Riopel Marine Inc.

Financial Statements
August 31, 2019 and 2018

Riopel Marine Inc.

Financial Statements
August 31, 2019 and 2018

Table of Contents

Tel: 514-931-0841
Fax: 514-931-9491

www.bdo.ca

BDO Canada s.r.l./S.E.N.C.R.L./LLP
1000 De La Gachetière Street West
Suite 200
Montréal, Québec H3B 4W5

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Riopel Marine Inc.
Boisbriand, Québec

Opinion on the Financial Statements

We have audited the accompanying statements of financial position of Riopel Marine Inc. (the "Company") as of August 31, 2019 and 2018, the related statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at August 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

BDO Canada s.r.l./S.E.N.C.R.L./LLP

We have served as the Company's auditor since 2019.

Montréal, Québec
April 24, 2020

Riopel Marine Inc.

Statements of Financial Position
As at August 31, 2019 and 2018

	2019 $	2018 $
Assets		
Current		
Trade and other receivables (note 6)	**101,784**	59,248
Inventories (note 7)	**818,811**	931,706
Cash held in trust	**37,500**	-
Prepaid expenses	**8,595**	-
Grants and investment tax credits receivable	**400,079**	518,960
Term deposit	**-**	68,368
Total current assets	**1,366,769**	1,578,282
Advances to related parties (note 12)	**40,310**	38,710
Property and equipment (note 8)	**507,483**	355,307
Deferred income taxes (note 17)	**-**	20,895
Total non-current assets	**547,793**	414,912
Total assets	**1,914,562**	1,993,194
Liabilities		
Current		
Bank indebtedness (note 9)	**283,813**	87,937
Trade and other payables (note 10)	**376,303**	472,437
Contract liabilities (note 11)	**180,072**	676,070
Advances from related parties (note 12)	**597,341**	601,282
Current portion of long-term debt (note 13)	**17,628**	52,552
Current portion of obligation under finance lease (note 14)	**4,377**	-
Total current liabilities	**1,459,534**	1,890,278
Non-current		
Advances from related parties (note 12)	**452,723**	444,732
Long-term debt (note 13)	**125,862**	60,977
Finance lease (note 14)	**3,839**	-
Deferred income taxes (note 17)	**4,906**	-
Total non-current liabilities	**587,330**	505,709
Total liabilities	**2,046,864**	2,395,987
Commitments (note 15)		
Shareholders' deficiency		
Capital stock (note 16)	**525**	600
Capital stock to be issued (note 16)	**37,500**	-
Deficit	**(170,327)**	(403,393)
	(132,302)	(402,793)
	1,914,562	1,993,194

See accompanying notes

Riopel Marine Inc.

Statements of Changes in Deficiency
For the Years Ended August 31, 2019 and 2018

	Capital stock units	$	Capital stock to be issued $	Deficit $	Total $
Shareholders' deficiency as at August 31, 2017	**600**	**600**	**-**	**(217,545)**	**(216,945)**
Net and comprehensive loss	-	-	-	(185,848)	(185,848)
Shareholders' deficiency as at August 31, 2018	**600**	**600**	**-**	**(403,393)**	**(402,793)**
Net and comprehensive income	-	-	-	233,066	233,066
Repurchase of capital stock (note 16)	(75)	(75)	-	-	(75)
Subscriptions to capital stock received in advance of issuance (note 16)	-	-	37,500	-	37,500
Shareholders' deficiency as at August 31, 2019	**525**	**525**	**37,500**	**(170,327)**	**(132,302)**

See accompanying notes

Riopel Marine Inc.

Statements of Comprehensive Income
For the Years Ended August 31, 2019 and 2018

	2019 $	2018 $
Revenues (notes 12 and 20)	**2,869,377**	1,271,566
Cost of sales (note 21)	**1,584,013**	769,839
Gross profit	**1,285,364**	501,727
Expenses		
Office salaries and benefits	**372,961**	105,101
Rent	**204,596**	108,137
Professional fees	**111,653**	104,294
Travel and entertainment	**30,199**	23,295
Advertising and promotion	**157,276**	111,198
Office and general	**69,737**	55,325
Impairment of trade and other receivables	**3,729**	-
Interest and bank charges	**18,788**	17,013
Interest on long-term debt and finance lease	**15,669**	22,938
Foreign exchange	**1,790**	(11,959)
Depreciation	**1,513**	500
	987,911	535,842
Earnings (loss) before income taxes	**297,453**	(34,115)
Income taxes		
Current	**38,586**	65,023
Deferred	**25,801**	86,710
	64,387	151,733
Net and comprehensive income (loss)	**233,066**	(185,848)

See accompanying notes

	2019 $	2018 $
Weighted average shares outstanding	**527**	600
Basic and diluted income (loss) per share	**485**	(203)

Riopel Marine Inc.

Statements of Cash Flows
For the Years Ended August 31, 2019 and 2018

	2019	2018
	$	$
Operating activities		
Net and comprehensive income (loss)	**233,066**	(185,848)
Depreciation	**35,109**	30,371
Accretion on long-term debt	**5,143**	9,309
Deferred income taxes	**25,801**	86,710
	299,119	(59,458)
Net change in non-cash working capital items		
Trade and other receivables	**(42,536)**	(23,414)
Inventories	**112,895**	(507,093)
Grants and investment tax credits receivable	**118,881**	4,047
Prepaid expenses	**(8,595)**	5,142
Trade and other payables	**(96,134)**	105,253
Contract liabilities	**(495,998)**	600,560
	(411,487)	184,495
	(112,368)	125,037
Investing activities		
Additions to property and equipment	**(175,952)**	(1,755)
Advances to related parties	**(1,600)**	(38,252)
Term deposit	**68,368**	(68,368)
	(109,184)	(108,375)
Financing activities		
Change in bank indebtedness	**195,876**	(5,795)
Increase in long-term debt	**84,818**	-
Repayment of long-term debt	**(60,000)**	(83,326)
Repayment of obligations under finance leases	**(3,117)**	-
Repurchase of capital stock	**(75)**	-
Advances from related parties	**4,050**	72,459
Subscriptions to capital stock received in advance of issuance	**37,500**	-
	259,052	(16,662)
Increase in cash and cash equivalents	**37,500**	-
Cash and cash equivalents - end of year	**37,500**	-
Cash and cash equivalents		
Cash held in trust	**37,500**	-

See accompanying notes

1. Incorporation and nature of business

Riopel Marine Inc. (the "Company") was incorporated on August 29, 2012. The principal business of the Company is to manufacture and sell electric boats.

The head office and registered office of the Company is located at 730 Curé-Boivin boulevard, Boisbriand, Quebec, J7G 2A7.

2. Basis of preparation

Compliance with IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in effect on August 31, 2019.

The financial statements were authorized for issuance by the Board of Directors on April 24, 2020.

Basis of measurement

These financial statements are stated in Canadian dollars, which is also the Company's functional currency, and were prepared on the historical cost basis.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the financial statements are disclosed in note 4.

3. Significant accounting policies

Revenue recognition

Revenue is recognized at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Company:

- identifies the contract with the customer;
- identifies the performance obligations in the contract;
- determines the transaction price which takes into account estimates of variable consideration and the time value of money;

3. Significant accounting policies (continued)

Revenue recognition (continued)

- allocates the transaction price to separate performance obligations on the basis of relative stand-alone selling price of each distinct good or service to be delivered; and,
- recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

The Company enters into contracts with customers, as well as distributor agreements with specific distributors for the sale of boats.

Sale of boats

Revenue from the sale of boats, including incidental shipping fees, is recognized at the point in time when the customer obtains control of the goods, which is generally at the shipping point. In the context of its distributor agreements, control is passed at the shipping point to the distributor as the Company has no further performance obligations at that point. The amount of consideration the Company receives and the revenue recognized varies with volume rebate programs offered to distributors. When the Company offers retrospective volume rebates, it estimates the expected volume rebates based on an analysis of historical experience, to the extent that it is highly probable that a significant reversal will not occur. The Company adjusts its estimate of revenue related to volume rebates at the earlier of when the most likely amount of consideration expected to be received changes or when the consideration becomes fixed.

The Company recognizes customer deposits on the sale of boats as contract liabilities.

Sales of parts and boat maintenance

Revenue from the sale of parts and related maintenance services are recognized at the point in time when the customer obtains control of the parts and when services are completed.

Commission

Commission income is recognized at the point in time when the underlying transaction is settled.

Other

Other revenue is recognized when it is received or when the right to receive payment is established.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, cash held in trust, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within bank indebtedness in current liabilities on the statement of financial position.

3. Significant accounting policies (continued)

Trade and other receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit loss, trade receivables have been grouped based on days overdue.

Other receivables are recognized at amortized cost, less any allowance for expected credit loss.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value on a first-in first-out basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, and appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Cost of purchased inventory are determined after deducted rebates and discounts received or receivable.

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is recorded to recognize the cost of assets over their useful lives. The estimated useful lives and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

	Methods	Rates and period
Computer equipment	Declining balance method	55%
Machinery and equipment	Declining balance method	20%
Rolling stock	Declining balance method	30%
Moulds	Straight-line method	25 years

Any item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales and proceeds and the carrying amount of the asset and is recognized in profit or loss.

Repairs and maintenance costs that do not improve or extend productive life are recognized in profit or loss in the period in which the costs are incurred.

3. Significant accounting policies (continued)

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalized when it probable that the project will be a success considering its commercial and technical feasibility; the Company is able to use or sell the asset; the Company has sufficient resources and intent to complete its development; and its costs can be measured reliably. The Company has not capitalized any development costs.

Trade and other payables

These amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortized cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statement of operations except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the balance sheet and their corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

3. Significant accounting policies (continued)

Foreign currency

Transactions entered into by the Company in a currency other than their functional currency are recorded at the rates prevailing when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates prevailing at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognized as a finance cost.

Leases

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to profit and loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market

3. Significant accounting policies (continued)

Fair value measurement (continued)

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

Financial instruments

Classification and measurement of financial instruments

The Company measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which in the case of financial assets, is determined by the context of the Company's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into two categories: (1) measured at amortized cost and (2) fair value through profit and loss ("FVTPL"). Financial liabilities are subsequently measured at amortized cost at the effective interest rate, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income ("OCI").

Amortized cost

The Company classifies trade and other receivables, term deposit, trade and other payables, long-term debt and advances to/from related parties as financial instruments measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost. The measurement of the loss allowance depends upon the Company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain. Where there has been a significant increase in exposure to credit risk, a 12-month expected credit loss allowance is estimated. The amount of expected credit loss recognized is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

3. Significant accounting policies (continued)

Financial instruments (continued)

Equity instruments

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issuance costs.

The Company's shares are classified as equity instruments.

Grants and investment tax credits receivable

Grants and investment tax credits received on capital expenditure are deducted in arriving at the carrying amount of the asset purchased. Grants and investment tax credits for revenue expenditure are netted against the cost incurred by the Company. Where retention of a government grant is dependent on the Company satisfying certain criteria, it is initially recognized as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the statement of comprehensive income or netted against the asset purchased.

Cost of sales are presented net of $394,715 (2018 - $691,462) of grants and investment tax credits.

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common stock outstanding during the year.

Diluted income per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common stock outstanding, adjusted for the effects of all dilutive potential common stock. The weighted average number of common stock outstanding is increased by the number of additional common stock that would have been issued by the Company assuming exercise of all options with exercise prices below the average market price for the year. The Company does not hold any dilutive instruments as at August 31, 2019 and 2018.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the about by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

4. Significant accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgment. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Income tax

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

5. Future accounting standards issued but not yet effective

IFRS 16: Leases

The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

IFRS 16 supersedes IAS 17 Leases and related interpretations and is effective for periods beginning on or after September 1, 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. The Company is currently evaluating the impact of adopting this new standard.

5. Future accounting standards issued but not yet effective (continued)

IFRIC 23: Uncertainty over income tax treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires:

- The Company to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;

- The Company to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and

- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The interpretation is effective for periods beginning on or after September 1, 2019. The Company is currently evaluating the impact of adopting this new interpretation.

6. Trade and other receivables

	2019 **$**	2018 $
Trade receivable	**73,597**	9,298
Allowance for expected credit losses	**-**	(3,196)
Sales taxes receivable	**28,187**	53,146
	101,784	59,248

Trades receivables disclosed above include amounts that are past due at the end of the reporting period for which the Company has not recognized an allowance for expected credit losses because there has not been a significant change in credit quality and the amounts are still considered recoverable.

6. Trade and other receivables (continued)

As at August 31, 2019, trade receivables of $73,597 (2018 - $1,714) were past due but not impaired. They relate to customers with no default history. The aging analysis of these receivables is as follows:

	2019 **$**	2018 $
0 - 30	**67,887**	-
31 - 60	**-**	1,714
61 - 90	**-**	-
91 and over	**5,710**	-
	73,597	1,714

Movements in the allowance for expected credit losses are as follows:

	2019 **$**	2018 $
Opening balance	**3,196**	-
Provision recognized	**530**	3,196
Receivables written-off as uncollectable	**(3,726)**	-
Closing balance	**-**	3,196

7. Inventories

	2019 **$**	2018 $
Raw materials	**301,939**	175,620
Work-in-process	**147,388**	361,047
Finished goods	**369,484**	395,039
	818,811	931,706

For the year ended August 31, 2019, inventories recognized as an expense amounted to $1,584,013 (2018 - $769,839).

For the year ended August 31, 2019, cost of sales includes depreciation of $33,596 (2018 - $29,870).

8. Property and equipment

	Machinery and equipment $	Rolling stock $	Computer equipment $	Computer equipment under lease $	Moulds $	Total $
Cost						
Balance at August 31, 2017	187,850	19,875	758	-	305,295	513,778
Additions	-	-	1,755	-	-	1,755
Balance at August 31, 2018	187,850	19,875	2,513	-	305,295	515,533
Additions	-	5,800	2,918	11,333	167,234	187,285
Balance at August 31, 2019	**187,850**	**25,675**	**5,431**	**11,333**	**472,529**	**702,818**
Accumulated depreciation						
Balance at August 31, 2017	110,324	12,700	726	-	6,105	129,855
Depreciation	15,505	2,153	500	-	12,213	30,371
Balance at August 31, 2018	125,829	14,853	1,226	-	18,318	160,226
Depreciation	12,404	2,377	1,513	453	18,362	35,109
Balance at August 31, 2019	**138,233**	**17,230**	**2,739**	**453**	**36,680**	**195,335**
Net carrying amount						
As at August 31, 2018	62,021	5,022	1,287	-	286,977	355,307
As at August 31, 2019	**49,617**	**8,445**	**2,692**	**10,880**	**435,849**	**507,483**

9. Credit facility

The Company has an authorized line of credit of $250,000 and $100,000 letter of guarantee facility, renewable annually, bearing interest at prime rate plus 1%, secured by a first ranking movable hypothec of $750,000 on all assets, as well as a personal guarantee of $250,000 from the shareholders.

In 2018, the Company had an authorized line of credit of $100,000, renewable annually, bearing interest at prime rate plus 3%, secured by a second ranking movable hypothec of $185,000 on all assets, as well as a personal guarantee of $185,000 from shareholders. The line of credit was not renewed in 2019.

10. Trade and other payables

	2019 **$**	2018 $
Trade payable	**372,217**	469,231
Government remittances	**4,086**	3,206
	376,303	472,437

11. Contract liabilities

	2019 **$**	2018 $
Opening balance	**676,070**	75,509
Payments received in advance	**140,872**	676,070
Transferred to revenues	**(636,870)**	(75,509)
Closing balance	**180,072**	676,070

12. Related party transactions

Company under common control

California Electric Boat Company Inc.
EBR Ltd.
7858078 Canada Inc

Company jointly controlled by the majority shareholder

9335-1427 Quebec Inc.

Ultimate shareholders and their individually controlled entities

Alexandre Mongeau
Patrick Bobby
Robert Ghetti
Immobilier R. Ghetti Inc.
Société de Placement Robert Ghetti Inc.

Shareholders

Gestion Toyma Inc.
Entreprises Claude Beaulac Inc. (former shareholder)
Gestion Moka Inc. (former shareholder)

12. Related party transactions (continued)

The following table summarizes the Company's related party transactions for the year:

	2019 **$**	2018 $
Revenues		
Sales of boats		
EBR Ltd.	**429,132**	327,932
Sales of parts and boat maintenance		
EBR Ltd.	**26,399**	42,187
Claude Beaulac	**-**	1,740
Other		
EBR Ltd.	**-**	2,600
7858078 Canada Inc	**5,000**	-
Expenses		
Rent expense		
California Electric Boat Company Inc.	**143,376**	35,056

At the end of the year, the amounts due to and from related parties are as follows:

	2019 **$**	2018 $
Advances to related party		
California Electric Boat Company Inc.	**40,310**	38,710
Non-current advances from related parties		
Alexandre Mongeau (subordinated in favor of the Company's lender)	**81,061**	81,061
Patrick Bobby (subordinated in favor of the Company's lender)	**82,534**	82,534
Robert Ghetti (subordinated in favor of the Company's lender)	**45,215**	45,215
Immobilier R. Ghetti Inc. (subordinated in favor of the Company's lender)	**1,487**	1,487
Société de Placement Robert Ghetti Inc. (subordinated in favor of the Company's lender)	**242,426**	234,426

12. Related party transactions (continued)

	2019 $	2018 $
Current advances from related parties		
9335-1427 Quebec Inc.	**104,931**	100,956
Alexandre Mongeau	**60,911**	60,911
Patrick Bobby	**56,939**	56,939
Robert Ghetti	**19,535**	19,535
Immobilier R. Ghetti Inc.	**15,000**	15,000
Société de Placement Robert Ghetti Inc.	**36,950**	44,950
Gestion Toyma Inc.	**151,500**	151,500
Entreprises Claude Beaulac Inc. (former shareholder)	**151,575**	101,000
Gestion Moka Inc. (former shareholder)	**-**	50,500

Advances to and from related parties are non-interest bearing and have no specified terms of repayment. Subsequent to year-end, the related parties waived their right to demand repayment until after September 1, 2020.

13. Long-term debt

	2019 $	2018 $
Loan from Canada Economic Development for Quebec Regions, non-interest bearing, repayable in monthly instalments of $1,667 starting July 2018 and maturing in June 2023. The loan was discounted using an effective interest rate of 8.85% (a)	**58,672**	73,533
Term loan, bearing interest at prime rate plus 6%, repaid during the year (b)	**-**	39,996
Term loan, bearing interest at 6.24%, repayable in monthly instalments of $630, including principal and interest, and maturing in December 2038	**84,818**	-
	143,490	113,529
Current portion of long-term debt	**17,628**	52,552
	125,862	60,977

a) As security for the loan, the Company has subordinated certain advances from related parties for $452,723.

b) As security for the loan, the Company has subordinated certain advances from related parties for $444,732 in 2018.

13. Long-term debt (continued)

Future minimum payments are as follows:

	$
2020	**17,628**
2021	**16,485**
2022	**15,462**
2023	**12,650**
2024	**2,982**
Thereafter	**71,604**

14. Finance lease

	2019 $	2018 $
Finance lease, bearing interest at 9.34%, secured by the leased equipment, payable in monthly instalments of $365 including principal and interest, maturing in November 2022	**8,216**	-
Current portion of obligation under finance lease	**4,377**	-
	3,839	-

Future minimum lease payments of obligation under finance lease are as follows:

	$
2020	**4,377**
2021	**4,377**
2022	**365**
	9,119
Interest included in instalments	**903**
	8,216

15. Commitments

The commitments of the Company under lease agreements for premises with California Electric Boat Company Inc., a company under common control, and EB Rentals and for equipment aggregate to $543,300. The minimum annual payments are approximately as follows:

	Equipment $	Premise leases (California Electric Boat Company Inc.) $	EB Rentals $
2020	**12,700**	**138,700**	**59,700**
2021	**12,800**	**138,700**	**-**
2022	**1,500**	**113,000**	**-**
2023	**-**	**36,100**	**-**
2024	**-**	**30,100**	**-**

16. Capital stock

Authorized -

Class A shares, voting and participating
Class B shares, voting and non-participating
Class C shares, non-voting, preferential non-cumulative dividend over Class D, E, F and A shares at a maximum rate of 1% per month, retractable at the option of the holder at the fair market value of these shares
Class D shares, non-voting, preferential non-cumulative dividend over Class E, F and A shares at a maximum rate of 0.5% per month, retractable at the option of the holder at the fair market value of these shares
Class E shares, non-voting, preferential non-cumulative dividend over Class F and A shares at a maximum rate of 8% per year, retractable at the option of the holder at the amount paid
Class F shares, non-voting, preferential non-cumulative dividend over Class A shares at a maximum rate of 8% per year, redeemable by the Company at the amount paid

	2019 $	2018 $
Issued -		
525 (2018 - 600) Class A shares	**525**	600

During the year ended August 31, 2019, the Company repurchased 75 Class A shares for a cash consideration of $75.

16. Capital stock (continued)

During the year ended August 31, 2019, the Company received subscription proceeds of $37,500 in advance of the January 20, 2020 issuance of Voting Common Shares - Series Investor 1 (note 24). As at August 31, 2019, the number of shares to be issued was undetermined and therefore the capital stock to be issued is not considered in the computation of basic and diluted earnings (loss) per share.

17. Income taxes

The income tax expense on the Company's income before tax differs from the theoretical amount that would arise using the federal and provincial statutory tax rates applicable. The difference is as follows:

	2019	2018
	$	$
Income taxes at the applicable tax rate of 15% (2018 - 17%)	**44,618**	(5,800)
Permanent differences	**(6,032)**	70,823
Temporary differences	**25,801**	86,710
Income tax expense	**64,387**	151,733

The following tables present the composition of deferred income tax assets and liabilities:

	Balance as at August 31, 2018	Recognized in profit and loss	**Balance as at August 31, 2019**
	$	$	**$**
Temporary differences			
Property and equipment	(26,389)	(2,102)	**(28,491)**
Research and development	47,284	(23,699)	**23,585**
Deferred tax (liability) asset	20,895	(25,801)	**(4,906)**

17. Income taxes (continued)

	Balance as at August 31, 2017 $	Recognized in profit and loss $	Balance as at August 31, 2018 $
Temporary differences			
Losses carried forward	62,736	(62,736)	-
Property and equipment	(12,629)	(13,760)	(26,389)
Research and development	57,498	(10,214)	47,284
Deferred tax (liability) asset	107,605	(86,710)	20,895

18. Remuneration of directors and key management of the Company

The remuneration awarded to directors and senior key management consists of wages of $207,751 (2018 - $179,949).

19. Capital disclosures

The Company's objectives in managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company manages and adjusts its capital structure considering changes in economic conditions. To maintain or adjust its capital structure, the Company may issue debt or new shares. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets and economic conditions at the time of the transaction. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable, given the size of the Company.

The Company does not have any externally imposed capital compliance requirements at August 31, 2019.

20. Revenues

	2019 **$**	2018 $
Sale of boats	**2,664,001**	1,036,379
Sales of parts and boat maintenance	**171,217**	222,945
Commission	**-**	6,052
Other	**34,159**	6,190
	2,869,377	1,271,566

21. Cost of sales

	2019 **$**	2018 $
Inventories - beginning of year	**931,706**	424,613
Purchases	**1,453,051**	1,485,452
Salaries and benefits	**297,670**	301,215
Transport costs	**66,328**	30,652
Sub-contracting	**17,870**	121,205
Depreciation	**33,596**	29,870
Grants and investment tax credits	**(397,397)**	(691,462)
	2,402,824	1,701,545
Inventories - end of year	**818,811**	931,706
	1,584,013	769,839

22. Financial instruments and risk management

The Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them.

Fair value measurement and hierarchy

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs; and
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

The carrying amount of trade and other receivables, term deposit, advances to related parties, trade and other payables and advances from related parties are assumed to approximate their fair value due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has a strict code of credit, including obtaining instalment payments, obtaining agency credit information and setting appropriate credit limits. The maximum exposure to credit risk at the reporting date, is the carrying amount of financial assets. The Company does not hold any collateral.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure for a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company is exposed to liquidity risk primarily from its trade payables and convertible debentures. The Company believes that its recurring financial resources are adequate to cover all its expenditures.

22. Financial instruments and risk management (continued)

	Contractual cash flows	Less than one year	1-5 years	Greater than 5 years
August 31, 2019				
Trade and other payables	**376,303**	**376,303**	**-**	**-**
Advances from related parties	**1,050,064**	**-**	**1,050,064**	**-**
Long-term debt	**136,810**	**17,628**	**47,578**	**71,604**
	1,563,177	**393,931**	**1,097,642**	**71,604**
August 31, 2018				
Trade and other payables	472,437	472,437	-	-
Advances from related parties	1,046,014	-	1,046,014	-
Long-term debt	113,529	52,552	60,977	-
	1,631,980	524,989	1,106,991	-

Interest rate risk

The Company is exposed to interest-rate risk on its variable rate bank indebtedness and variable and fixed rate long-term debt.

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company has certain financial assets and liabilities denominated in United States dollars. As at August 31, 2019, the Company has an amount of trade and other payables denominated in foreign currency of approximately U.S.$96,000; $128,000 (2018 - U.S.$114,000 ($148,000)).

23. Additional cash flows information

Financing and investing activities not involving cash:

	2019 $	2018 $
Additions to property and equipment by way of finance lease	**11,333**	-

24. Subsequent events

Subscription and issuance of class A common shares and share exchange

On September 3, 2019, the Board of Directors authorized the issuance of 75 class A shares for total consideration of $75. On January 20, 2020, the Board of Directors amended the share capital of the Company. Immediately thereafter, the Board of Directors authorized the exchange of 600 class A shares, being the entire share capital of the Company, for 13,850,916 Voting Common Shares - Series Founder, at a ratio of 23,084.86:1. Immediately thereafter, the Board of Directors authorized the issuance of 2,643 Voting Common Shares - Series Founder for total consideration of $0.11.

Subscription and issuance of Voting Common Shares - Series Investor 1

On January 20, 2020, the Board of Directors authorized the issuance of 283,333 Voting Common Shares - Series Investor 1 for total consideration of $212,500.

On March 4, 2020, the Board of Directors authorized the issuance of 133,333 Voting Common Shares - Series Investor 1 for total consideration of $100,000.

Subscription and issuance of Voting Common Shares - Series Investor 2

On March 5, 2020, the Board of Directors authorized the issuance of 300,000 Voting Common Shares - Series Investor 2, for total consideration of $300,000.

On March 5, 2020, the Board of Directors authorized the issuance of 20,000 Voting Common Shares - Series Investor 2, for total consideration of $20,000.

Share option plan

On January 20, 2020, the Company has adopted a share option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, grant to key employees, consultants, advisors, officers and directors of the Company non-transferable options to purchase up to 2,266,666 Non-Voting Common Shares. No awards have been granted under the plan as at the reporting date.

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a global pandemic, which continues to spread throughout Canada and around the world.

As of the date of this report, the Company did experience a disruption while they closed their offices. All employees are now working remotely. The Company has obtained new contracts during the global pandemic and continues to collect its receivables from the majority of its customers with few changes to its collection terms.

24. Subsequent events (continued)

Although management cannot be certain of the impact of the pandemic on the financial statements and the duration of such a disruption at the date of the report, management does believe the implication will be temporary and that the Company will be able to continue its operations. As a result, management is unable to estimate the potential impact on the business as of the date of this report.