



**Hybrid Power Solutions Inc.**

Condensed Consolidated Interim Financial Statements  
As at August 31, 2024

And

For the three months ended August 31, 2024 and 2023

(Unaudited - Expressed in Canadian dollars)

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

The accompanying unaudited condensed consolidated interim financial statements of Hybrid Power Solutions Inc. (the "Company") as at August 31, 2024 and for the three months ended August 31, 2024 and 2023, have been prepared by, and are the responsibility of, the management of the Company and approved by the Company's Audit Committee and Board of Directors.

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

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

# Hybrid Power Solutions Inc.

Condensed Consolidated Interim Statements of Financial Position

As at August 31, 2024 and May 31, 2024

(Unaudited - Expressed in Canadian dollars)

As at	Notes	August 31, 2024	May 31, 2024 (Audited)
<b>ASSETS</b>			
Current assets			
Cash		\$ 26,686	\$ 342,071
Accounts and other receivable	4	704,975	623,312
Prepaid expenses and deposits	5	190,352	323,526
Inventory	6	1,834,133	1,772,465
Total current assets		2,756,146	3,061,374
Contract costs	13	29,962	32,482
Prepaid expenses and deposits	5	27,260	31,394
Property and equipment	7	426,030	433,819
Right of use assets	8	77,637	88,728
Total assets		\$ 3,317,035	\$ 3,647,797
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
Current liabilities			
Accounts payable and accrued liabilities	9,18	\$ 1,592,985	\$ 1,703,025
Line of credit	10	24,737	77,705
Return and warranty liability	13	61,712	49,395
Contract liabilities	13	87,746	108,557
Loans payable	11,18	634,315	517,722
Lease liability	8	53,491	51,745
Convertible debentures	12	136,322	145,145
Total current liabilities		2,591,308	2,653,294
Lease liability	8	39,649	53,852
Loans payable	11,18	292,901	429,878
Contract liabilities	13	83,778	91,928
Total liabilities		3,007,636	3,228,952
Shareholders' equity (deficiency)			
Share capital	17	\$ 8,830,374	\$ 8,229,142
Reserves	17	3,174,266	2,762,274
Deficit		(11,695,241)	(10,572,571)
Total shareholders' equity (deficiency)		309,399	418,845
Total liabilities and shareholders' equity (deficiency)		\$ 3,317,035	\$ 3,647,797

Nature of operations and going concern (Note 1)

Subsequent events (Note 19)

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

## Hybrid Power Solutions Inc.

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

	Notes	Three months ended August 31, 2024	Three months ended August 31, 2023
Revenue	13	\$ 1,038,582	\$ 438,369
Cost of sales	6,14	667,218	310,940
Gross profit		371,364	127,429
Expenses			
Advertising		\$ 454,259	\$ 89,704
General and administrative	15	74,859	101,635
Salaries and benefits	18	359,578	279,257
Professional fees		113,205	320,337
Research and development		8,980	2,276
Share-based compensation	17,18	414,879	303,663
Total operating expenses		(1,425,760)	(1,096,872)
Interest and accretion	8,11,12	(56,286)	(121,739)
Foreign exchange		(12,030)	(6,749)
Government assistance	16	-	14,809
Other income		42	16,544
Net loss before income taxes		\$ (1,122,670)	\$ (1,066,578)
Recovery of deferred income taxes		-	3,032
Net loss and comprehensive loss for the year		(1,122,670)	(1,063,546)
Weighted average number of shares – Basic and diluted		75,740,000	32,100,000
Loss per share – Basic and diluted		\$ (0.01)	\$ (0.03)

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

## Hybrid Power Solutions Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)

For the three months ended August 31, 2024 and 2023

(Unaudited - Expressed in Canadian dollars)

	Note	Number of common shares	Share Capital Amount	Reserve	Convertible debt-Conversion option	Deficit	Total shareholders' equity (deficiency)
<b>Balance, May 31, 2023</b>		32,100,000	\$ 1,541,012	\$ 242,167	\$ 135,619	\$ (4,060,131)	\$ (2,141,333)
Issuance of convertible debt, net of cash issuance costs	12	-	-	-	7,272	-	7,272
Share-based compensation	17	-	-	303,663	-	-	303,663
Net loss for the year		-	-	-	-	(1,063,546)	(1,063,546)
<b>Balance, August 31, 2023</b>		32,100,000	\$ 1,541,012	\$ 545,830	\$ 142,891	\$ (5,123,677)	\$ (2,893,944)
<b>Balance, May 31, 2024</b>		<b>73,944,665</b>	<b>\$ 8,229,142</b>	<b>\$ 2,762,274</b>	<b>\$ -</b>	<b>\$ (10,572,571)</b>	<b>\$ 418,845</b>
Issuance of units pursuant to \$0.20 financing	17	3,000,000	600,000	-	-	-	600,000
Share issuance costs - cash	17	-	(20,497)	-	-	-	(20,497)
Share issuance costs – non-cash	17	-	(11,638)	11,638	-	-	-
Conversion of convertible debt	12	142,857	18,842	-	-	-	18,843
Settlement of RSUs	17	35,000	14,525	(14,525)	-	-	-
Share-based compensation	17	-	-	414,879	-	-	414,879
Net loss for the year		-	-	-	-	(1,122,670)	(1,122,670)
<b>Balance, August 31, 2024</b>		<b>77,122,522</b>	<b>\$ 8,830,374</b>	<b>\$ 3,174,266</b>	<b>\$ -</b>	<b>\$ (11,695,241)</b>	<b>\$ 309,399</b>

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

# Hybrid Power Solutions Inc.

Condensed Consolidated Interim Statements of Cash Flows

For the three months ended August 31, 2024 and 2023

(Unaudited - Expressed in Canadian dollars)

	Notes	2024	2023
<b>Operating activities</b>			
Net loss for the period		\$ (1,122,670)	\$ (1,063,546)
Items not affecting cash:			
Accrued interest and accretion	8,11,12	33,286	105,092
Deferred income tax recovery		-	(3,032)
Depreciation	7,8	18,881	17,847
Bad debt expense	15	(19,003)	143
Share-based compensation	17	414,879	303,663
Non-cash working capital items:			
Accounts receivable		(62,660)	(125,896)
Prepaid expenses		137,308	(46,473)
Inventory		(61,668)	(78,954)
Contract costs		2,520	2,041
Accounts payable and accrued liabilities		(50,041)	296,789
Contract liabilities		(28,961)	69,222
Return and warranty liability		12,317	4,215
Net cash used in operating activities		(725,812)	(518,889)
<b>Investing activities</b>			
Government assistance		-	56,218
Net cash used in investing activity		-	56,218
<b>Financing activities</b>			
Net proceeds from convertible debentures		-	481,800
Proceeds from issuance of shares	17	540,000	-
Share issuance costs	17	(20,497)	-
Line of credit	10	(52,968)	(62,688)
Government assistance		-	71,550
Proceeds from loans payable		-	104,497
Repayments of loans payable	11	(41,114)	(37,574)
Lease payments	8	(14,994)	(14,619)
Net cash provided by financing activities		410,427	542,966
Increase (decrease) in cash		(315,385)	80,295
Cash, beginning of year		342,071	2,888
<b>Cash, end of year</b>		<b>\$ 26,686</b>	<b>\$ 83,183</b>
<b>Supplemental cashflow disclosure</b>			
Interest paid		\$ 20,855	\$ 16,647
Taxes paid		\$ -	\$ -
Agent's warrants issued		\$ 11,638	\$ -

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

# Hybrid Power Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended August 31, 2024 and 2023  
(Unaudited - Expressed in Canadian Dollars)

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Hybrid Power Solutions Inc. (the “Company”) was incorporated on December 7, 2015, under the Business Corporations Act of Ontario, and continued into British Columbia under the Business Corporations Act of 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.

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”) and began trading on the CSE on December 4, 2023. The Company’s common shares are also listed on the Over-the-Counter Quotation Board (“OTCQB”) exchange under the symbol HPSIF and Frankfurt Stock Exchange (“FSE”) under the symbol E092.

### 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 in operation 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 for its activities. During the three months ended August 31, 2024, the Company incurred a net loss of \$1,122,670 (2023 - \$1,063,546) and as of August 31, 2024, had an accumulated deficit of \$11,695,241 (May 31, 2024 - \$10,572,571). 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 consolidated 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 consolidated financial statements, adjustments would be necessary to the statement of financial position classifications used. Such adjustments could be material.

# Hybrid Power Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended August 31, 2024 and 2023  
(Unaudited - Expressed in Canadian Dollars)

## 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, 2024, which were prepared in accordance with International Reporting Standards (“IFRS”).

### Basis of presentation

These unaudited condensed consolidated interim 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, 2024. The Company’s interim results are not necessarily indicative of its results for a full year.

### Basis of consolidation

These condensed consolidated interim 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:

<b>SUBSIDIARIES</b>	<b>OWNERSHIP PERCENTAGE</b>	<b>JURISDICTION OF INCORPORATION</b>
HPS Solar Inc.	100%	Ontario, Canada

Inter-company balances and transactions are eliminated on consolidation.

The financial statements were approved and authorized for issuance on October 30, 2024, by the Board of Directors.

## 3. 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, foreign exchange rate 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 August 31, 2024, in the amount of \$26,686 (May 31, 2024 - \$342,071), in order to meet short-term liabilities of \$2,591,308 (May 31, 2024 - \$2,653,294). 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 within 90 days of August 31, 2024.



# Hybrid Power Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended August 31, 2024 and 2023  
(Unaudited - Expressed in Canadian Dollars)

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

The amounts disclosed in the table are the contractual undiscounted payments as at May 31, 2024 and 2023:

<b>As at August 31, 2024</b>	<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	\$ 1,592,985	\$ -	\$ -	\$ -	\$ 1,592,985
Line of credit	24,737	-	-	-	24,737
Convertible debentures	136,222	-	-	-	136,222
Lease contract liabilities	53,491	39,649	-	-	93,140
Loans payable	668,943	152,218	86,557	109,822	1,017,540
	\$ 2,476,478	\$ 191,867	\$ 86,557	\$ 109,822	\$ 2,864,724

  

<b>As at May 31, 2024</b>	<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	\$ 1,703,025	\$ -	\$ -	\$ -	\$ 1,703,025
Line of credit	77,705	-	-	-	77,705
Convertible debentures	145,145	-	-	-	145,145
Lease contract liabilities	51,745	53,852	-	-	105,597
Loans payable	548,103	288,619	98,675	110,302	1,045,699
	\$ 2,525,723	\$ 342,471	\$ 98,675	\$ 110,302	\$ 3,077,171

The convertible debentures included in the table above are convertible into common shares of the Company at a price of \$0.14 per common share. Subsequent to August 31, 2024, the conversion price was amended to \$0.05 per common share.

### 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, 2024, the Company recorded \$19,003 in bad debt recoveries expense (2023 - \$143 bad debt expense).

# Hybrid Power Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended August 31, 2024 and 2023  
(Unaudited - Expressed in Canadian Dollars)

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

The following table provides disclosures about credit risk exposure and ECLs on individual trade and other receivables as at:

As at August 31, 2024	Aging Bucket					Total
	Current	Overdue 1-30 days	Overdue 31-60 days	Overdue 61-90 days	Overdue 91+ days	
Gross carrying amount	\$260,575	\$ 47,319	\$ 62,711	\$ 81,752	\$ 227,516	\$ 679,873
ECL allowance	(9,524)	(1,258)	(5,257)	(11,827)	(155,134)	(184,381)
Net	\$251,051	\$ 46,061	\$ 57,454	\$ 69,925	\$ 71,001	\$ 495,492
ECL rate	4%	3%	8%	14%	69%	27%

As at May 31, 2024	Aging Bucket					Total
	Current	Overdue 1-30 days	Overdue 31-60 days	Overdue 61-90 days	Overdue 91+ days	
Gross carrying amount	\$ 78,936	\$ 264,980	\$ 18,339	\$ 75,242	\$ 193,609	\$ 631,106
ECL allowance	(2,789)	(21,198)	(2,006)	(12,609)	(164,782)	(203,384)
Net	\$ 76,147	\$ 243,782	\$ 16,333	\$ 62,633	\$ 28,827	\$ 427,722
ECL rate	3%	8%	11%	17%	83%	32%

The continuity of ECLs is summarized in the table below:

	Three months ended August 31, 2024	Year ended May 31, 2024
Balance, beginning	\$ 203,384	\$ 54,741
Change in ECL allowance recognized	(20,486)	148,643
Ending ECLs	\$ 184,381	\$ 203,384

### Foreign exchange rate risk

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

The balances held in USD are summarized below:

As at	August 31, 2024	May 31, 2024
Cash	\$ 13,460	\$ 22,550
Accounts receivable	199,842	150,193
Accounts payable and accrued liabilities	(128,632)	(89,344)

# Hybrid Power Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended August 31, 2024 and 2023  
(Unaudited - Expressed in Canadian Dollars)

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

### 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 payable, line of credit and convertible debentures. 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 for the three months ended August 31, 2024.

## 4. ACCOUNTS AND OTHER RECEIVABLE

	August 31, 2024	May 31, 2024
Accounts receivable	\$ 446,274	\$ 399,358
Royalty and franchise fees receivable	49,218	41,594
Sales taxes recoverable	209,483	195,590
	<b>\$ 704,975</b>	<b>\$ 636,542</b>

## 5. PREPAID EXPENSES AND DEPOSITS

	August 31, 2024	May 31, 2024
Marketing	\$ 124,620	\$ 89,085
Technology	23,456	25,692
Inventory prepayments	31,824	207,040
Insurance	805	1,621
Filing fees	17,170	16,040
Software subscriptions	6,990	-
Security deposit	12,747	14,647
Other deposits	-	795
	<b>\$ 217,612</b>	<b>\$ 354,920</b>
Current portion	190,352	323,526
Long-term portion	27,260	31,394

# Hybrid Power Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended August 31, 2024 and 2023  
(Unaudited - Expressed in Canadian Dollars)

## 6. INVENTORY

	August 31, 2024	May 31, 2024
Finished goods	\$ 308,754	\$ 600,841
Raw materials	1,525,379	1,171,624
	<b>\$ 1,834,133</b>	<b>\$ 1,772,465</b>

During the three months ended August 31, 2024, the cost of inventories recognized as an expense totalled \$667,218 (2023 - \$310,940).

## 7. PROPERTY AND EQUIPMENT

Cost	Computer equipment	Equipment	Vehicles	Building Under Construction	Warehouse and Storage Facility	Total
Balance, May 31, 2023	\$ 7,440	\$ 69,091	\$ 141,759	\$ 334,732	\$ -	\$ 553,022
Additions	2,648	-	35,708	-	6,500	44,856
Government grants	-	-	-	(107,192)	-	(107,192)
<b>Balance, May 31, 2024 and August 31, 2024</b>	<b>\$ 10,088</b>	<b>\$ 69,091</b>	<b>\$ 177,466</b>	<b>\$ 227,540</b>	<b>\$ 6,500</b>	<b>\$ 490,686</b>

### Accumulated Depreciation

Balance, May 31, 2023	\$ 3,391	\$ 18,536	\$ 6,364	\$ -	\$ -	\$ 28,291
Depreciation	2,192	15,296	11,038	-	50	28,576
<b>Balance, May 31, 2024</b>	<b>\$ 5,583</b>	<b>\$ 33,832</b>	<b>\$ 17,404</b>	<b>\$ -</b>	<b>\$ 50</b>	<b>\$ 56,867</b>
Depreciation	679	3,824	2,958	-	325	7,790
<b>Balance, August 31, 2024</b>	<b>\$ 6,262</b>	<b>\$ 37,656</b>	<b>\$ 20,362</b>	<b>\$ -</b>	<b>\$ 375</b>	<b>\$ 64,659</b>

### Carrying Amounts

As of May 31, 2024	\$ 4,505	\$ 35,258	\$ 160,067	\$ 227,540	\$ 6,450	\$ 433,819
<b>As of August 31, 2024</b>	<b>\$ 3,826</b>	<b>\$ 31,435</b>	<b>\$ 157,104</b>	<b>\$ 227,540</b>	<b>\$ 6,125</b>	<b>\$ 426,030</b>

Included in property and equipment is equipment under lease with a net book value of \$19,918 (May 31, 2024 - \$26,557), the contractual lease payments on this lease are included in Note 8.

# Hybrid Power Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended August 31, 2024 and 2023  
(Unaudited - Expressed in Canadian Dollars)

## 8. 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%.

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

<b>Right of use asset</b>	
<b>Cost:</b>	
Balance, May 31, 2023	\$ 279,039
Disposals	(57,219)
<b>Balance as at August 31, 2024, and May 31, 2024</b>	<b>\$ 221,820</b>
<b>Accumulated depreciation:</b>	
Balance as at May 31, 2023	\$ 145,947
Disposals	(57,219)
Depreciation	44,364
Balance as at May 31, 2024	\$ 133,092
Depreciation	11,091
<b>Balance as at August 31, 2024</b>	<b>\$ 144,183</b>
<b>Net carrying value:</b>	
At May 31, 2023	\$ 88,728
<b>At August 31, 2024</b>	<b>\$ 77,637</b>

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

<b>Lease liabilities</b>	
Balance, May 31, 2023	151,016
Interest	13,057
Payments	(58,747)
Balance, May 31, 2024	\$ 105,597
Interest	2,537
Payments	(14,994)
<b>Balance, August 31, 2024</b>	<b>\$ 93,140</b>
Current portion	53,491
<b>Non-current portion</b>	<b>\$ 39,649</b>

At August 31, 2024, the Company is committed to minimum lease payments as follows:

<b>Maturity analysis</b>	
Less than one year	\$ 60,413
One to five years	41,150
Total undiscounted lease liabilities	\$ 101,563
Unamortized interest	(8,423)
<b>Total lease liabilities – discounted</b>	<b>\$ 93,140</b>

# Hybrid Power Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended August 31, 2024 and 2023  
(Unaudited - Expressed in Canadian Dollars)

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<b>August 31, 2024</b>	May 31, 2024
Accounts payable	<b>\$ 1,181,874</b>	\$ 1,275,023
Accrued liabilities and other	<b>258,764</b>	266,587
Credit cards payable	<b>142,692</b>	152,571
Sales taxes payable	<b>9,655</b>	8,844
	<b>\$ 1,592,985</b>	\$ 1,703,025

## 10. LINE OF CREDIT

The Company has an operating line of credit with Meridian Credit Union of up to \$100,000. The line of credit bears interest of prime plus 2.75% computed daily and compounded monthly. The line of credit is secured by a general security agreement and by guarantees and postponement of claims by the Company's Chief Executive Officer ("CEO"). As of August 31, 2024, the line of credit balance is \$24,737 (May 31, 2024 - \$77,705).

# Hybrid Power Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended August 31, 2024 and 2023  
(Unaudited - Expressed in Canadian Dollars)

## 11. LOANS PAYABLE

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

	BDC Loans (a, b, c)	CEBA Loans* (d)	Shareholder Loans (e)	Scotia Bank Auto loans (f, g)	Meridian OneCap Loan (h)	Treewalk Promissory Note (i)	Grenke Deposit (j)	NOHFC term loan (k)	2023 Ford Maverick Loan (l)	Total
<b>Balance, May 31, 2023</b>	\$ 153,737	\$ 40,000	\$ 400,477	\$ 137,058	\$ 25,234	\$ -	\$ -	\$ -	\$ -	\$ 756,506
Addition	-	-	4,554	-	-	100,000	100,000	90,320	39,445	334,320
Interest	14,351	-	37,948	3,759	1,240	11,371	-	-	1,115	69,784
Accretion	4,306	-	-	-	-	-	9,297	6,730	-	20,333
Government assistance	-	-	-	-	-	-	-	(36,226)	-	(36,226)
Repayments	(44,524)	(40,000)	(29,345)	(39,151)	(6,910)	-	(31,304)	-	(5,882)	(197,116)
<b>Balance, May 31, 2024</b>	\$ 127,870	\$ -	\$ 413,634	\$ 101,666	\$ 19,564	\$ 111,371	\$ 77,993	\$ 60,824	\$ 34,678	\$ 947,600
Interest	3,077	-	7,060	757	261	3,750	-	-	385	15,290
Accretion	987	-	-	-	-	-	2,118	2,335	-	5,440
Repayments	(11,400)	-	(8,358)	(9,788)	(1,727)	-	(7,635)	-	(2,206)	(41,114)
<b>Balance, August 31, 2024</b>	\$ 120,534	\$ -	\$ 412,336	\$ 92,635	\$ 18,098	\$ 115,121	\$ 72,476	\$ 63,159	\$ 32,857	\$ 927,216
<b>Current portion</b>	\$ 29,811	\$ -	\$ 412,336	\$ 36,881	\$ 6,071	\$ -	\$ 23,776	\$ 2,820	\$ 7,499	\$ 634,315
<b>Non-current portion</b>	\$ 90,723	\$ -	\$ -	\$ 55,754	\$ 12,027	\$ 115,121	\$ 48,700	\$ 60,339	\$ 25,358	\$ 292,901

\*Canada Emergency Business Account

# Hybrid Power Solutions Inc.

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## 11. LOANS PAYABLE (continued)

- (a) On April 19, 2021, the Company entered into a loan facility for up to \$70,000 with the BDC. The loan facility has an interest rate equal to BDC's floating base rate, plus 3.71% and a maturity date of March 1, 2028. The loan is personally guaranteed by the CEO of the Company. During the three months ended August 31, 2024, the Company repaid \$4,331 (2023 - \$4,691) of the loan and incurred interest of \$1,414 (2023 - \$7,104). As at August 31, 2024, the loan balance is \$41,806 (May 31, 2024 - \$44,722).
- (b) On March 19, 2022, the Company entered into a loan facility for up to \$70,000 with the BDC. The loan facility has an interest rate equal to BDC's floating base rate, plus 4.57% and a maturity date of August 18, 2028. The loan is personally guaranteed by the CEO of the Company. During the three months ended August 31, 2024, the Company repaid \$4,580 (2023 - \$14,731) of the loan and incurred interest of \$1,663 (2023 - \$5,981). As at August 31, 2024, the loan balance is \$46,667 (May 31, 2024 - \$49,583).
- (c) 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. 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 three months ended August 31, 2024, the Company repaid \$2,490 (2023 - \$4,350) of the loan and recognized accretion expense on the loan facility of \$987 (2023 - \$3,274). As at August 31, 2024, the loan balance is \$32,061 (May 31, 2024 - \$33,564).
- (d) On April 20, 2020, the Company was approved and received a \$40,000 loan under the Canada Emergency Business Account ("CEBA") program. The loan was non-interest bearing and eligible for \$10,000 forgiveness as it was repaid before January 18, 2024. The Company recognized 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 was non-interest-bearing and eligible for \$10,000 forgiveness as it was repaid before January 18, 2024. The Company recognized the \$10,000 forgivable portion as government grant income during the year ended May 31, 2022. As the loan was issued at below market rates, the initial fair value of the loan was determined to be \$8,282, which was determined using an estimated effective interest rate of 10%. The difference between the face value of the loan and the fair value of the loan of \$11,718 was recognized as government grant income on initial recognition.

During the three months ended August 31, 2024, the Company recorded accretion expense of \$Nil (2023 - \$Nil) on the loans. During the year ended May 31, 2024, the Company repaid the loans in full. As at August 31, 2024, the carrying value of the loans was \$Nil (May 31, 2024 - \$Nil).



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## 11. LOANS PAYABLE (continued)

(e) From time to time, the Company receives loans from the CEO and another significant shareholder of the Company. The loans are non-interest-bearing, unsecured and due on demand. During the three months ended August 31, 2024, the Company received shareholders' loans of \$Nil (2023 - \$4,497) and repaid \$8,358 (2023 - \$160,007). As of August 31, 2024, the shareholders' loans totaled \$412,336 (May 31, 2024 - \$413,635) (Note 17).

The shareholders' loan includes mortgage proceeds personally received by the CEO 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 the 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.

(f) On October 17, 2022, the Company entered into an auto loan agreement for \$93,788 with Scotiabank. The loan bears interest at 4.60% per annum and matures on October 17, 2026. The loan is secured against the vehicle purchased. During the three months ended August 31, 2024, the Company repaid \$6,429 (2023 - \$6,430) of the loan and accrued \$653 in interest (2023 - \$912). As of August 31, 2024, the loan balance is \$52,934 (May 31, 2024 - \$58,709).

(g) On August 26, 2022, the Company entered into an auto loan agreement for \$65,520 with Scotiabank. The loan bears interest of 0.99% annually and matures on August 26, 2027. The loan is secured against the vehicle purchased. During the three months ended August 31, 2024, the Company repaid \$3,359 (2023 - \$3,359) of the loan and accrued \$104 in interest (2023 - \$126). As of August 31, 2024, the loan balance is \$39,701 (May 31, 2024 - \$42,956).

(h) On September 15, 2022, the Company entered into a loan agreement for \$30,439 with Meridian OneCap to purchase equipment. The loan bears interest of 5.474% annually and matures on September 27, 2027. The loan is secured by the equipment purchased. During the three months ended August 31, 2024, the Company repaid \$1,727 (2023 - \$1,727) of the loan and accrued interest of \$261 (2023 - \$339). As of August 31, 2024, the loan balance is \$18,098 (May 31, 2024 - \$19,564).

# Hybrid Power Solutions Inc.

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## 11. LOANS PAYABLE (continued)

- (i) 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 (paid);
  - d. The Company will facilitate a \$150,000 investment by Treewalk concurrent with and on the same terms as the IPO offering (375,000 units issued on December 1, 2023 at \$0.40 per unit, Note 16).

As a result of the Company entering into the payment agreement, \$100,000 in accounts payable was reclassified as a promissory note to loans payable with a fair value of \$100,000 on initial recognition. During the three months ended August 31, 2024, the Company repaid \$Nil on the promissory note (2023 - \$Nil) and accrued \$3,750 (2023 - \$121) in interest. As at August 31, 2024 the promissory note balance was \$115,121 (May 31, 2024 - \$111,371).

- (j) 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 three months ended August 31, 2024, the Company repaid \$7,635 (2023 - \$8,399) against the deposit and accrued interest of \$2,118 (2023 - \$2,073).
- (k) 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<sup>th</sup> 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.

# Hybrid Power Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements  
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## 11. LOANS PAYABLE (continued)

During the year ended May 31, 2024, \$70,966 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 8) and 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 \$36,226 being recognized as a government grant and also credited against the cost of the Company's building under construction (Note 8). The term loan is amortized using an effective interest rate of approximately 15%. During the three months ended August 31, 2024, the Company accrued accretion of \$2,335 (2023 - \$582) against the term loan. As at August 31, 2024, the outstanding term loan was \$63,159 (May 31, 2024 - \$60,284).

- (l) On September 26, 2023, the Company entered into an auto loan agreement for \$39,445 with Ford Credit Canada Company. The loan bears interest of 4.49% annually and matures on September 26, 2028. The loan is secured against the vehicle purchased. During the three months ended August 31, 2024, the Company repaid \$2,206 (2023 - \$Nil) of the loan and accrued \$385 in interest (2023 - \$Nil). As of August 31, 2024, the loan balance is \$32,857 (May 31, 2024 - \$34,679).

## 12. CONVERTIBLE DEBTENTURES

### \$328,500 Convertible Debenture Financing

On July 27, 2022, the Company closed a financing of non-transferable unsecured convertible debentures of \$328,500. The debentures bear no interest and are payable two years from the closing date. If the Company fails to file a preliminary long form prospectus in connection with a going public transaction one-year from the closing date, the debentures will accrue interest at the rate of 10% per annum, payable on a semi-annual basis. If the Company files the preliminary prospectus, but does not complete an 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 three months ended August 31, 2024, the Company recognized \$Nil (2023 - \$10,652) in accretion expense.

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## 12. CONVERTIBLE DEBTENTURES (continued)

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

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

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

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

# Hybrid Power Solutions Inc.

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## 12. CONVERTIBLE DEBTENTURES (continued)

- 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 an additional non-brokered private placement of non-transferrable unsecured convertible debentures for gross proceeds of up to \$458,500. The Debentures were non interest bearing and 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 failed to file a preliminary long form prospectus in connection with its going public transaction one-year from the closing date, the debentures would accrue interest at the rate of 10% per annum, payable on a semi-annual basis. If the Company filed a Preliminary Prospectus, but did 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

If both events did not occur then the debentures would 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 completed 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.

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

# Hybrid Power Solutions Inc.

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## 12. CONVERTIBLE DEBTENTURES (continued)

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 were amortized at an effective interest rate of 22.86%. During the three months ended August 31, 2024, the Company recognized \$Nil in accretion expense (2023 - \$78,930).

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 18).

### **\$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
- In the event the Company issues common shares or other instruments convertible into common shares at a price lower than \$0.32, the conversion price will be adjusted down to that price

# Hybrid Power Solutions Inc.

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## 12. CONVERTIBLE DEBTENTURES (continued)

Upon initial recognition, the convertible debentures were presented as a liability and the embedded conversion feature has been presented as a derivative liability requiring bifurcation, due to the potential variability in the conversion price. On initial recognition, the derivative liability was valued first, and the residual value was assigned to the host debt component. The fair value of the derivative liability at issuance was estimated to be \$128,183 using the Black-Scholes Option Pricing Model using the following assumptions: stock price: \$0.22, risk-free rate of 5.08%, expected life of 1 year, volatility factor of 107% and dividend yield of Nil. The residual amount of \$406,817 was allocated to the host debt component. The debt issuance costs of \$53,200 were prorated and allocated to the convertible debenture and expensed to professional fees in the amount of \$40,454 and \$12,746 respectively.

The convertible debenture is amortized using the effective interest rate method. During the three months ended May 31, 2024, the Company recognized \$10,019 (2023 - \$Nil) in accretion expense related to the August 16, 2023 debenture.

On August 15, 2024, the conversion price of August 16, 2023 convertible debentures was amended to \$0.14 per share.

During the year ended May 31, 2024, \$433,333 of the principal balance of the August 16, 2023 convertible debenture was converted into 1,354,165 common shares of the Company.

During the three months ended August 31, 2024, \$20,000 of the principal balance of the August 16, 2023 convertible debentures was converted into 142,857 common shares of the Company (Note 18).

## 13. REVENUE

### Disaggregation of revenue from contracts with customers

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

	August 31, 2024	August 31, 2023
Royalty revenue	\$ 2,257	\$ 6,604
Advertising revenue	1,881	5,503
Franchise fee revenue	8,150	3,905
Other revenue	2,100	2,100
<b>Franchise revenue</b>	<b>14,388</b>	18,112
Product and installation sales	1,024,194	417,347
Consulting and other revenue	-	2,910
<b>Total</b>	<b>\$ 1,038,582</b>	<b>\$ 438,369</b>

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

# Hybrid Power Solutions Inc.

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## 13. REVENUE (continued)

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

	August 31, 2024		August 31, 2023	
Canada	\$	390,630	\$	401,044
United States		647,952		37,325
<b>Total</b>	<b>\$</b>	<b>1,038,582</b>	<b>\$</b>	<b>438,369</b>

The Company provides either a 6-month commercial or a 12-month standard warranty and a 30-day return period for products shipped. The Company also offers a 30-month warranty on its Batt Pack Energy, Batt Pack Pro, Jupiter and Spark products. As at August 31, 2024, the Company has recorded a provision of \$61,712 (May 31, 2024 - \$49,395) in expected replacement parts and direct labour on future warranty claims and expected returns.

### Contract assets and liabilities

As at August 31, 2024 and May 31, 2024 the Company had the following contract assets:

	August 31, 2024		May 31, 2024	
Contract assets - Contract costs*	\$	29,962	\$	32,482

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

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

	Three months ended August 31, 2024		Year-ended May 31, 2024	
Balance, beginning	\$	200,485	\$	165,895
Additions to contract liabilities		253,096		1,334,539
Revenue earned during the year		(282,057)		(1,299,949)
<b>Balance, ending</b>	<b>\$</b>	<b>171,524</b>	<b>\$</b>	<b>200,485</b>
Current portion		87,746		108,557
Non-current portion	\$	83,778	\$	91,928

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.



# Hybrid Power Solutions Inc.

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## 14. COST OF SALES

Cost of sales for the three months ended August 31, 2024 and 2023 is summarized in the table below.

	August 31, 2024		August 31, 2023	
Parts, materials and direct labour	\$	573,116	\$	286,728
Shipping		94,102		24,212
<b>Total</b>	<b>\$</b>	<b>667,218</b>	<b>\$</b>	<b>310,940</b>

## 15. GENERAL AND ADMINISTRATIVE EXPENSES

The following is a breakdown of general and administrative expenses for the three months ended August 31, 2024 and 2023:

	August 31, 2024		August 31, 2023	
Automotive	\$	6,807	\$	3,197
Bad debts (recovery)		(19,003)		143
Bank and transaction charges		8,884		15,890
Brokerage fees		2,644		955
Delivery		2,530		5,691
Depreciation		7,552		17,847
Dues and subscriptions		2,362		13,806
Education and training		358		2,000
Filing fees		11,869		-
Insurance		7,280		6,747
Meal and entertainment		4,612		2,225
Office		19,751		9,617
Rent		3,934		10,927
Repairs and maintenance		503		1,758
Telephone and internet		2,301		3,493
Utilities		-		3,083
Travel		12,475		4,256
<b>Total</b>	<b>\$</b>	<b>74,859</b>	<b>\$</b>	<b>101,635</b>

# Hybrid Power Solutions Inc.

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## 16. GOVERNMENT ASSISTANCE

The following is a breakdown of government assistance for the three months ended August 31, 2024 and 2023:

	August 31, 2024	August 31, 2023
Norther Ontario Heritage Fund Corporation ("NOHFC") People and Talent Program	-	14,809
Total	\$ -	\$ 14,809

During the three months ended August 31, 2024, the Company recognized \$Nil (2023 - \$14,809), received from NOHFC as government assistance. NOHFC's People and Talent Workforce Development Program is designed to provide financial assistance to organizations in order to strengthen and develop Northern Ontario's workforce through business partnerships by offering internships. During the three months ended August 31, 2024, the Company received \$Nil from NOHFC for eligible wages paid to an intern (2023 - \$14,809).

## 17. SHARE CAPITAL AND RESERVES

### *Authorized capital*

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

### *Issued share capital*

As of August 31, 2024, the Company had 77,122,522 (May 31, 2024 – 73,944,665) shares outstanding.

### *During the three months ended August 31, 2024:*

On July 15, 2024, the Company closed the first and second tranche of a non-brokered prospectus offering (the "Offering") through the issuance of 3,000,000 Units at a price of \$0.20 per Unit, for gross proceeds of \$600,000. Each Unit is comprised of one common share of the Company and one common share purchase warrant (a "Warrant"), whereby each Warrant entitles the holder to acquire one common share at an exercise price of \$0.25 per Common Share within 24-months from the date of issuance. No value was allocated to the Warrants based on the residual method.

In connection with the Offering, the Company incurred cash share issuance costs of \$20,497 and issued a total of 92,500 finder's warrants (the "Finder's Warrants") to eligible finders, representing a 5.0% finder's fee on certain subscriptions. Each Finder's Warrant entitles the holder to acquire one Common Share at an exercise price of \$0.25 per common share within 24-months from the date of issuance. The fair value of the finder's warrants was determined to be \$11,638 using the Black-Scholes Option Pricing Model using the following weighted average assumptions: stock price: \$0.21, risk-free rate of 3.92%, expected life of 2 years, volatility factor of 124.58% and dividend yield of Nil.

A portion of the Offering comprising of 150,000 Units was issued to a professional advisor of the Company to partially settle an outstanding debt of \$30,000. 150,000 Units were also issued to a consulting company controlled by the Company's Chief Financial Officer, to partially settle an outstanding debt of \$30,000.

On July 24, 2024, the Company issued 35,000 common shares on the settlement of 35,000 previously vested RSUs. As a result, the Company reclassified \$14,525 in RSU reserves to share capital.

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## 17. SHARE CAPITAL AND RESERVES (continued)

On August 22, 2024, \$20,000 of the principal balance of the August 16, 2023 convertible debentures was converted into 142,857 common shares of the Company.

*During the three months ended August 31, 2023:*

The Company did not issue any common shares.

### Warrants

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

	Number of Warrants	Weighted Average Exercise Price
<b>Balance, May 31, 2023</b>	<b>12,348,006</b>	<b>\$ 0.01</b>
Granted	13,090,780	0.54
<b>Balance, May 31, 2024</b>	<b>25,438,786</b>	<b>\$ 0.54</b>
Granted	3,092,500	\$ 0.25
Expired	(221,000)	\$ 0.20
<b>Balance, August 31, 2024</b>	<b>28,310,286</b>	<b>\$ 0.49</b>

As at August 31, 2024, the following warrants were outstanding and exercisable:

Outstanding Number of Warrants	Exercisable Number of Warrants	Exercise Price	Expiry Date
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
982,360	982,360	\$0.40	December 1, 2025
6,139,750	6,139,750	\$0.60	December 1, 2025
1,806,000	1,806,000	\$0.32	May 29, 2026
91,420	91,420	\$0.32	May 29, 2026
2,282,500	2,282,500	\$0.25	July 5, 2026
810,000	810,000	\$0.25	July 15, 2026
9,000,000	-	\$0.000001	Determined based on
3,000,000	-	\$0.000001	milestone achievement
<b>28,310,286</b>	<b>16,310,286</b>		

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:

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## 17. SHARE CAPITAL AND RESERVES (continued)

- 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 at time of grant of \$0.30/share. During the three months ended August 31, 2024, the Company recognized \$145,648 (2023 - \$303,663) 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 at an exercise price of \$0.000001 upon the Company completing equity and/or debt financings for minimum gross proceeds of \$5,000,000 within two (2) years of the listing date.

Upon vesting, the Performance Warrants will be exercisable for one (1) year. A value of \$900,000 was assigned to the performance warrants based on the price of the Company's most recent financing of \$0.30/share. During the three months ended August 31, 2024, the Company recognized \$Nil (2023 - \$Nil) in share-based compensation related to the management performance warrants.

As of August 31, 2024, the weighted average remaining contractual life of outstanding warrants, excluding Management Performance Warrants and Personnel Performance Warrants is 1.42 years (May 31, 2024 – 1.54).

### **Stock Options**

During the three months ended August 31, 2024, the Company recognized share-based compensation totalling \$175,404 (2023 - \$Nil) in relation to the grant of its stock options with a corresponding credit to reserves.

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 three months ended August 31, 2024 and the year ended May 31, 2024 are as follows:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
Outstanding, May 31, 2023	-	-
Granted	4,758,838	\$ 0.40
Cancelled	(40,000)	0.40
Outstanding, May 31, 2024 and August 31, 2024	4,718,838	\$ 0.40

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## 17. SHARE CAPITAL AND RESERVES (continued)

As at August 31, 2024, the following options were outstanding:

Options outstanding	Options exercisable	Exercise price	Expiry date	Remaining contractual life (years)
4,718,838	1,297,210	\$0.40	November 29, 2028	4.25

### Restricted Share Units (“RSUs”)

On July 12, 2024, the Company granted 500,000 RSUs to a consultant of the Company. The RSUs vest on November 13, 2024. The fair value of each RSU was determined to be \$0.20, based on the market value of the shares on the grant date.

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 three months ended August 31, 2024, the Company recognized share-based compensation of \$93,827 (2023 – \$Nil) relating to the vesting of the RSUs with a corresponding credit to reserves.

As at August 31, 2024, the Company had 2,666,440 RSUs outstanding (2023 – Nil).

A summary of the changes in the Company’s RSUs during the three months ended August 31, 2024 and the year ended May 31, 2024 are as follows:

	Number of Restricted Share Units
Balance, May 31, 2023	-
Granted	4,038,940
Settled in common shares	(1,837,500)
Balance, May 31, 2024	2,201,440
Granted	500,000
Settled in common shares	(35,000)
Balance, August 31, 2024	2,666,440

A summary of share-based compensation recognized during the three months ended August 31, 2024 and 2023 is as follows:

	August 31, 2024	August 31, 2023
Performance warrants	\$ 145,648	\$ -
Stock options	175,404	-
RSUs	93,827	-
	\$ 414,879	\$ -

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## 18. RELATED PARTY TRANSACTIONS AND BALANCES

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

Remuneration attributed to key management personnel for the three months ended August 31, 2024 and 2023 are summarized as follows:

	August 31, 2024		August 31, 2023	
Salaries and benefits	\$	34,620	\$	11,592
Share-based compensation		333,945		303,663
<b>Total</b>	<b>\$</b>	<b>368,565</b>	<b>\$</b>	<b>315,255</b>

As of August 31, 2024, loans payable (Note 10) included:

- \$84,171 (May 31, 2024 - \$84,171) due from the CEO of the Company. The loan is non-interest-bearing, unsecured and due on demand.
- \$292,275 (May 31, 2024 - \$93,573) 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;
- \$115,121 (May 31, 2024 - \$111,371) owing under a promissory note due to a corporation controlled by the Company's CFO. The promissory note bears interest at 15% per annum, is unsecured and is due on the earlier of: (a) August 28, 2025, and (b) the date that the Company completes an equity financing(s) (occurring after the completion of the IPO) for a minimum gross proceeds of \$3,000,000;
- \$204,233 (May 31, 2024 - \$204,233) due to a shareholder of the Company. The loan is non-interest-bearing, unsecured and due on demand.

As of August 31, 2024, accounts payable included \$402,432 (May 31, 2024 - \$408,141) owing to a company controlled by the CFO. The Company incurred a total of \$47,481 (2023 - \$114,837) from the company controlled by the CFO for accounting, financial reporting, audit support services and accrued late fees for the three months ended August 31, 2024.

## 19. SUBSEQUENT EVENTS

On September 19, 2024, the conversion price of the August 16, 2023 convertible debentures was amended to \$0.05 per share.

On September 23, 2024, \$20,000 of the principal balance of the August 16, 2023 convertible debentures was converted into 400,000 common shares of the Company.

On September 25, 2024, \$25,000 of the principal balance of the August 16, 2023 convertible debentures was converted into 500,000 common shares of the Company.