

Flower Turbines, Inc.
A Delaware Corporation

Consolidated Financial Statements
December 31, 2023 and 2022

Flower Turbines, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Flower Turbines, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Flower Turbines, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Flower Turbines, Inc. and Subsidiaries as of December 31, 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Flower Turbines, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2022, were audited by other auditors whose report dated September 13, 2023 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Flower Turbines, Inc., and Subsidiaries' ability to continue as a going concern for period of twelve months from the date of issuance of these financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or

the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Going Concern

As discussed in Note 3, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

SetApart FS

SetApart FS
San Diego, California
March 18, 2024

FLOWER TURBINES INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2023 and 2022

	December 31,	
	2023	2022
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 9,025	\$ 252,441
Accounts receivable	300,547	123,909
Prepaid expenses	27,201	18,309
Inventory	594,206	438,364
Investments	-	487,226
Other assets	93,837	-
Funds held in escrow	293,447	-
Total Current Assets	<u>1,318,264</u>	<u>1,320,249</u>
Non-Current Assets:		
Intangible assets, net	-	87,452
Right of use asset	44,130	99,434
Property and equipment, net	236,012	162,519
Total Non-Current Assets	<u>280,142</u>	<u>349,405</u>
TOTAL ASSETS	<u>\$ 1,598,405</u>	<u>\$ 1,669,654</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 119,151	\$ 98,444
Deferred revenue	191,929	239,864
Accrued expenses	215,777	46,899
Loan payable, related party	77,801	-
Right of use liability- current	38,178	49,605
Notes payable - current	4,269	3,962
Total Current Liabilities	<u>647,105</u>	<u>438,774</u>
Long-Term Liabilities:		
Right of use liability- net of current	6,686	65,874
Loan payable	115,663	-
Notes payable - net of current	39,048	40,785
Total Long-Term Liabilities	<u>161,396</u>	<u>106,659</u>
Total Liabilities	<u>808,502</u>	<u>545,433</u>
Stockholders' Equity:		
Common stock, \$0.0001 par, 20,000,000 shares authorized, 10,250,354 and 9,975,566 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively	1,025	998
Additional paid-in capital	13,570,427	10,395,467
Accumulated deficit	(12,620,018)	(9,222,540)
Accumulated other comprehensive gain/(loss)	(161,531)	(49,704)
Total Stockholders' Equity	<u>789,904</u>	<u>1,124,221</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,598,405</u>	<u>\$ 1,669,654</u>

See accompanying notes, which are an integral part of these consolidated financial statements.

FLOWER TURBINES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE
INCOME/(LOSS)
For the years ended December 31, 2023 and 2022

	Year Ended	
	December 31,	
	2023	2022
Net revenues	\$ 312,307	\$ 247,208
Cost of net revenues	(470,736)	(573,805)
Gross profit/(loss)	(158,429)	(326,597)
Operating Expenses:		
General & administrative	1,365,156	2,555,294
Sales & marketing	481,254	18,500
Research and development	1,379,066	789,919
Total Operating Expenses	3,225,476	3,363,713
Loss from operations	(3,383,905)	(3,690,310)
Other Income/(Expense):		
Interest expense	(21,376)	(4,902)
Interest income	(15,942)	-
Other income/(expense)	23,745	(14,164)
Total Other Income/(Expense)	(13,573)	(19,066)
Provision for income taxes	-	-
Net loss	(3,397,478)	(3,709,376)
Foreign currency translation gain (loss)	(111,827)	5,980
Other comprehensive loss	\$ (3,509,305)	\$ (3,703,396)
Basic and diluted net loss per share	\$ (0.34)	\$ (0.37)
Weighted average shares outstanding - basic and diluted	10,112,960	9,973,623

See accompanying notes, which are an integral part of these consolidated financial statements.

FLOWER TURBINES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the years ended December 31, 2023 and 2022

	Common Stock		Additional Paid- In Capital	Accumulated Deficit	Accumulated Other Comprehensive	Total Stockholders' Equity
	Number of Shares	Amount				
Balance at December 31, 2021	9,971,680	\$ 998	\$ 10,223,395	\$ (5,513,164)	\$ (55,684)	\$ 4,655,545
Issuance of shares - Regulation A, net of offering costs	3,886	-	172,072	-	-	172,072
Net loss	-	-	-	(3,709,376)	5,980	(3,703,396)
Balance at December 31, 2022	9,975,566	998	10,395,467	(9,222,540)	(49,704)	1,124,221
Issuance of shares - Regulation A, net of offering costs	274,788	27	3,033,298	-	-	3,033,325
Stock-based compensation	-	-	141,662	-	-	141,662
Net loss	-	-	-	(3,397,478)	(111,827)	(3,509,305)
Balance at December 31, 2023	10,250,354	\$ 1,025	\$ 13,570,427	\$ (12,620,018)	\$ (161,531)	\$ 789,904

See accompanying notes, which are an integral part of these consolidated financial statements.

FLOWER TURBINES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31, 2023 and 2022

	Year Ended December 31,	
	2023	2022
Cash Flows From Operating Activities		
Net loss	\$ (3,397,478)	\$ (3,709,376)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	148,971	30,858
Stock-based compensation	141,662	-
Inventory reserve change	-	344,362
Non-cash lease expense	(15,310)	16,045
Changes in operating assets and liabilities:		
(Increase)/Decrease in prepaid expenses	(8,892)	60,245
(Increase)/Decrease in other assets	(93,837)	131,097
(Increase)/Decrease in Funds held in escrow	(293,447)	-
(Increase)/Decrease in inventory	(155,842)	(643,496)
(Increase)/Decrease in accounts receivable	(176,638)	9,242
Increase/(Decrease) in accounts payable	20,707	(183,205)
Increase/(Decrease) in accrued expenses	168,878	(17,342)
Increase/(Decrease) in deferred revenue	(47,935)	92,952
Net Cash Used In Operating Activities	<u>(3,709,161)</u>	<u>(3,868,618)</u>
Cash Flows From Investing Activities		
Patent costs	-	(87,452)
Purchase of investments	-	(487,226)
Sale of investments	487,226	-
Purchase of property of equipment	(19,349)	(152,797)
Net Cash Provided by (Used In) Investing Activities	<u>467,877</u>	<u>(727,475)</u>
Cash Flows From Financing Activities		
Proceeds from/(payments to) notes payable	(1,430)	(12,188)
Proceeds, net of repayments of loan payable, related party	77,801	-
Proceeds from issuance of stock	3,033,325	2,504,064
Net Cash Provided By Financing Activities	<u>3,109,696</u>	<u>2,491,876</u>
Cash effects of foreign currency translation loss	(111,827)	5,980
Net Change In Cash	(243,416)	(2,098,237)
Cash at Beginning of Year	252,441	2,350,678
Cash at End of Year	<u>\$ 9,025</u>	<u>\$ 252,441</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 17,935	\$ 4,902
Cash paid for income taxes	\$ -	\$ -
Supplemental Disclosure of Non-Cash Investing Activities:		
Property and equipment purchased with loan	\$ 115,000	\$ -

See accompanying notes, which are an integral part of these consolidated financial statements.

FLOWER TURBINES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31, 2023 and 2022

NOTE 1: NATURE OF OPERATIONS

Flower Turbines, Inc. and subsidiary (collectively the “Company”), is a corporation formed under the laws of Delaware. The Company was originally incorporated as a New York limited liability company on September 25, 2013 under the name Flower Turbines, LLC. The LLC converted to a Delaware corporation on December 26, 2019. The Company develops unique designs for wind turbines. On March 27, 2019 Flower Turbines B.V. (the “Subsidiary”) was formed in the Netherlands. Flower Turbines B.V. was a 96% owned subsidiary of the Company and was formed for the sale, installation, and development of sustainable energy solutions inside Europe. During 2022, the Company purchased the remaining 4% interest in the subsidiary and the Company is now the sole owner.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Basis for Consolidation

The Company prepares consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP). These consolidated financial statements include all accounts of Flower Turbines Inc., along with its wholly owned subsidiary, Flower Turbines B.V. All transactions and balances between and among the aforementioned companies have been eliminated in consolidating the accounts for consolidated financial statement presentation. The accounting and reporting policies of the Company conform to GAAP. The Company adopted the calendar year as its basis of reporting.

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP). The Company has adopted the calendar year as its basis of reporting.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For the purpose of the statement of cash flows, cash equivalents include time deposits, certificate of deposits, and all highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are carried at their estimated collectible amounts. Accounts receivable are periodically evaluated for collectability based on past credit history with clients and other factors. Provisions for losses on accounts receivable are determined on the basis of loss experience, known and inherent risk in the account balance, and current economic conditions. As of December 31, 2023 and 2022, the Company carried receivables of \$358,012 and \$147,196 and allowances of \$57,465 and \$23,287 against such, all respectively.

FLOWER TURBINES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31, 2023 and 2022

Inventory & Shipping and Handling Costs

Inventory is stated at the lower of cost or market and accounted for using the specific identification method. As of December 31, 2023 and 2022, the Company had \$14,053 and \$0 of inventory in transit, respectively and the remainder consisted of finished goods held for sale.

Property and Equipment

The Company has a policy to capitalize expenditures with useful lives in excess of one year and costs exceeding \$1,000 as property and equipment and depreciates such assets on a straight-line basis over estimated useful lives (5 years). Property and equipment primarily consist of machinery and equipment. The Company's property and equipment is assessed annually for indications of impairment. The Company's property and equipment are recorded at costs of \$326,860 and \$194,780 and are presented net of accumulated depreciation of \$90,848 and \$32,261 as of December 31, 2023 and 2022, respectively. Depreciation expense of \$61,519 and \$30,858 were recorded for the years ended December 31, 2023 and 2022, respectively.

Deferred Offering Costs

The Company complies with the requirement of FASB ASC 340-10-S99-1. Prior to the completion of the offering these costs are capitalized as deferred offering costs on the balance sheet. The deferred offering costs are charged to stockholders' equity upon the completion of the offering. There were no deferred offerings costs capitalized to the balance sheet as of December 31, 2023 and 2022, respectively.

Fair Value of Financial Instruments

Financial Accounting Standards Board ("FASB") guidance specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded instruments and listed equities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (e.g., quoted prices of similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active).

Level 3 - Unobservable inputs for the asset or liability. Financial instruments are considered Level 3 when their fair values are determined using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable.

FLOWER TURBINES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31, 2023 and 2022

The carrying amounts reported in the balance sheets approximate their fair value.

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist of its cash. The Company will place its cash and cash equivalents with financial institutions of high credit-worthiness and has a policy to not carry a balance in excess of FDIC insurance limits.

Company's management plans to assess the financial strength and credit worthiness of any parties to which it extends funds, and as such, it believes that any associated credit risk exposures are limited. As of December 31, 2023, the Company did not hold funds in excess of FDIC insurance limits.

Basic Income/(Loss) per Common Share

Basic income (loss) per share is calculated by dividing the Company's net loss applicable to common shareholders by the weighted average number of common shares during the period. Diluted earnings per share is calculated by dividing the Company's net loss available to common shareholders by the diluted weighted average number of shares outstanding during the year. The diluted weighted average number of shares outstanding is the basic weighted number of shares adjusted for any potentially dilutive debt or equity.

Revenue Recognition

ASC Topic 606, "Revenue from Contracts with Customers" establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers.

Revenues are recognized when control of the promised goods or services are transferred to a customer, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. The Company applies the following five steps in order to determine the appropriate amount of revenue to be recognized as it fulfills its obligations under each of its agreements: 1) identify the contract with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to performance obligations in the contract; and 5) recognize revenue as the performance obligation is satisfied.

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. As a practical expedient, the Company does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the period between customer payment and the transfer of goods or services is expected to be one year or less.

Each product sold to a customer typically represents a distinct performance obligation. The Company satisfies its performance obligation and revenue is recorded at the point in time when products are installed as the Company has determined that this is the point that controls transfers to the customer. The Company invoices customers upon delivery of the products, and payments from such customers are due upon invoicing.

FLOWER TURBINES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31, 2023 and 2022

66% and 75% of revenue came from 19 and 6 customers during the year ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, \$191,929 and \$239,864 of deferred revenue were recorded, respectively. The \$239,864 of deferred revenue was recognized as revenue in the year ended December 31, 2023. Revenues are recognized on these arrangements after the units are produced and fulfilled to the customers, and all other revenue recognition criteria are achieved. Substantially, all revenue recorded for the years ended December 31, 2023 and 2022 were for sales through the subsidiary.

Research and Development

The Company expenses research and development costs when incurred.

Advertising Costs

The Company's policy regarding advertising is to expense advertising when incurred.

Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, *Income Taxes*. Under the liability method, deferred taxes are determined based on the temporary differences between the consolidated financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is unlikely that the deferred tax assets will be realized.

The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon its evaluation of the facts, circumstances and information available at the reporting date. In accordance with ASC 740-10, for those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy is to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the consolidated financial statements. The Company has determined that there are no material uncertain tax positions.

The Company accounts for income taxes with the recognition of estimated income taxes payable or refundable on income tax returns for the current period and for the estimated future tax effect attributable to temporary differences and carryforwards. Measurement of deferred income items is based on enacted tax laws including tax rates, with the measurement of deferred income tax assets being reduced by available tax benefits not expected to be realized in the immediate future.

From its inception until December 26, 2019, at which time the LLC was converted to a corporation, the Company was subject to taxation as a limited liability company, and therefore was treated as a partnership for federal and state income tax purposes with all income tax liabilities and/or benefits of the Company being passed through to the members. As such, no recognition of federal or state income taxes for the Company has been provided for in the accompanying consolidated financial statements during that period.

FLOWER TURBINES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31, 2023 and 2022

For the period after the December 26, 2019 conversion to a corporation, the Company was taxed as a corporation. The Company estimates it will have a net operating loss carryforward of \$7,837,534 as of December 31, 2023. The Company pays federal and New York income taxes at a combined effective rate of approximately 26% and has used this effective rate to derive a net deferred tax asset of \$2,037,759 as of December 31, 2023, resulting from its net operating loss carryforward. Due to uncertainty as to the Company's ability to generate sufficient taxable income in the future to utilize the net operating loss carryforwards, the Company has recorded a full valuation allowance to reduce the net deferred tax asset to zero, there was no net operating loss recorded for December 31, 2023. The 2023 tax returns have not yet been filed as of the issuance of these consolidated financial statements. All tax periods since inception remain open to examination by the taxing jurisdictions to which the Company is subject.

Foreign Currency

The consolidated financial statements are presented in United States Dollars, ("USD"), which is the reporting currency and the functional currency of the Company's U.S. operations. The functional currency for the Subsidiary is its local currency. In accordance with ASC 830, *Foreign Currency Matters*, foreign denominated monetary assets and liabilities are translated to their USD equivalents using foreign exchange rates which prevailed at the balance sheet date. Non-monetary assets and liabilities are translated at exchange rate prevailing at the transaction date. Revenue and expenses were translated at the prevailing rate of exchange at the date of the transaction. Related translation adjustments are reported as a separate component of stockholders' equity, whereas gains or losses resulting from foreign currency transactions are included in results of operations. At December 31, 2023 and 2022, the foreign currency translation gain/(loss) was (\$111,827) and \$5,980, respectively.

Leases

On January 1, 2022, the Company adopted ASC 842, leases, as amended, which supersedes the lease accounting guidance under Topic 840, and generally requires lessees to recognize operating and finance lease liabilities and corresponding right-of-use (ROU) assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from lease arrangements. The Company adopted the new guidance using a modified retrospective method. Under this method, the Company elected to apply the new accounting standard only to the most recent period presented, recognizing the cumulative effect of the accounting change, if any, as an adjustment to the beginning balance of net assets. Accordingly, prior periods have not been restated to reflect the new accounting standard. The cumulative effect of applying the provisions of ASC 842 had no material impact on net assets.

The Company elected transitional practical expedients for existing leases which eliminated the requirements to reassess existing lease classification, initial direct costs, and whether contracts contain leases. Also, the Company elected to present the payments associated with short-term leases as an expense in statements of operations. Short-term leases are leases with a lease term of 12 months or less. The adoption of ASC 842 had no impact on the Company's balance sheet as of January 1, 2022.

FLOWER TURBINES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31, 2023 and 2022

Stock Based Compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the consolidated financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Recent Accounting Pronouncements

ASC 326 refers to Accounting Standards Codification (ASC) Topic 326, which addresses the impairment of financial assets. This standard, also known as the Current Expected Credit Loss (CECL) model, was issued by the Financial Accounting Standards Board (FASB) to replace the previous "incurred loss" model. ASC 326 requires entities to estimate expected credit losses over the life of financial instruments such as loans, bonds, and trade receivables, based on historical experience, current conditions, and reasonable forecasts. It aims to provide more timely recognition of credit losses and enhance transparency in financial reporting. The implementation of ASC 326 has significant implications for financial institutions and other entities holding financial assets.

NOTE 3: GOING CONCERN

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company is a business that has not yet generated profits since inception, has sustained losses of \$3,397,478 and \$3,709,376 for the years ended December 31, 2023 and 2022, respectively, and has negative cash flows from operations for the years ended December 31, 2023 and 2022, respectively and the Company is reliant on continual financing.

The Company's ability to continue as a going concern in the next twelve months is dependent upon its ability to utilize existing fundraising capital to increase sales and obtain capital financing from investors sufficient to meet current and future obligations and deploy such capital to produce profitable operating results. Management has evaluated these conditions and plans to raise capital as needed to satisfy its liquidity needs through its Regulation A offering in 2023 and increasing its sales. No assurance can be given that the Company will be successful in these efforts. The balance sheet does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 4: STOCKHOLDERS' EQUITY

Capital Structure

The Company was originally incorporated as a New York limited liability company. The membership interests in such and associated members' equity were applied to stockholders' equity and the members were issued common stock in the corporation in exchange for their membership interests in the LLC. Upon conversion to a Delaware corporation in December 2019, the Company

FLOWER TURBINES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31, 2023 and 2022

authorized 2,500,000 shares of common stock at \$0.0001 par value. During 2021, the Company executed a 10-1 stock split and amended its Articles of Incorporation increasing its authorized shares to 20,000,000. As of December 31, 2023 and 2022, 10,250,354 and 9,975,566 shares of common stock were issued and outstanding, respectively.

Stock Transactions

In 2022, the Company raised \$172,072 in net proceeds through issuance of its Common Stock pursuant to an offering under Regulation A, where 3,886 shares were issued at \$51.27 per share.

In 2023, the Company had raised \$3,033,298 in net proceeds through issuance of its Common Stock pursuant to an offering under Regulation A, where 274,788 shares were issued at \$11.04 per share.

As of December 31, 2023 and 2022, there was \$293,447 and \$0 of funds held in escrow, respectively, related to these issuances.

Options

During the year ended December 31, 2021, the Company issued 800,000 options that had no intrinsic value, and as such, no expense was recorded. As of June 2022, the individual is no longer entitled to the 100,000 shares, as the company has forfeited its rights to them.

2020 Incentive Stock Plan

The Company has adopted a 2020 Omnibus Incentive Stock Plan (the “Plan”). An aggregate of 78,000 shares of the Company’s common stock is reserved for issuance and available for awards under the 2020 Plan, including incentive stock options granted under the 2020 Plan. The 2020 Plan administrator may grant awards to any employee, director, consultant or other person providing services to us or our affiliates.

	Options	Weighted Average Exercise Price
Outstanding as of December 31, 2022	70,000	70.00
Granted	4,700	12.00
Exercised	-	-
Forfeited	-	-
Outstanding as of December 31, 2023	74,700	\$ 64.05
Exercisable at December 31, 2023	31,700	\$ 70.00
Exercisable at December 31, 2022	15,400	\$ 70.00
Weighted average duration (years) to expiration of outstanding options at December 31, 2023	7.8	

FLOWER TURBINES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended
December 31, 2023 and 2022

The assumptions utilized for option grants during the years ended December 31, 2023 and 2022 are as follows:

	Year Ended	
	December 31,	
	2023	2022
Risk-free interest rate	1.30%-4.01%	n/a
Expected term (in years)	5.5	n/a
Expected volatility	65.25%	n/a
Expected dividend yield	0%	n/a

The total grant-date fair value of the options granted during the years ended December 31, 2023 was \$260,326. During the year ended December 31, 2023 and 2022, \$141,662 and \$0 of stock-based compensation was recorded to general and administrative expenses, in the consolidated statements of operations. Total unrecognized compensation cost related to non-vested stock option awards as of December 31, 2023 amounted to \$88,040 and will be recognized over a weighted average period of 2.58 years.

NOTE 5: OPERATING LEASES

On March 1, 2022, the Company entered into a 36-month lease agreement for office space. The lease requires escalating monthly lease payments ranging from \$2,955 to \$3,076. Lease expense for the year ended December 31, 2023 totaled \$30,658.

The following is a schedule of operating lease liability as of December 31, 2023:

2024	\$	40,124
2025		6,708
Total undiscounted cash flows		46,833
Unamortized interest		(1,968)
Present value of lease liability	\$	44,864
Lease liability, current	\$	38,178
Lease liability, non-current		6,686
Present value of lease liability	\$	44,864

NOTE 6: RELATED PARTY TRANSACTIONS

The founder of the Company was paid \$0 and \$10,000 for consultant services for the year ended December 31, 2023 and 2022, respectively.

In 2023, the founder advanced the Company an aggregate of \$98,500, and was repaid \$20,699. As of December 31, 2023, the remaining balance was \$77,801. The loans are unsecured, non-interest bearing, and due on demand.

FLOWER TURBINES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31, 2023 and 2022

NOTE 7: LOANS PAYABLE

On November 4, 2019 the Subsidiary entered into a loan agreement with a bank for total principal of \$56,134. Loan A is for principal of \$28,068 and bears interest at 7.5%. The loan requires monthly interest payments for eighty-four months with a final balloon payment on the maturity date. Loan B is for principal of \$28,067, bears interest at a 7.5% fixed rate. The loan requires interest only payments for the first twenty-four months, followed by principal and interest payments of \$468 for the next sixty months, followed by a balloon payment on the last day of the loans. Loans A and B are unsecured. Interest expense for these loans totaled \$3,183 and \$4,902 the years ending December 31, 2023 and 2022, respectively. Accrued interest payable totaled \$0 for the years ended December 31, 2023 and 2022. Total unpaid principal balance, after translated to US Dollars, was \$43,317 and \$44,746 as of December 31, 2023 and 2022, respectively.

Future minimum principal payments under the loans are as follows as of December 31:

2024	4,269
2025	4,601
2026	4,905
2027	5,285
Thereafter	<u>31,065</u>
Total	<u>\$ 43,317</u>

In April 2023, the Company purchased equipment via an equipment financing loan. The Company is required to make monthly payments, including principal and interest, of \$1,946. As of December 31, 2023, the outstanding balance was \$115,663.

NOTE 8: RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, leases (Topic 842). This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. The ASU is effective for annual and interim periods beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted. The Company adopted this standard during the current period.

Management does not believe that any recently issued, but not yet effective, accounting standards could have a material effect on the accompanying consolidated balance sheet. As new accounting pronouncements are issued, the Company will adopt those that are applicable under the circumstances.

NOTE 9: COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS

The Company may be subject to pending legal proceedings and regulatory actions in the ordinary course of business. The results of such proceedings cannot be predicted with certainty, but the Company does not anticipate that the final outcome, if any, arising out of any such matter will have a material adverse effect on its business, financial condition or results of operations.

FLOWER TURBINES INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the years ended
December 31, 2023 and 2022**

NOTE 10: SUBSEQUENT EVENTS

Management's Evaluation

The Company has evaluated subsequent events through March 18, 2024, the date the consolidated financial statements were available to be issued. Based on the evaluation, no additional material events were identified which require adjustment or disclosure other than those below.

The Company has raised \$280,000 in net proceeds from stock issued in 2024.