

POWUR, PBC
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2023 AND 2022

INDEPENDENT AUDITORS' REPORT

To the Management and Shareholders
of Powur, PBC

Opinion

We have audited the accompanying financial statements of Powur, PBC (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022 and the related statements of operations, stockholders' equity, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company 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.

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 the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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, including omissions, 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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.



dbbmckennon
San Diego, California
October 25, 2024

POWUR, PBC
BALANCE SHEETS

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Assets:		
Current assets		
Cash and cash equivalents	\$ 21,767,984	\$ 49,411,071
Accounts receivable, net	27,585,990	21,408,170
Inventory	2,841,868	14,680,196
Prepaid expenses	4,323,621	10,952,388
Total current assets	<u>56,519,463</u>	<u>96,451,825</u>
Property and equipment, net	9,610,582	5,920,535
Right of use asset - operating	13,679	183,088
Intangible assets - digital asset	974,502	438,524
Related party note receivable	1,000,000	1,000,000
Other assets	3,701,098	1,319,822
Total assets	<u>\$ 71,819,324</u>	<u>\$ 105,313,794</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 13,850,324	\$ 23,992,270
Accrued liabilities	9,064,640	8,504,839
Customer deposits	11,276,152	36,166,099
Income taxes payable	109,320	2,679,209
Right of use liability - operating	14,463	168,603
Commissions payable	4,033,684	5,003,621
Total current liabilities	<u>38,348,583</u>	<u>76,514,641</u>
Long term liabilities		
Right of use liability- operating, net of current portion	-	14,485
Warranty accrual, net of current portion	4,623,750	3,641,342
Deferred warranty revenue, net of current portion	5,941,056	-
Total long term liabilities	<u>10,564,806</u>	<u>3,655,827</u>
Total liabilities	<u>\$ 48,913,389</u>	<u>\$ 80,170,468</u>

Commitments and contingencies (Note 6)

See accompanying notes to these financial statements.

POWUR, PBC
BALANCE SHEETS
(continued)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Stockholders' Equity:		
Convertible preferred stock, \$0.0001 par value; 10,000,000 shares authorized as of December 31, 2023 and 2022		
Series 1 preferred stock; 375,000 shares designated, issued and outstanding as December 31, 2023 and 2022	\$ 150,000	\$ 150,000
Series 2 preferred stock; 1,379,770 shares designated, 1,379,763 issued and outstanding as December 31, 2023 and 2022	749,268	749,268
Series 3 preferred stock; 5,852,385 shares designated, 3,203,834 issued and outstanding as December 31, 2023 and 2022	1,085,704	1,085,704
Series 4 preferred stock; 1,574,024 shares designated, issued and outstanding as December 31, 2023 and 2022	484,367	484,367
Series 5 preferred stock; 557,873 shares designated, 554,318 issued and outstanding as December 31, 2023 and 2022	5,315,926	5,315,926
Common stock, \$0.0001 par value; 25,000,000 shares authorized as of December 31, 2023 and 2022		
Class A common stock, 8,500,000 shares designated, issued and outstanding as of December 31, 2023 and 2022	850	850
Class B common stock, 16,500,000 shares designated; 3,896,564 and 3,881,647 shares issued and outstanding as of December 31, 2023 and 2022, respectively	389	387
Additional paid-in capital	11,407,945	9,617,445
Retained earnings	3,711,486	7,739,379
Total stockholders' equity	<u>22,905,935</u>	<u>25,143,326</u>
Total liabilities and stockholders' equity	<u>\$ 71,819,324</u>	<u>\$ 105,313,794</u>

See accompanying notes to these financial statements.

POWUR, PBC
STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
Revenues, net	\$ 360,844,239	\$ 328,406,102
Cost of goods sold	<u>249,071,921</u>	<u>218,379,796</u>
Gross profit	111,772,318	110,026,306
Operating expenses:		
General and administrative	34,597,925	27,483,031
Sales and marketing	85,942,184	74,292,301
Research and development	503,522	708,836
Total operating expenses	<u>121,043,631</u>	<u>102,484,168</u>
Income (loss) from operations	(9,271,313)	7,542,138
Other income (expense):		
Other income (expense)	<u>3,210,140</u>	<u>(388,622)</u>
Total other income (expense)	3,210,140	(388,622)
Income (loss) before (provision) benefit for income taxes	(6,061,173)	7,153,516
(Provision) benefit for income taxes	<u>2,033,280</u>	<u>(2,388,235)</u>
Net income (loss)	<u>\$ (4,027,893)</u>	<u>\$ 4,765,281</u>

See accompanying notes to these financial statements.

POWUR, PBC

STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

	Preferred Stock										Common Stock				Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Series 1		Series 2		Series 3		Series 4		Series 5		Class A		Class B				
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2021	375,000	\$ 150,000	1,379,763	\$ 749,268	3,203,834	\$ 1,085,704	1,574,024	\$ 484,367	554,318	\$ 5,315,926	8,500,000	\$ 850	3,866,989	\$ 386	\$ 7,342,462	\$ 2,974,098	\$ 18,103,061
Exercise of stock options	-	-	-	-	-	-	-	-	-	-	-	-	14,658	1	6,566	-	6,567
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,268,417	-	2,268,417
Net income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,765,281	4,765,281
Balance, December 31, 2022	375,000	150,000	1,379,763	749,268	3,203,834	1,085,704	1,574,024	484,367	554,318	5,315,926	8,500,000	850	3,881,647	387	\$ 9,617,445	7,739,379	25,143,326
Exercise of stock options	-	-	-	-	-	-	-	-	-	-	-	-	14,917	2	27,248	-	27,250
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,763,252	-	1,763,252
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,027,893)	(4,027,893)
Balance, December 31, 2023	375,000	\$ 150,000	1,379,763	\$ 749,268	3,203,834	\$ 1,085,704	1,574,024	\$ 484,367	554,318	\$ 5,315,926	8,500,000	\$ 850	3,896,564	\$ 389	\$ 11,407,945	\$ 3,711,486	\$ 22,905,935

See accompanying notes to these financial statements.

POWUR, PBC
STATEMENTS OF CASH FLOWS

	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (4,027,893)	\$ 4,765,281
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,902,750	779,270
Realized loss on investment	-	3,829
Unrealized (gain) loss on intangible asset - digital assets	(535,978)	561,476
Stock-based compensation	1,763,252	2,268,417
Allowance for doubtful accounts	881,985	724,462
Realized currency gain	-	(23,554)
Changes in operating assets and liabilities:		
Accounts receivable	(7,059,805)	(15,344,813)
Inventory	11,838,328	(2,101,087)
Prepaid expenses and other assets	4,247,491	(7,247,626)
Accounts payable	(10,141,946)	12,494,416
Accrued liabilities	559,801	3,883,782
Income taxes payable	(2,569,889)	1,663,924
Customer deposits	(18,948,891)	29,404,514
Commissions payable	(969,937)	2,816,410
Warranty accrual	982,408	1,935,588
Right-of-use	784	-
Net cash provided by (used in) operating activities	<u>(22,077,540)</u>	<u>36,584,289</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,592,797)	(5,014,230)
Loan to related party	-	(1,000,000)
Redemption of short term investments	-	4,989,023
Net cash used in investing activities	<u>(5,592,797)</u>	<u>(1,025,207)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of stock options	<u>27,250</u>	<u>6,567</u>
Net cash provided by financing activities	<u>27,250</u>	<u>6,567</u>
Increase (decrease) in cash and cash equivalents	(27,643,087)	35,565,649
Cash and cash equivalents, beginning of year	<u>49,411,071</u>	<u>13,845,422</u>
Cash and cash equivalents, end of year	<u>\$ 21,767,984</u>	<u>\$ 49,411,071</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 272,286</u>
Non cash investing and financing activities:		
Right-of-use asset and liability	<u>\$ -</u>	<u>\$ 321,471</u>

See accompanying notes to these financial statements.

POWUR, PBC
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

Powur, PBC ("Powur" or the "Company"), is a public benefit corporation organized under the laws of the state of Delaware on January 2, 2014. Powur's core mission is to accelerate the adoption of clean energy worldwide. The Company was founded to make the environment and world a better place for generations to come. Promoting the adoption of clean, renewable and sustainable energy production is at the heart of that belief and is what permeates through its organization, from its corporate employees to its sales team and ultimately to its homeowner/customers. Powur operates in the renewable energy market by providing a direct sales force to facilitate sales of solar photovoltaic energy generation systems to both retail (homeowner) customers and lite commercial customers. The Company has built a national network of strategic partnerships with solar energy companies across the United States to install the solar systems it sells.

The physical product installation is performed by third party qualified installers, under the Company's supervision. As the business model evolves, the Company believes they will be able to expand internal control of various aspects of the installation process, including racking, site survey, engineering, and permitting, and interconnection.

The Company also provides its solar consultants with a user friendly yet sophisticated Software as a Service (SaaS) platform that provides a suite of services to facilitate project management, team management, commissions, disbursement and communication among all stakeholders. The SaaS platform, including onboarding and training fees, represented an insignificant amount of 2023 total revenue and is the core product that allows for seamless communication between stakeholders.

The Company continues to expand its technology stack, with additional features and functionality accessible to its consultants, customers, and installers nationwide, elevating the solar experience for all stakeholders, and driving further adoption of solar energy nationwide.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP").

Risks and Uncertainties

The Company's operations are subject to new innovations in product design and function. Significant technical changes can have an adverse effect on product lines offered by the Company. Staying current and deploying new products are important elements to achieve and maintain profitability in the Company's industry segment.

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions reflected in these financial statements include, but are not limited to, warranties, loss contingencies, percentage of completion of projects, the valuations of stock options, realization of deferred tax assets and recognition of allowance for doubtful accounts. The Company bases its estimates on historical experience, known trends and other market-specific or other relevant factors that it believes to be reasonable under the circumstances. On an ongoing basis, management evaluates its estimates when there are changes

POWUR, PBC
NOTES TO FINANCIAL STATEMENTS

in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company generally maintains balances in various operating accounts at financial institutions that management believes to be of high credit quality, in amounts that may exceed federally insured limits. The Company has not experienced any losses related to its cash and cash equivalents and does not believe that it is subject to unusual credit risk beyond the normal credit risk associated with commercial banking relationships.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents.

Equity Investments

Equity investments with readily determinable fair values are recorded at fair value with changes in fair value recorded as unrealized gain/loss on investments. Realized gains or losses resulting from the sale of equity investments are calculated using the specific identification method and are included in realized gain/loss on investments.

Fair Value Measurements

Certain assets and liabilities of the Company are carried at fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The carrying values of the Company's accounts receivable, prepaid expenses, other current assets, accounts payable, accrued expenses and deferred revenue approximate their fair values due to the short-term nature of these assets and liabilities. As of December 31, 2023 and 2022, the Company's digital assets were considered a Level one 1 asset.

Accounts Receivable

Accounts receivable are derived from services delivered to customers and are stated at their net realizable value. Each month, the Company reviews its receivables on a customer-by-customer basis and evaluates whether an allowance for doubtful accounts is necessary based on any known or perceived collection issues. Any balances that are eventually deemed uncollectible are written off against the allowance after all means of collection have been exhausted and the

POWUR, PBC
NOTES TO FINANCIAL STATEMENTS

potential for recovery is considered remote. As of December 31, 2023 and 2022, the Company had an allowance for doubtful accounts of \$1,761,855 and \$ 879,870, respectively. As of December 31, 2021, the accounts receivable balance was \$6,787,819.

Inventory

Inventory is stated at the lower of cost or market and accounted for using the specific identification cost method. As of December 31, 2023 and 2022, inventory consisted of solar equipment purchased from the Company's suppliers and are considered finished goods.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Equipment, computers, software and furniture and fixtures are depreciated over periods ranging from three to five years, and leasehold improvements over the shorter period of the lease or the life of the asset. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Deductions are made for retirements resulting from renewals or betterments. Depreciation expense for the years ended December 31, 2023 and 2022 was \$183,464 and \$183,464, respectively.

Internal Use Software

We incur software development costs to develop software programs to be used solely to meet our internal needs and cloud-based applications used to deliver our services. In accordance with ASC 350-40, Internal-Use Software, we capitalize development costs related to these software applications once the preliminary project stage is complete and it is probable that the project will be completed, and the software will be used to perform the function intended. Amortization expense for the years ended December 31, 2023 and 2022 was \$1,719,286 and \$595,806, respectively.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amounts of the assets may be impaired. If it is determined that the estimated undiscounted future cash flows are not sufficient to recover the carrying amounts of the assets, an impairment loss is recognized in the statements of operations for the difference between the carrying amounts and the fair values of the assets. Management does not consider any of the Company's long-lived assets to be impaired as of December 31, 2023 and 2022.

Intangible Assets - Digital Assets

The Company adopted ASU No. 2023-08, Accounting for and Disclosures of Crypto Assets (Subtopic 350-60) in the current year. See accounting pronouncement below. As of December 31, 2023, the fair market value of the digital assets increased to approximately \$974 thousand compared to the fair market value of approximately \$439 thousand as of December 31, 2022. As of December 31, 2023, the Company recorded an unrealized gain of approximately \$536 thousand, which was recorded within other income and expense on the statement of operations. As of December 31, 2022, the fair market value of the digital assets was less than the cost and thus an impairment was required. As of December 31, 2022, the Company recognized an unrealized loss of approximately \$561 thousand, which was recorded within other income and expense on the statement of operations.

Leases

On January 1, 2022, the Company adopted Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), which establishes ASC 842 and supersedes the lease accounting guidance under ASC 840. The standard generally requires lessees to recognize operating and finance lease liabilities and corresponding right-of-use (ROU) assets on the

POWUR, PBC
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balance sheet and provide enhanced disclosures on the amount, timing, and uncertainty of cash flows arising from lease arrangements. The Company adopted ASC 842 using the modified retrospective approach. The Company elected the package of practical expedients available for existing contracts, which allowed the Company to carry forward historical assessments of lease identification, lease classification, and initial direct costs. The Company also elected a policy to not apply the recognition requirements of ASC 842 for short-term leases with a term of 12 months or less.

The adoption of ASC 842 resulted in a recognition of a right of use asset and liability - operating of \$321,471 on the Company's balance sheet relating to the lease as of January 1, 2022. The adoption of the standard had an immaterial effect on the Company's statements of operations and cash flows.

Revenue Recognition

The Company determines revenue recognition through the following steps:

- Identification of a contract with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the performance obligations are 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.

The Company's revenues primarily result from the sale of solar photovoltaic energy generation systems to both retail (homeowner) customers and lite commercial customers and subscriptions to its sales consultants to the Company's SaaS platform. A small percentage of revenue is derived through fees paid by the Company's sales consultants for onboarding and training, along with access and support on the Company's sales platform.

The Company records revenue net of sales tax, value added tax, excise tax and other taxes collected on behalf of customers concurrent with revenue-producing activities. The Company has elected to recognize the cost for freight and shipping when control over the products sold passes to customers and revenue is recognized and included within cost of sales.

The Company's contracts with customers do not typically include extended payment terms. Payment terms vary by contract type and type of customer and generally range from 15 to 30 days from permitting or installation.

Solar Photovoltaic Sales ("PV")

The Company follows a full general contractor ("GC") model in which the Company owns the contract as general contractor.

Under ASC 606, Revenue from Contracts with Customers, revenue and associated profit, engineering, procurement and construction ("EPC") projects for residential projects that require us to deliver functioning solar power systems are generally completed within two to twelve months from commencement of construction. Revenues and related costs on construction contracts are recognized as the performance obligations for work are satisfied over time in accordance with ASC 606. We recognize revenue from EPC services over time as our performance creates or enhances an energy generation asset controlled by the customer.

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The cost of materials or equipment will generally be excluded from our recognition of profit, unless specifically produced or manufactured for a project, because such costs are not considered to be a measure of progress. All unallocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss in the period it is determined.

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts which require the revision become known. We use an input method based on costs incurred as we believe that this method most accurately reflects our progress toward satisfaction of the performance obligation. Under this method, revenue arising from fixed-price construction contracts is recognized as work is performed based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligations. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Contract assets represent revenues recognized in excess of amounts invoiced to customers on contracts in progress. Contract liabilities represent amounts invoiced to customers in excess of revenues recognized on contracts in progress. As of December 31, 2023 and 2022, contract assets and liabilities were insignificant to the financial statements and thus have been presented within accounts receivable, accounts payable and accrued liabilities. As of December 31, 2023 and 2022, the Company had unbilled revenue, considered a contract asset, of approximately \$18.7 and \$17.7 million, respectively, recorded in accounts receivable.

See warranty liability below for recognition of revenue related to extended warranties.

Disaggregation of Revenue

The following table presents the Company's revenue disaggregated by revenue source:

	Year Ended	
	December 31,	
	2023	2022
General contractor revenue	\$ 341,618,087	\$ 314,491,226
Registration, subscription & other revenue	19,226,152	13,914,876
	<u>\$ 360,844,239</u>	<u>\$ 328,406,102</u>

Consultant Fees

The Company generates revenue from fees paid by their independent consultants. New consultant onboarding fees are charged upfront to cover set up, training and access to the Powur platform. Ongoing monthly subscriptions continue to compensate the Company for the content, training, and data provided by the platform. The Company recognizes revenue for these services upon receipt, as the benefits are immediate and continually derived from the platform. As of December 31, 2023 and 2022, the amounts deferred were insignificant to the financial statements.

Deferred Revenue and Customer Deposits

The Company recognizes deferred revenue as the performance obligations for work are satisfied over time in accordance with ASC 606. The Company also recognizes a liability for milestone payments received in advance of the project installations, which is considered a contract liability. The milestone receipts are recognized within twelve months of the advance, unless a project cancellation occurs and a customer rebate is made. In addition, during the years ended December 31, 2023 and 2022, the Company sold extended warranties which provide additional coverage in excess of sub-contractor, equipment provider, etc. The Company is recording these revenues over the estimated service period of

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up to 30 years. As of December 31, 2023, the Company recorded long-term and short-term deferred revenues of \$5,941,056 and \$11,552,003, respectively. As of December 31, 2022, the Company recorded long-term and short-term deferred revenues of \$36,166,099 and zero, respectively. The Company expects to record the short-term portion during 2024 with the remainder over a period not to exceed 29 years.

Cost of Revenues

Cost of revenues consists primarily of the cost of delivered solar equipment, subcontractor design and installation costs, salaries and wages, and other costs directly related to the revenues recognized.

Commissions

The Company records a commission payable to its advisors at the time the solar installation is confirmed installed. Commissions paid in advanced are initially recorded as an asset, and recognized as an expense when the sale process is completed. Commissions are included within sales and marketing expense in the statements of operations.

Warranty Liability

The Company establishes warranty liability reserves to provide for estimated future expenses as a result of installation, product and performance defects, product recalls and litigation incidental to the Company's business. Liability estimates are determined based on management's judgment, considering such factors as historical experience, the likely current cost of corrective action, manufacturers' and subcontractors' participation in sharing the cost of corrective action, and consultations with third party experts such as engineers. Solar panel manufacturers currently provide substantial warranties of between ten to twenty-five years with full reimbursement to replace and install replacement panels. Inverter manufacturers currently provide warranties covering ten to thirty years including replacement and installation. Additionally, 45% of the Company's projects include a purchased extended warranty product covering equipment or installation repairs for 30 years. Warranty costs for the Company will be largely the time to support customer requests, and coordinate the equipment or installation repairs. The Company also anticipates costs to cover labor and parts expense not handled by installers. The warranty liability for estimated future warranty costs at December 31, 2023 and 2022 is \$4,810,158 and \$3,827,750, respectively. Because installer and equipment warranties are readily available and easily accessible in the first year following installation, the Company estimates 5% of 2023 projects will require warranty expense in the first 12 months, resulting in a \$186,408 current warranty liability included within accrued liabilities, and \$4,623,750 in long term warranty liability at December 31, 2023.

Advertising and Promotion

Advertising and promotional costs are expensed as incurred. Advertising and promotional expense for the years ended December 31, 2023 and 2022 were \$334,176 and \$ 134,596, respectively.

Research and Development Costs

Costs incurred in the research and development of the Company's products are expensed as incurred.

Concentrations

The Company is dependent on third-party vendors to supply solar equipment inventory, with one vendor accounting for 93% during the years ended December 31, 2023 and 2022. In addition, as of December 31, 2023 and 2022 the vendor accounted for 72% and 85%, respectively, of accounts payable. The loss of this vendor may have a negative short-term impact on the Company's operations; however, the Company believes there are acceptable substitute vendors that can be utilized longer-term.

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During the years ended December 31, 2023 and 2022, 77% and 90% of the Company's GC model contracts were financed through lender partners who execute loan or lease agreements directly with the Company's customers, respectively. The remaining percentages are paid in cash. Of the financed projects, three partners accounted for 66% of the loans for the year ended December 31, 2023, and one partner accounted for 97% of the loans for the year ended December 31, 2022. The Company provides 6-8 lender options, it is the homeowner's choice, with guidance from the sales consultant. With many financing options in the solar industry the concentration does not present a risk to the Company.

Accounting for Preferred Stock

ASC 480, Distinguishing Liabilities from Equity, includes standards for how an issuer of equity (including equity shares issued by consolidated entities) classifies and measures on its balance sheet certain financial instruments with characteristics of both liabilities and equity.

Management is required to determine the presentation for the preferred stock as a result of the redemption and conversion provisions, among other provisions in the agreement. Specifically, management is required to determine whether the embedded conversion feature in the preferred stock is clearly and closely related to the host instrument, and whether the bifurcation of the conversion feature is required and whether the conversion feature should be accounted for as a derivative instrument. If the host instrument and conversion feature are determined to be clearly and closely related (both more akin to equity), derivative liability accounting under ASC 815, Derivatives and Hedging, is not required. Management determined that the host contract of the preferred stock is more akin to equity, and accordingly, liability accounting is not required by the Company. The Company has presented preferred stock within stockholders' equity.

Costs incurred directly for the issuance of the preferred stock are recorded as a reduction of gross proceeds received by the Company, resulting in a discount to the preferred stock. The discount is not amortized.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, Compensation - Stock Compensation. The Company measures all stock-based awards granted to employees, directors and non-employee consultants based on the fair value on the date of the grant and recognizes compensation expense for those awards over the requisite service period, which is generally the vesting period of the respective award. For awards with service-based vesting conditions, the Company records the expense for using the straight-line method. For awards with performance-based vesting conditions, the Company records the expense if and when the Company concludes that it is probable that the performance condition will be achieved.

The Company classifies stock-based compensation expense in its statement of operations in the same manner in which the award recipient's payroll costs are classified or in which the award recipient's service payments are classified.

Determining the appropriate fair value of stock-based awards requires the input of subjective assumptions. The Company historically has been a private company and lacks company-specific historical and implied volatility information for its stock. Therefore, it considers its expected stock price volatility based on the historical volatility of publicly traded peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price. The Company uses the simplified method to determine the expected life of the option.

The Company recognizes stock option forfeitures as they occur as there is insufficient historical data to accurately determine future forfeiture rates. The assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment. As a

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result, if factors change and management uses different assumptions, stock-based compensation expense could be materially different for future awards.

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 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 not be realized. We assess our income tax positions and record tax benefits for all years subject to examination based upon our 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 will be 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 financial statements.

Recent Accounting Pronouncements

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

3. FINANCIAL STATEMENT ELEMENTS

Property and Equipment

Property and equipment consisted of the following as of December 31, 2023 and 2022:

	Year Ended	
	December 31,	
	2023	2022
Software technology	\$ 11,934,663	\$ 6,341,867
Building and leasehold improvements	482,635	482,635
Office equipment	65,610	65,610
	12,482,908	6,890,112
Depreciation and amortization	(2,872,326)	(969,577)
	<u>\$ 9,610,582</u>	<u>\$ 5,920,535</u>

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Accrued Liabilities

Accrued liabilities consisted of the following as of December 31, 2023 and 2022:

	Year Ended	
	December 31,	
	2023	2022
Project liabilities	\$ 6,912,952	\$ 4,022,987
Accrued wages, vacation, bonus and taxes	942,249	1,846,793
Sales tax	523,455	994,456
Other	685,984	1,640,603
	<u>\$ 9,064,640</u>	<u>\$ 8,504,839</u>

Right of Use Asset and Liability

The Company entered into a 37-month lease agreement for commercial office space on October 14, 2020, which commenced on January 1, 2021. Base rents range from \$13,257 to \$14,487, with a security deposit of \$14,487. The lease has been recorded as a right of use asset and liability – operating on the accompanying balance sheet in compliance with ASC 842. The Company used an incremental borrowing rate of 2% and a weighted average remaining life of 2.08 years within the initial calculation. The lease expired in January 2024. In January 2023, the Company entered into a new lease for 48 months commencing March 1, 2024.

4. RELATED PARTY TRANSACTIONS

In February 2022, the Company entered into a note with the Chief Executive Officer. Under the terms of the note, the Company loaned the Chief Executive Officer a \$1.0 million for a period of up to ten years incurring interest at 1.92% per annum. The Chief Executive Officer pledged 126,118 shares as collateral to the note. Principal and accrued interest is due on the first to occur of (1) 30 days after expiration date of any lock-up period placed on the pledged shares following an IPO of the Company, (2) closing date of the sale of the Company, (3) closing date of any sale of shares of the Company's stock, (4) 10 years from the effective date of the note, and (5) upon an occurrence of default.

5. COMMITMENTS AND CONTINGENCIES

Commitments

The Company records provisions for project installations in process or completed to which the credit application was no longer valid, the transaction was deemed fraudulent and the pertaining loans were either in the process of being cancelled or were cancelled. This cancellation requires the Company to reimburse the lender the loaned amount. The Company has or will execute internal loan agreements with customers which have the ability to pay. If repayment is not provable the Company expenses the amount.

Contingencies

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 matters will have a material adverse effect on its business, financial condition or results of operations. The Company holds general reserves related to such matters.

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6. STOCKHOLDERS' EQUITY

Preferred Stock

The Company has issued Series 1 preferred stock, Series 2 preferred stock, Series 3 preferred stock, Series 4 preferred stock and Series 5 preferred stock (collectively referred to as "Preferred Stock"). As of December 31, 2023 and 2022, the Company's certificate of incorporation, as amended and restated, authorized the Company to issue a total of 10,000,000 shares of Preferred Stock. As of December 31, 2023 and 2022, there were 260,948 undesignated shares of Preferred Stock. The Preferred Stock have a par value of \$0.0001 per share.

As of December 31, 2023 and 2022 the Preferred Stock consisted of the following:

	Preferred Stock Designated	Preferred Stock Issued and Outstanding	Carrying Value	Liquidation Preference	Common Stock Issuable Upon Conversion
Series 1 preferred stock	375,000	375,000	\$ 150,000	\$ 150,000	375,000
Series 2 preferred stock	1,379,770	1,379,763	749,268	800,263	1,379,763
Series 3 preferred stock	5,852,385	3,203,834	1,085,704	1,089,304	3,203,834
Series 4 preferred stock	1,574,024	1,574,024	484,367	544,612	1,574,024
Series 5 preferred stock	557,873	554,318	5,315,926	5,315,926	554,318
	<u>9,739,052</u>	<u>7,086,939</u>	<u>\$ 7,785,265</u>	<u>\$ 7,900,105</u>	<u>7,086,939</u>

The holders of the Preferred Stock have the following rights and preferences:

Voting

The holders of Preferred Stock are entitled to vote, together with the holders of Class B common stock as a single class, on all matters submitted to stockholders for a vote and have the right to vote the number of shares equal to the number of shares of Class B common stock into which each share of Preferred Stock could convert on the record date for determination of stockholders entitled to vote.

Dividends

Dividends shall accrue from day to day, and shall be payable if and when declared by the Company's Board of Directors, in preference and priority to the payment of dividends on any shares of common stock. The Company shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock unless the holders of Preferred Stock then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding share of Preferred Stock in an amount equal to the aggregate accrued dividends on such share of Preferred Stock which has not been previously paid. Holders of Preferred Stock are entitled to receive, in liquidation preference order, an annual cumulative dividend of a) \$0.02 per share for Series 1 Preferred Stock, b) \$0.017 per share for Series 3 Preferred Stock, c) \$0.029 per share for Series 2 Preferred Stock, and d) \$0.173 per share for Series 4 Preferred Stock. The dividends shall be payable for a period of five years after the date of issuance of the respective class of Preferred Stock. The Company may at any time accelerate the payment of the accrued dividends by paying to the preferred stockholders the accrued dividends in the amount of a) \$0.10 per share for Series 1 Preferred Stock, b) \$0.085 per share for Series 3 Preferred Stock (for which the Series 3 Preferred Stock will automatically convert to Class B common stock), c) \$0.145 per share for Series 2 Preferred Stock, and d) \$0.0865 per share for Series 4 Preferred Stock. Dividends are payable on the Series 5 Preferred Stock only if and when declared by the Board of Directors.

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Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or deemed liquidation event, the preferred stockholders shall be entitled to a liquidation preference, in the following order, equal to:

- a) Series 1 Preferred Stock \$0.40 per share ("Series 1 Original Issue Price") plus all accrued dividends whether or not declared
- b) Series 3 Preferred Stock: \$0.34 per share ("Series 3 Original Issue Price") plus all accrued dividends whether or not declared
- c) Series 2 Preferred Stock: \$0.58 per share ("Series 2 Original Issue Price") plus all accrued dividends whether or not declared
- d) Series 4 Preferred Stock: \$0.346 per share ("Series 4 Original Issue Price") plus all accrued dividends whether or not declared.
- e) Series 5 Preferred Stock: \$9.59 per share ("Series 5 Original Issue Price") plus all accrued dividends whether or not declared.

After the payment of all preferential amounts to preferred stockholders, the remaining assets available for distribution shall be distributed among common stockholders on a pro-rata basis.

The total liquidation preferences as of December 31, 2023 and 2022 amounted to \$7,900,105.

Conversion

Each share of Preferred Stock is convertible into Class B common stock, at the option of the holder, at any time after the date of issuance. In addition, each share of Preferred Stock will be automatically converted into shares of Class B common stock at the applicable conversion ratio then in effect upon the closing of a firm-commitment public offering resulting in at least \$25,000,000 of gross proceeds to the Company.

The conversion ratio of each series of Preferred Stock is determined by dividing the Original Issue Price of each series by the Conversion Price of each series. The Conversion Price per share is \$0.40 for Series 1 Preferred Stock, \$0.58 for Series 2 Preferred Stock, \$0.34 for Series 3 Preferred Stock, \$0.346 for Series 4 Preferred Stock and \$9.59 for Series 5 Preferred Stock, each subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization. Accordingly, as of December 31, 2023 and 2022, each share of each series of Preferred Stock was convertible into shares of Class B common stock on a one-for-one basis.

Common Stock

As of December 31, 2023 and 2022, the Company's certificate of incorporation, as amended and restated, authorized the Company to issue a total of 25,000,000 shares of common stock, of which 8,500,000 shares were designated to Class A common stock and 16,500,000 shares were designated to Class B common stock.

Class A and Class B common stockholders have voting rights of one vote per share. The voting, dividend, and liquidation rights of the holders of common stock are subject to and qualified by the rights, powers, and preferences of preferred stockholders.

During the year ended December 31, 2023, the Company issued 14,917 shares of Class B common stock pursuant to exercises of stock options for proceeds of \$27,250. During the year ended December 31, 2022, the Company issued 14,658 shares of Class B common stock pursuant to exercises of stock options for proceeds of \$6,567.

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As of December 31, 2023 and 2022, there were 8,500,000 shares of Class A common stock issued and outstanding. As of December 31, 2023 and 2022, there were 3,896,564 and 3,881,647 shares of Class B shares of common stock outstanding, respectively.

7. STOCK-BASED COMPENSATION

2015 Employee, Director, Advisor and Consultant Stock Option Plan

The Company has adopted the 2015 Employee, Director, Advisor and Consultant Stock Option Plan (“2015 Plan”), as amended and restated, which provides for the grant of shares of stock options and restricted stock awards to employees, non-employee directors, and non-employee consultants. The number of shares authorized by the 2015 Plan was 6,600,000 and 5,600,000 shares as of December 31, 2023 and 2022, respectively. The option exercise price generally may not be less than the underlying stock’s fair market value at the date of the grant and generally have a term of ten years. The amounts granted each calendar year to an employee or non-employee is limited depending on the type of award. Stock options and restricted commons stock comprise all of the awards granted since the 2015 Plan’s inception. As of December 31, 2023 and 2022, there were 685,506 and 57,160 shares available for grant under the 2015 Plan. All underlying securities under the 2015 Plan were shares of Class B common stock. Stock options granted under the 2015 Plan have vesting terms ranging from immediate vesting to over a five-year period.

A summary of information related to stock options for the year ended December 31, 2023 is as follows:

	Options	Weighted Average Exercise Price	Intrinsic Value
Outstanding as of December 31, 2022	4,716,569	\$ 2.36	\$ 34,086,147
Granted	606,479	9.48	
Exercised	(14,917)	2.68	
Forfeited	(234,825)	0.45	
Outstanding as of December 31, 2023	5,073,306	\$ 2.36	\$ 34,086,147
Exercisable as of December 31, 2023	4,419,841	\$ 1.28	

	December 31,	
	2023	2022
Weighted average grant-date fair value of options granted during year	\$ 1.87	\$ 5.54
Weighted average duration (years) to expiration of outstanding options at year-end	7.74	7.00

The following table presents, on a weighted average basis, the assumptions used in the Black-Scholes option-pricing model to determine the grant-date fair value of stock options granted:

	Year Ended December 31,	
	2023	2022
Risk-free interest rate	4.50%	0.50%
Expected term (in years)	6.95	6.90
Expected volatility	61.0%	61.0%
Expected dividend yield	0%	0%

The total grant-date fair value of the options granted during the years ended December 31, 2023 and 2022 was approximately \$1.1 million and \$2.3 million, respectively. Stock-based compensation expense for stock options of \$1,763,252 and \$2,268,417 was recognized under ASC 718 for the years ended December 31, 2023 and 2022,

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respectively. During the year ended December 31, 2023, stock-based compensation expense was included in cost of goods sold, general and administrative expenses and sales and marketing expense of \$748,325, \$539,341 and \$475,594, respectively. During the year ended December 31, 2022, stock-based compensation expense was included in cost of goods sold, general and administrative expenses and sales and marketing expense of \$765,409, \$947,630 and \$555,378, respectively. Total unrecognized compensation cost related to non-vested stock option awards amounted to approximately \$4.9 million as of December 31, 2023 and will be recognized over a weighted average period of approximately 22 months as of December 31, 2023.

8. INCOME TAXES

The following table presents the current and deferred tax provision for federal and state income taxes for the years ended December 31, 2023 and 2022:

	Year Ended December 31,	
	2023	2022
Current income tax provision:		
Federal	\$ -	\$ 2,313,153
State	348,761	422,997
Total current income tax provision	<u>348,761</u>	<u>2,736,150</u>
Deferred income tax benefit:		
Federal	(1,562,089)	(670,990)
State	(819,952)	323,075
Total deferred income tax benefit	<u>(2,382,041)</u>	<u>(347,915)</u>
Change in deferred tax asset valuation allowance	-	-
Total provision (benefit) for income taxes	<u>\$ (2,033,280)</u>	<u>\$ 2,388,235</u>

The components of our deferred tax assets (liabilities) for federal and state income taxes consisted of the following as of December 31, 2023 and 2022:

	December 31,	
	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 561,613	\$ (357,526)
Depreciation and amortization	(135,246)	(306,032)
Reserves and accruals	2,792,536	1,713,417
Other	307,568	94,569
Net deferred tax assets	<u>\$ 3,526,471</u>	<u>\$ 1,144,428</u>

Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes.

The Company recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and

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results of recent operations. The Company assessed the need for a valuation allowance against its net deferred tax assets and determined no valuation allowance is required.

Deferred tax asset was calculated using the Company's combined effective tax rate, which it estimated to be approximately 28.0% and 27.0%, respectively, for the years ended December 31, 2023 and 2022.

During the year ended December 31, 2022, the Company generated pretax income, reversing the net operating loss carryforward available in 2021. At December 31, 2023, the Company had a net operating loss carryforward available to offset future taxable income in the amount of approximately \$2.1 million for federal and \$1.7 million for state tax purposes. The Company currently does not have a valuation allowance.

The Company has evaluated its income tax positions and has determined that it does not have any uncertain tax positions through 2023. The Company will recognize interest and penalties related to any uncertain tax positions through its income tax expense. The Company is not presently subject to any income tax audit in any taxing jurisdiction, though its 2018-2023 tax years remain open to examination.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 25, 2024, the date the financial statements were available to be issued.

Based on this evaluation, no material events were identified which require adjustment or disclosure in these financial statements, other than disclosed below.

Subsequent to December 31, 2023, the Company amended the Certificate of Incorporation to increase authorized common stock to 30,000,000, of which 21,500,000 was authorized as Class B Common Stock. In addition, the Company increase authorized preferred stock to 10,000,000. The Company also designated 3,203,834 preferred shares as Series 3 Preferred Stock and 1,305,484 preferred shares as Series 6 Preferred Stock.

Subsequent to December 31, 2023, the Company entered into a Regulation D raise offering 1,305,484 Preferred Stock shares at \$3.83 per share including warrants to purchase up to 104,039 shares of Class B Common Stock at \$3.83 per share. In addition, the Company has authorized the sale of up to 1,305,484 shares of Class B Common Stock to be sold at \$3.83 per share.