |
| ECL rate | 4% | 8% | - | 16% | 20% | 13% |

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

| | **Six months ended November 30, 2023** | Year-ended May 31, 2023 |
|---|---|---|
| Balance, beginning | $ 54,741 | $ 47,044 |
| Additions (deductions) to expected credit loss allowance recognized during the period /year | (6,119) | 7,697 |
| Ending expected credit losses | **$ 48,622** | **$** 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.

## 19. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

**Foreign exchange rate risk (continued)**

The balances held in USD are summarized below:

| | November 30, 2023 | May 31, 2023 |
|---|---|---|
| Cash | $ 24 | $ 63 |
| Accounts receivable | 63,723 | 32,907 |
| Accounts payable and accrued liabilities | (224,071) | (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.

## 20. SUBSEQUENT EVENTS

On December 1, 2023, the Company completed its IPO through the issuance of 12,279,500 units at a price of $0.40 per unit pursuant to the Company's amended and restated prospectus dated August 28, 2023, as further amended on September 13, 2023 and October 18, 2023. Gross proceeds before deducting agent fees and estimated offering expenses were $4,911,800. The Company's Agent was paid cash commissions of $392,944 representing 8% of the gross proceeds, a corporate finance fee of $45,000 and non-cash commission in the form of 982,360 units representing an additional 8% of the gross proceeds on closing of the IPO.

Each unit consists of one common share of the Company and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of $0.60 per common share until December 1, 2025 subject to acceleration if the daily volume weighted average trading price of the Company's common shares on the CSE exceeds $0.80 for 15 days consecutively.

Treewalk participated in the IPO through the issuance of 375,000 units to settle $150,000 in outstanding accounts payable (Note 10 (m)).

On December 5, 2023, $183,333 of the principal amount of the $535,000 convertible debentures (Note 11) was converted into 572,915 common shares of the Company.

On December 21, 2023, the Company granted 100,000 RSUs to a director of the Company, which vested immediately.

On January 10, 2024 the Company repaid the full balance of the CEBA loan of $40,000 (Note 10e).

On January 16, 2024, the Company issued 3,187,500 common shares on settlement of 3,187,500 RSUs that vested in November and December 2023.