



Vision Marine Technologies Inc.

Consolidated financial statements
August 31, 2023 and 2022

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of
Vision Marine Technologies Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of **Vision Marine Technologies Inc.** [the “Company”] as of August 31, 2023 and 2022, the related consolidated statements of changes in shareholders’ equity (deficit), comprehensive loss and cash flows for each of the three years in the period ended August 31, 2023, and the related notes [collectively referred to as the “consolidated financial statements”]. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at August 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended August 31, 2023, in conformity with International Financial Reporting Standards [“IFRS”] as issued by the International Accounting Standards Board.

The Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, and has stated that substantial doubt exists about the Company’s ability to continue as a going concern. Management’s evaluation of the events and conditions and management’s plans regarding these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2021.

Montréal, Canada
November 27, 2023

Vision Marine Technologies Inc.

Consolidated statements of financial position

[Going concern uncertainty – see note 2]

As at August 31,

	2023	2022
	\$	\$
Assets		
Current		
Cash	3,359,257	5,824,716
Trade and other receivables [note 6]	550,836	472,548
Income tax receivable	98,540	-
Inventories [note 7]	2,445,554	2,093,776
Prepaid expenses	1,973,591	2,472,301
Grants and investment tax credits receivable [note 21]	-	681,663
Share subscription receivable [note 17]	39,200	39,200
Advances to related parties [note 17]	20,135	16,736
Total current assets	8,487,113	11,600,940
Investment in Limestone [note 8]	-	2,435,000
Right-of-use assets [note 9]	2,414,593	2,261,100
Property and equipment [note 10]	2,313,926	2,218,982
Intangibles [note 11]	966,724	1,112,670
Deferred income taxes [note 23]	68,460	-
Goodwill [note 5]	9,680,941	9,352,640
Other financial assets	114,755	118,877
Total assets	24,046,512	29,100,209
Liabilities and shareholders' equity		
Current		
Credit facility [note 12]	155,000	-
Trade and other payables [notes 13 & 17]	1,754,900	1,030,331
Provision on onerous contracts	91,667	-
Income tax payable	-	3,188
Contract liabilities [note 14]	1,815,731	1,029,318
Current portion of lease liabilities [note 15]	647,638	561,168
Current portion of long-term debt [note 16]	271,546	72,090
Other financial liabilities	113,695	177,834
Total current liabilities	4,850,177	2,873,929
Lease liabilities [note 15]	1,994,156	1,854,381
Long-term debt [note 16]	33,783	155,259
Derivative liabilities [note 18]	5,558,822	-
Deferred income taxes [note 23]	45,137	188,044
Total liabilities	12,482,075	5,071,613
Shareholders' equity		
Capital stock [note 18]	50,395,717	43,441,591
Contributed surplus [note 19]	11,684,829	10,560,886
Accumulated other comprehensive income	1,032,628	697,671
Deficit	(51,548,737)	(30,671,552)
Total shareholders' equity	11,564,437	24,028,596
	24,046,512	29,100,209

Vision Marine Technologies Inc.

Consolidated statements of changes in equity (deficit)

[Going concern uncertainty – see note 2]

Year ended August 31,

	Capital stock		Contributed surplus \$	Deficit \$	Accumulated other comprehensive income \$	Total \$
	Units	\$				
Shareholders' equity as at August 31, 2020	<u>4,585,001</u>	<u>2,497,813</u>	<u>739,961</u>	<u>(2,445,859)</u>	<u>-</u>	<u>791,915</u>
Total comprehensive loss	-	-	-	(15,113,907)	388,566	(14,725,341)
Share issuance, net of transactions costs of nil [note 18]	595,715	2,231,999	-	-	-	2,231,999
Initial Public Offering, net of transactions costs of \$3,328,687	2,760,000	33,158,513	-	-	-	33,158,513
Conversion of related party loans into shares [note 17 & 18]	69,650	898,489	-	-	-	898,489
Shares issued as consideration for the acquisition of intangible assets [note 11 & 18]	30,000	573,936	-	-	-	573,936
Shares issued as consideration in a business combination [note 5 & 18]	284,495	3,474,232	-	-	-	3,474,232
Share-based compensation [note 19]	-	-	7,121,444	-	-	7,121,444
Shareholders' equity as at August 31, 2021	<u>8,324,861</u>	<u>42,834,982</u>	<u>7,861,405</u>	<u>(17,559,766)</u>	<u>388,566</u>	<u>33,525,187</u>
Total comprehensive loss	-	-	-	(13,111,785)	309,105	(12,802,680)
Share issuance, net of transactions costs of nil [note 18]	93,062	606,609	-	-	-	606,609
Share-based compensation [note 19]	-	-	2,699,481	-	-	2,699,481
Shareholders' equity as at August 31, 2022	<u>8,417,923</u>	<u>43,441,591</u>	<u>10,560,886</u>	<u>(30,671,551)</u>	<u>697,671</u>	<u>24,028,597</u>
Total comprehensive loss	-	-	-	(20,877,186)	334,957	(20,542,229)
Share issuance – options exercised	57,219	175,699	(12,239)	-	-	163,460
Share issuance, net of transactions costs of \$800,744 [note 18]	2,697,658	6,778,427	-	-	-	6,778,427
Share-based compensation [note 19]	-	-	1,136,182	-	-	1,136,182
Shareholders' equity as at August 31, 2023	<u>11,172,800</u>	<u>50,395,717</u>	<u>11,684,829</u>	<u>(51,548,737)</u>	<u>1,032,628</u>	<u>11,564,437</u>

Vision Marine Technologies Inc.

Consolidated statements of comprehensive loss

[Going concern uncertainty – see note 2]

Year ended August 31,

	2023	2022	2021
	\$	\$	\$
Revenues [note 20]	5,651,502	7,350,946	3,513,788
Cost of sales [note 7]	4,023,409	4,065,381	1,909,606
Cost of sales – E-Motion	91,667	-	-
Gross profit	1,536,426	3,285,565	1,604,182
Expenses			
Research and development [note 17]	5,704,912	2,242,794	1,489,953
Office salaries and benefits [note 17]	4,014,181	3,335,799	1,754,613
Selling and marketing expenses	3,470,772	1,972,306	1,086,057
Professional fees	3,764,465	3,590,816	1,633,477
Office and general	3,100,024	1,949,583	1,239,457
Share-based compensation [note 19]	1,136,182	2,699,481	7,121,444
Impairment loss on debentures [note 8]	2,637,000	-	-
Depreciation	588,957	268,490	184,855
Net finance income (expense) [note 22]	(1,604,536)	223,660	2,256,392
Other income	(117,470)	(143,922)	(153,749)
	22,694,487	16,139,007	16,612,499
Loss before tax	(21,158,061)	(12,853,442)	(15,008,317)
Income taxes [note 23]			
Current tax expense (recovery)	(70,607)	182,854	131,403
Deferred tax expense (recovery)	(210,268)	75,489	(25,813)
	(280,875)	258,343	105,590
Net loss for the period	(20,877,186)	(13,111,785)	(15,113,907)
Items of comprehensive income that will be subsequently reclassified to earnings:			
Foreign currency translation differences for foreign operations, net of tax	334,957	309,105	388,566
Other comprehensive income, net of tax	334,957	309,105	388,566
Total comprehensive loss for the year, net of tax	(20,542,229)	(12,802,680)	(14,725,341)
Weighted average shares outstanding	9,268,709	8,318,121	7,412,899
Basic and diluted loss per share	(2.25)	(1.58)	(2.04)

Vision Marine Technologies Inc.

Consolidated statements of cash flows

[Going concern uncertainty – see note 2]

Year ended August 31,

	2023	2022	2021
	\$	\$	\$
Operating activities			
Net loss	(20,877,186)	(13,111,785)	(15,113,907)
Depreciation	1,060,897	955,513	417,050
Accretion on long-term debt and lease liability	166,719	157,270	70,379
Share-based compensation – options	1,136,182	2,699,481	7,121,444
Shares issued for services	1,670,415	596,608	109,069
Net loss on debentures	2,435,000	330,000	550,000
Gain on disposal of property and equipment	173,375	-	-
Interest income received	-	85,000	-
Income tax expense	(280,875)	258,343	105,590
Income tax received	-	-	13,415
Income tax paid	(14,040)	(373,196)	-
Gain on derivative liabilities	(1,770,689)	-	-
Gain on lease termination	(50,329)	(5,652)	(7,230)
Effect of exchange rate fluctuation	49,670	17,398	(6,542)
	<u>(16,300,861)</u>	<u>(8,391,020)</u>	<u>(6,740,732)</u>
Net change in non-cash working capital items			
Trade and other receivables	(78,288)	(152,808)	(232,715)
Provision for onerous contracts	91,667	-	-
Inventories	(351,778)	(117,692)	(1,471,693)
Grants and investment tax credits receivable	681,663	(573,361)	293,937
Other financial assets	4,121	(85,597)	(25,595)
Prepaid expenses	498,710	(1,927,459)	(552,196)
Trade and other payables	724,569	182,277	96,615
Contract liabilities	786,413	130,605	396,097
Other financial liabilities	(64,139)	(61,764)	(15,156)
Cash used in operating activities	<u>(14,007,923)</u>	<u>(10,996,819)</u>	<u>(8,251,438)</u>
Investing activities			
Subscription to debentures [note 8]	-	-	(3,400,000)
Business acquisition, net of cash acquired [note 5]	-	-	(5,029,416)
Additions to property and equipment	(938,802)	(1,175,931)	(544,354)
Proceeds from the disposal of property and equipment	401,782	243,630	34,101
Additions to intangible assets	-	(32,202)	(528,726)
Cash used in investing activities	<u>(537,020)</u>	<u>(964,503)</u>	<u>(9,468,395)</u>
Financing activities			
Credit facility	155,000	-	(170,000)
Addition in long-term debts	258,000	282,424	-
Repayment of long-term debt	(207,607)	(135,230)	(419,090)
Advances from related parties	-	176,771	-
Initial public offering, net of transaction costs paid	-	-	33,430,239
Issuance of shares and warrants, net of transaction costs paid	12,437,523	-	2,025,000
Shares issued upon options conversion	163,461	10,001	-
Repayment of lease liabilities	(726,893)	(695,749)	(295,316)
Cash provided by (used in) financing activities	<u>12,079,484</u>	<u>(361,783)</u>	<u>34,570,833</u>

Vision Marine Technologies Inc.

Consolidated statements of cash flows (cont'd)

August 31, 2023

[Going concern uncertainty – see note 2]

Year ended August 31,

	2023	2022	2021
	\$	\$	\$
Net (decrease) increase in cash during the year	(2,465,459)	(12,323,105)	16,851,000
Cash, beginning of year	5,824,716	18,147,821	1,296,821
Cash, end of year	3,359,257	5,824,716	18,147,821

See accompanying notes

Vision Marine Technologies Inc.

Notes to the consolidated financial statements

August 31, 2023

1. Incorporation and nature of business

Vision Marine Technologies Inc. [the “Company”] was incorporated on August 29, 2012 and its principal business is to manufacture and sell or rent electric boats. The Voting Common Shares of the Company are listed under the trading symbol “VMAR” on Nasdaq.

The Company is incorporated in Canada and its head office and registered office is located at 730 Curé-Boivin boulevard, Boisbriand, Quebec, J7G 2A7.

Business seasonality

The Company’s operating results generally vary from quarter to quarter as a result of changes in general economic conditions and seasonal fluctuations, among other things, in each of its reportable segments. This means the Company’s results in one quarter are not necessarily indicative of how the Company will perform in a future quarter.

Sale of electric boats

The sale of electric boats segment has a seasonal aspect to its operations. Most customers purchase their electric boats from the Company with the intention of utilizing them during the summer period which typically runs from early June to late August and corresponds to the Company’s fourth quarter of a financial year. As such, the revenues in this operating segment fluctuate based on the level of boat deliveries, with a high and a low in the fourth quarter and the first quarter, respectively.

Rental of electric boats

Revenue generated by the rental of electric boats segment also has a seasonal aspect to its operations. Boat rental as an activity is highly sought by customers when the weather is milder, which is typically the case during the period from May to August. A colder-than-expected or rainier summer in any given year could have an impact on the segment’s revenues and hence on its profitability. Revenue from the boat club memberships is not impacted by seasonality as the memberships are typically on an annual basis.

2. Basis of preparation and going concern uncertainty

Compliance with IFRS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards [“IFRS”] as issued by the International Accounting Standards Board [“IASB”] and interpretations issued by the International Financial Reporting Interpretations Committee [“IFRIC”] in effect on August 31, 2023.

The consolidated financial statements were authorized for issue by the Board of Directors on November 27, 2023.

Going concern uncertainty

As of August 31, 2023, the Company has cash of \$3,359,257 and working capital of \$3,676,936. The Company has incurred recurring losses, has not yet achieved profitable operations and has a deficit of \$51,548,737 since its inception. The cash flows from operations were negative for the three years ended August 31, 2023. Additional financing will be needed by the Company to fund its operations and to commercialize the E-Motion powertrain business. These matters, when considered in aggregate, indicate the existence of a material uncertainty that raises substantial doubt about the Company’s ability to continue as a going concern for at least 12 months from the issuance of these consolidated financial statements. In view of these matters, continuation as a going concern is dependent upon the continued operations of the Company which will be determined by the Company’s ability to meet its financial requirements, including its ability to raise additional capital.

Notes to the consolidated financial statements

August 31, 2023

The Company is evaluating several different strategies and is actively pursuing actions that are expected to increase its liquidity position, including, but not limited to, pursuing additional cost savings initiatives and seeking additional financing from both the public and private markets through the issuance of equity securities. For the year ended August 31, 2023, the Company was able to raise net proceeds from issuance of shares of \$12,437,523. However, the Company's management cannot provide assurances that the Company will be successful in accomplishing any of its proposed financing plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur within the next 12 months which could increase the Company's need to raise additional capital on an immediate basis, which additional capital may not be available to the Company.

The accompanying consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These consolidated financial statements as at and for the year ended August 31, 2023 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

Basis of consolidation

The consolidated financial statements include the accounts of the Company, and the subsidiaries that it controls. Control exists when the Company has the power over the subsidiary, when it is exposed or has rights to variable returns from its involvement with the subsidiary and when it has the ability to use its power to affect its returns. Subsidiaries that the Company controls are consolidated from the effective date of acquisition up to the effective date of disposal or loss of control.

Details of the Company's significant subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Principal activity	Country of incorporation and operation	Proportion of ownership held by the Company
7858078 Canada Inc.	Owns an electric boat rental center	Canada	100%
EB Rental Ltd.	Operates an electric boat rental center	United States	100%
EB Rental Ventura Corp.	Operates an electric boat rental center	United States	100%
Vision Marine Technologies Corp.	Operates an electric boat service center	United States	100%

Use of estimates and judgments

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

Notes to the consolidated financial statements

August 31, 2023

3. Significant accounting policies

Business combination Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash held on trust, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Trade and other receivables

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

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

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

Inventories

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

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

Grants and investment tax credits

Government grants are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Where retention of a government grant is dependent on the Company satisfying certain criteria, it is initially recognized as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the statement of consolidated comprehensive loss or netted against the asset purchased.

Leases

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease [i.e., the date the underlying asset is available for use]. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term ranging from two to six years. Right-of-use assets are subject to impairment.

Vision Marine Technologies Inc.

Notes to the consolidated financial statements

August 31, 2023

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments [including in- substance fixed payments] less any lease incentives receivable and variable lease payments that depend on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Interest accretion is recorded as interest expense in finance costs. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in- substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value [i.e., below \$5,000]. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. For the year-ended August 31, 2023, the expense for leases of low- value assets is insignificant.

Property and equipment

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

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

Asset type	Methods	Rates
Computer equipment	Declining balance method	55%
Machinery and equipment	Declining balance method	20%
Rolling stock	Declining balance method	30%
Leasehold improvements	Straight-line method	Over the term of the lease
Boat rental fleet	Straight-line method	15 years
Moulds	Straight-line method	25 years

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

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

Notes to the consolidated financial statements

August 31, 2023

Intangible assets and goodwill

Expenditure on research activities is recognized in net earnings as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in net earnings as incurred. The Company has not capitalized any development costs. When awarded with government grants and income tax credits, the Company recognizes the income either in net loss, netted with the related expenses, or as a reduction of the cost, when related with capitalized development expenditure.

Goodwill arising from business combinations is initially recognized when the fair value of the separately identifiable assets the Company acquired and liabilities the Company assumed is lower than the consideration paid [including the recognized amount of the non-controlling interest, if any]. If the fair value of the consideration transferred is lower than that of the separately identified assets and liabilities, the Company immediately recognizes the difference as a gain in the consolidated statement of comprehensive loss.

Other intangible assets, including intellectual property, software, trade name, backlog and website that have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated over the cost of the asset less its residual value. Amortization is recognized in net earnings on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives are as follows:

Asset type	Methods	Rates
Intellectual property	Straight-line method	10 years
Software	Straight-line method	7 years
Trade name	Straight-line method	5 years
Backlog	Straight-line method	3 years
Website	Straight-line method	5 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment of non-financial assets

Non-financial assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets, other than goodwill, to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets [the “cash- generating unit”, or “CGU”].

Recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If the recoverable amount of an asset or CGU is lower than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Notes to the consolidated financial statements

August 31, 2023

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised recoverable amount, to the extent that the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Goodwill

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of impairment testing, goodwill is allocated to each of the Company's CGU [or groups of CGUs] that is expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the goodwill allocated to the CGU and then, to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis. Any impairment loss is recognized in the consolidated statement of comprehensive loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Trade and other payables

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

Provisions

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

Onerous contracts

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Company cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

When the Company has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Company recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

Notes to the consolidated financial statements

August 31, 2023

Fair value measurement

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

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

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

Financial instruments

Classification and measurement of financial instruments

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

The Company assesses the classification of warrants to purchase common shares of the Company, whether the warrants issued meet the criteria of an equity instrument (i.e. the warrants would be settled by the issuance of fixed number of common shares of the Company at a fixed exercise price) or a financial liability. Since the exercise price of these warrants is denominated in U.S. dollars, while the functional currency of the Company is Canadian dollar, the value of the proceeds on exercise of the warrants is not fixed and will vary based on the foreign exchange rate movements. As such, the Company classified the warrants, other than warrants issued as compensation for goods and services, as derivative liabilities, measured at fair value at initial recognition and at each reporting period. Any changes in fair value are recorded as gain or loss in the consolidated statement of comprehensive loss. Refer to note 19 and 25 for details on the warrants issued and outstanding for the year ended August 31, 2023, the derivative liabilities recorded and the assumptions used to determine the fair value.

Amortized cost

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

Notes to the consolidated financial statements

August 31, 2023

Fair value through profit and loss

The Company classifies debentures as financial instruments measured at fair value through profit and loss since the contractual cash flows received from the financial asset are not solely payments of principal and interest.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost. The measurement of the loss allowance depends upon the Company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain. Where there has not been a significant increase in exposure to credit risk, a 12-month expected credit loss allowance is estimated. The amount of expected credit loss recognized is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate. Impairment provisions for current and non-current trade receivables are recognized based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses.

Equity instruments

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

The Company's shares are classified as equity instruments.

Revenue recognition

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

- identifies the contract with the customer;
- identifies the performance obligations in the contract;
- determines the transaction price which takes into account estimates of variable consideration and the time value of money;
- allocates the transaction price to separate performance obligations on the basis of relative stand-alone selling price of each distinct good or service to be delivered; and,
- recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

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

Notes to the consolidated financial statements

August 31, 2023

Sale of boats

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

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

Boat rental and boat club membership revenue

Revenue from boat rentals is recognized at a point in time when the services are completed given the short term rental period. Boat club membership revenue is recognized over time as the service is provided. These services are typically provided, and thus revenue is typically recognized, on a monthly basis.

The Company recognizes customer prepayments on boat rentals and boat club memberships as contract liabilities.

Sale of parts and boat maintenance

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

Other

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

Contract liabilities

A contract liability is recognized if a payment is received, or a payment is due [whichever is earlier] from a customer before the Company transfers the related goods or services. Contract liabilities are recognized as revenue when the Company performs under the contract [i.e., transfers control of the related goods or services to the customer].

Share-based payments

The Company has a share option plan for key employees, consultants, advisors, officers and directors from which options to purchase common stock of the Company are issued. The Company also issues warrants to non-employees granting the right to purchase common stock of the Company at a determined exercise price. Share-based compensation costs are accounted for on a fair value basis, as measured at the grant date, using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee. In situations where options or warrants have been issued to non-employees and some or all of the services received by the Company can be specifically identified, the options or warrants are measured at the fair value of the services received. If the services cannot be specifically identified, the options or warrants are measured at the fair value of the options issued.

Notes to the consolidated financial statements

August 31, 2023

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to contributed surplus. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Any adjustment to cumulative share-based compensation resulting from a revision is recognized in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Foreign currency translation

The Company's consolidated financial statements are presented in Canadian dollars, which is also the parent company's functional currency. The functional currencies of 7858078 Canada Inc. and EB Rental Ltd. are the Canadian dollar and the US dollar, respectively. The Company and its subsidiaries each determine their functional currency based on the currency of the primary economic environment in which they operate. Transactions denominated in a currency other than the functional currency of an entity are translated at the exchange rate in effect on the transaction date. The resulting exchange gains and losses are included in each entity's net loss in the period in which they arise.

The Company's foreign operations are translated to the Company's presentation currency, for inclusion in the consolidated financial statements. Foreign-denominated monetary and non-monetary assets and liabilities of foreign operations are translated at exchange rates in effect at the end of the reporting period and revenue and expenses are translated at exchange rates in effect at the transaction date. The resulting translation gains and losses are included in other comprehensive income with the cumulative gain or loss reported in accumulated other comprehensive income. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

The exchange rates for the currencies used in the preparation of the consolidated financial statements were as follows:

	Exchange rate as at		Average exchange rate for year ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
	US dollar	1.3535	1.3076	1.3465

Taxes

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

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

Notes to the consolidated financial statements

August 31, 2023

Deferred tax

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

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Earnings per share

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

Diluted income per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common stock outstanding, adjusted for the effects of all dilutive potential common stock. For the purpose of calculating diluted earnings per share, the Company assumes the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments are regarded as having been received from the issue of common stock at the average market price of common shares during the period. The difference between the number of common shares issued and the number of common shares that would have been issued at the average market price of common shares during the period is treated as an issue of common shares for no consideration..

New and amended standards and interpretations

The Company applied certain amendments to the accounting standards, which are effective for annual periods beginning on or after 1 January 2023. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments were effective for annual reporting periods beginning on or after January 1, 2022. The amendments did not have a material impact on the Company’s consolidated financial statements.

Notes to the consolidated financial statements

August 31, 2023

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Property, plant and equipment

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Company's consolidated financial statements.

Standards issued but yet not effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are not expected to have a material impact on the Company's consolidated financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments are not expected to have a material impact on the disclosures in the Company's consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments are not expected to have a material impact on the Company's consolidated financial statements.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16, Leases, to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. The amendments are not expected to have a material impact on the Company's consolidated financial statements.

Notes to the consolidated financial statements

August 31, 2023

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance

with future covenants within twelve months. The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The amendments are not expected to have a material impact on the Company's consolidated financial statements.

4. Significant accounting estimates and assumptions

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

Going concern uncertainty

In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that raise substantial doubt about the Company's ability to continue as a going concern, management must estimate future cash flows for a period of at least twelve months following the end of the reporting period by considering relevant available information about the future. In addition, management must make assumptions about what actions it will take to increase the Company's liquidity position. Given that it is difficult to adequately predict future cash flows and the Company's ability to raise additional financing, management has concluded that there are material uncertainties related to events or conditions that raise substantial doubt upon the Company's ability to continue as a going concern for at least the next twelve months.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The Company concluded the fair value less costs of disposal will yield a higher recoverable amount, which is based on a discounted cash flow ("DCF") model. The fair value measurement is categorized within Level 3 of the fair value hierarchy. The cash flows are derived from cash flow projections over a 5-year period, including future investments and expansion activities that will enhance the performance of the assets of the CGU.

As at August 31, 2023, all of the Company's goodwill is allocated to the boat rental operation CGU, which represents the lowest level within the Company at which the goodwill is monitored for internal management purposes. For the year ended August 31, 2023, there was no impairment of goodwill.

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The recoverable amount is sensitive to the discount rate used for the DCF model, as well as the expected future cash-inflows, gross profit and the growth rate used for extrapolation purposes. The post-tax discount rate of 28% used in the DCF is based on a weighted average cost of capital calculated using observable market-based inputs or a benchmark of a sample of representative publicly traded companies. The long-term growth rate of 2% used for extrapolation purposes is based on published research growth rates. Any reasonable negative change in the key assumptions used could cause the carrying value of this CGU to exceed its recoverable amount.

Financial instruments measured at fair value

In measuring financial instruments at fair value, the Company makes estimates and assumptions, including estimates and assumptions about interest rates, credit spreads and other market conditions. Financial instruments measured at fair value include derivative liabilities [note 19] and investment in Limestone [note 8].

Provision for impairment of inventories

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

Income tax

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

In assessing the recoverability of deferred tax assets, the Company relies on the same forecast assumptions used elsewhere in the financial statements and in other management reports, which, among other things, reflect the potential impact of climate-related development on the business.

Share-based payments

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instrument at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. Judgment is exercised in determining the expected life and historical volatility. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities but may impact profit or loss and equity.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgment is exercised in determining whether there is reasonable certainty that an option to extend the lease will be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option are considered at the lease commencement date. The Company reassesses whether it is reasonably certain to exercise an extension option if there is a significant event or significant change in circumstances.

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Incremental borrowing rate

Where the interest rate implicit in the lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Company estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

5. Goodwill

On June 3, 2021, the Company completed the acquisition of EB Rental Ltd. ["EBR"] by acquiring all the issued and outstanding shares of 7858078 Canada Inc. EBR operates an electric boat rental operation located in Newport beach, California, with a fleet of over 20 ships. All boats operated by EBR are supplied by the Company, which offers the Company the ability to showcase its products and provide brand awareness. Before the acquisition, the Company and EBR were related through common ownership.

EBR was acquired for cash consideration of U.S.\$4,582,367 (\$5,546,039), financed entirely by the Company's available cash on hand, and equity consideration of \$3,474,232 representing 284,495 shares at U.S.\$10.09 [approximately \$12.21] per share.

The balance of goodwill related to the acquisition of EBR is at \$9,680,941 as at August 31, 2023 [2022 – \$9,352,640], with the change since acquisition date due to foreign exchange translation.

6. Trade and other receivables

	2023	2022
	\$	\$
Trade receivables	59,364	108,716
Sales taxes receivable	159,114	194,523
Other receivables	332,358	169,309
	<u>550,836</u>	<u>472,548</u>

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

Vision Marine Technologies Inc.

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As at August 31, 2023, trade receivables of \$59,364 [2022 – \$108,706] were past due but not impaired. They relate to customers with no default history. The aging analysis of these receivables is as follows:

	2023	2022
	\$	\$
0 – 30	13,986	77,625
31 – 60	-	-
61 – 90	-	14,212
91 and over	45,378	16,879
	<u>59,364</u>	<u>108,716</u>

There were no movements in the allowance for expected credit losses for years ended August 31, 2023 and August 31, 2022.

7. Inventories

	2023	2022
	\$	\$
Raw materials	1,553,501	1,709,368
Work-in-process	369,753	75,170
Finished goods	522,300	309,238
	<u>2,445,554</u>	<u>2,093,776</u>

For the year ended August 31, 2023, inventories recognized as an expense amounted to \$4,023,409 [2022 – \$4,065,381; 2021 – \$1,909,606].

For the year ended August 31, 2023, cost of sales includes depreciation of \$471,940 [2022 – \$687,023; 2021 - \$232,195].

8. Investment in Limestone

On May 14, 2021, the Company subscribed for and purchased 3,400 senior unsecured subordinated convertible debentures of The Limestone Boat Company Limited ["Limestone"], a publicly traded company listed under the trading symbol "BOAT" on the TSX Venture Exchange [the "Debentures"], for an aggregate amount of \$3,400,000.

The Debentures bear interest at a rate of 10% per annum, payable annually in arrears, and have a 36-month term [the "Term"]. The Debentures are convertible at any time at the option of the Company into common shares of Limestone ["Common Shares"] at a conversion price of \$0.36 per Common Share [the "Conversion Price"]. If at any time following 120 days from the date of issuance of the Debentures [the "Closing Date"] and prior to the date that is 30 days prior to the end of the Term, the volume weighted average closing price of the Common Shares on the TSX Venture Exchange, or such other exchange on which the Common Shares may be listed, is equal to or higher than \$0.50 per Common Share for 20 consecutive trading days, Limestone may notify the Company that the Debentures will be automatically converted into Common Shares at the Conversion Price 30 days following the date of such notice.

The Debentures are carried at fair value through profit and loss and are considered as Level 2 financial instruments in the fair value hierarchy.

Vision Marine Technologies Inc.

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On January 20, 2023, Limestone announced that Limestone's U.S. subsidiaries filed for voluntary petitions for relief under Chapter 7 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Middle District of Tennessee. As a result, the Company recorded an impairment on the entire value of the Debentures at the amount \$2,637,000 for the year ended August 31, 2023 [2022 – nil, 2021 - nil].

For the year ended August 31, 2023, the Company recorded a loss of \$88,866 [2022 - \$670,000; 2021 – \$550,000] for the change in fair value of the Debentures and interest income of \$113,334 [2022 - \$340,000; 2021 - \$85,000] in net loss as a net financial income (expense).

On July 18, 2023, the Company agreed with Limestone to convert the Debentures into common shares of Limestone at a conversion price of \$0.071, which was approved by the shareholders of Limestone and awaiting the issuance of the Company's shareholder certificate. The Company maintained the fair value of its investment in Limestone at nil as at August 31, 2023.

9. Right-of-use assets

	Premises \$	Computer equipment \$	Rolling stock \$	Boat rental fleet \$	Total \$
Cost					
Balance at August 31, 2021	2,746,118	3,646	202,536	326,868	3,279,168
Additions	93,565	-	141,043	-	234,608
Disposals	-	-	(255,953)	(115,409)	(371,362)
Currency translation	40,356	-	394	-	40,750
Balance at August 31, 2022	2,880,039	3,646	88,020	211,459	3,183,164
Additions	921,498	-	-	-	921,498
Disposals	-	-	(46,200)	(170,298)	(216,498)
Transferred to Property and equipment	-	(3,646)	-	(41,161)	(44,807)
Currency translation	38,255	-	2,099	-	40,354
Balance at August 31, 2023	3,839,792	-	43,919	-	3,883,711
Accumulated depreciation					
Balance at August 31, 2021	334,357	576	14,949	24,087	373,969
Depreciation	488,050	2,302	71,488	89,617	651,457
Disposal	-	-	(66,122)	(37,240)	(103,362)
Balance at August 31, 2022	822,407	2,878	20,315	76,464	922,064
Depreciation	615,937	768	23,934	21,442	662,081
Disposal	-	(3,646)	(13,475)	(97,906)	(115,027)
Balance at August 31, 2023	1,438,344	-	30,774	-	1,469,118
Net carrying amount					
As at August 31, 2022	2,057,632	768	67,705	134,995	2,261,100
As at August 31, 2023	2,401,448	-	13,145	-	2,414,593

During the year ended August 31, 2023, the Company exercised a purchase option and paid in full a lease liability related to a computer and boat rental fleet that was previously included in the right-of-use assets. As a result, the Company transferred the assets to property and equipment assets at its net book value of \$44,807 [note 11].

Notes to the consolidated financial statements

August 31, 2023

10. Property and equipment

	Machinery and equipment \$	Rolling stock \$	Computer equipment \$	Moulds \$	Leasehold improvements \$	Boat rental fleet \$	Total \$
Cost							
Balance at August 31, 2021	302,938	32,175	14,647	691,005	131,233	513,317	1,685,315
Additions	30,146	197,739	11,284	220,919	133,123	582,720	1,175,931
Disposals	-	(111,215)	(4,899)	-	-	(154,714)	(270,828)
Currency translation	-	(35)	-	-	-	30,154	30,119
Balance at August 31, 2022	333,084	118,664	21,032	911,924	264,356	971,477	2,620,537
Additions	62,409	69,029	565	30,501	97,699	678,599	938,802
Transferred from Right-of-use assets	-	-	3,646	-	-	41,161	44,807
Disposals	-	(136,072)	-	-	-	(499,770)	(635,842)
Currency translation	-	(2,347)	-	-	-	(70,115)	(72,462)
Balance at August 31, 2023	395,493	49,274	25,243	942,425	362,055	1,121,352	2,895,842
Accumulated depreciation							
Balance at August 31, 2021	167,604	24,362	8,398	50,420	11,579	8,443	270,806
Depreciation	30,200	23,938	5,079	22,608	32,926	43,196	157,947
Disposal	-	(18,301)	(674)	-	-	(8,223)	(27,198)
Balance at August 31, 2022	197,804	29,999	12,803	73,028	44,505	43,416	401,555
Depreciation	31,495	25,875	4,485	37,696	69,332	72,163	241,046
Disposal	-	(21,864)	-	-	-	(38,821)	(60,685)
Balance at August 31, 2023	229,299	34,010	17,288	110,724	113,837	76,758	581,916
Net carrying amount							
As at August 31, 2022	135,280	88,665	8,229	838,896	219,851	928,061	2,218,982
As at August 31, 2023	166,194	15,264	7,955	831,701	248,218	1,044,594	2,313,926

As at August 31, 2023, moulds of \$377,253 [August 31, 2022 – \$346,752] are not depreciated because they are not ready for use.

Notes to the consolidated financial statements

August 31, 2023

11. Intangible assets

	Intellectual property \$	Software \$	Trade name \$	Backlog \$	Website \$	Total \$
Cost						
Balance at August 31, 2021	1,035,070	73,573	93,856	79,220	18,771	1,300,490
Additions	-	28,202	4,000	-	-	32,202
Currency translation	-	-	438	330	87	855
Balance at August 31, 2022	1,035,070	101,775	98,294	79,550	18,858	1,333,547
Additions						
Currency translation	-	-	6,057	4,556	1,211	11,824
Balance at August 31, 2023	1,035,070	101,775	104,351	84,106	20,069	1,345,371
Accumulated depreciation						
Balance at August 31, 2021	55,581	7,107	4,633	6,520	927	74,768
Depreciation	103,508	17,593	9,806	13,310	1,892	146,109
Balance at August 31, 2022	159,089	24,700	14,439	19,830	2,819	220,877
Depreciation	103,508	12,920	20,426	16,911	4,005	157,770
Balance at August 31, 2023	262,597	37,620	34,865	36,741	6,824	378,647
Net carrying amount						
As at August 31, 2022	875,981	77,075	83,855	59,720	16,039	1,112,670
As at August 31, 2023	772,473	64,155	69,486	47,365	13,245	966,724

On February 16, 2021, the Company acquired intellectual property in exchange for cash consideration of EUR 300,000 (\$461,134) and the issuance of 30,000 shares of the Company [note 18] at a price of U.S.\$15.07 [approximately \$19.13] for total consideration of \$1,035,070.

12. Credit facility

The Company has an authorized line of credit of \$250,000, renewable annually, bearing interest at prime rate plus 1%, secured by a first ranking movable hypothec of \$750,000 on all present and future accounts receivable and inventory. As at August 31, 2023, the Company has drawn an amount of 155,000 [2022 – Nil] on the line of credit.

Notes to the consolidated financial statements

August 31, 2023

13. Trade and other payables

	2023	2022
	\$	\$
Trade payables	1,107,310	737,946
Sales taxes payable	62,398	21,547
Government remittances	-	9,450
Salaries, vacation and other employee benefits payables	585,192	261,388
	<u>1,754,900</u>	<u>1,030,331</u>

14. Contract liabilities

	2023	2022
	\$	\$
Opening balance	1,029,318	898,713
Payments received in advance	3,330,235	2,502,080
Boat sale deposits	151,572	87,609
Payments reimbursed	(8,131)	(2,615)
Transferred to revenues	(2,718,943)	(2,475,307)
Currency translation	31,680	18,838
Closing balance	<u>1,815,731</u>	<u>1,029,318</u>

15. Lease liabilities

	2023	2022
	\$	\$
Opening balance	2,415,549	2,966,816
Additions	921,498	234,608
Repayment	(726,893)	(695,749)
Interest on lease liability	139,132	141,994
Lease termination	(151,800)	(273,652)
Currency translation	44,308	41,532
Closing balance	<u>2,641,794</u>	<u>2,415,549</u>
Current	<u>647,638</u>	<u>561,168</u>
Non-current	<u>1,994,156</u>	<u>1,854,381</u>
	<u>2,641,794</u>	<u>2,415,549</u>

Vision Marine Technologies Inc.**Notes to the consolidated financial statements**

August 31, 2023

Future undiscounted lease payments as at August 31, 2023 are as follows:

	\$
Less than one year	775,991
One to five years	2,221,910
	<u>2,997,901</u>

Included in rent expense is \$127,511 of short-term lease expense [2022 – \$58,663, 2021 - \$50,186]. The lease liabilities have a weighted average interest rate of 5.79% [2022 – 5.4%, 2021 – 5.2%].

16. Long-term debt

	2023	2022
	\$	\$
The government assistance loan is non-interest bearing until December 31, 2022 at which time the loan bears interest at 5% per annum. The loan must be repaid by December 31, 2025.	40,000	39,342
Term loans, bearing interest at rates varying between 9.44% and 10.71%, repayable in monthly instalments of \$23,337, ending January 2025.	265,329	188,007
	<u>305,329</u>	<u>227,349</u>
Current portion of long-term debt	271,546	72,090
	<u>33,783</u>	<u>155,259</u>

17. Related party transactions**Companies related through common ownership**

EB Rental Ltd. [prior to June 3, 2021] [note 5]
7858078 Canada Inc. [prior to June 3, 2021]
[note 5] Montana Strategies Inc.

Key management personnel of the Company have control over the following entities

California Electric Boat Company Inc.
9335-1427 Quebec Inc.
Hurricane Corporate Services Ltd.
Mac Engineering, SASU – Since February 16, 2021

Ultimate founder shareholders and their individually controlled entities

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

Vision Marine Technologies Inc.**Notes to the consolidated financial statements**

August 31, 2023

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

	2023	2022	2021
	\$	\$	\$
Revenues			
Sales of boats			
EB Rental Ltd. [prior to June 3, 2021]	-	-	84,149
Patrick Bobby	-	-	-
Sale of parts and boat maintenance			
EB Rental Ltd. [prior to June 3, 2021]	-	-	40,310
Expenses			
Cost of sales			
EB Rental Ltd. [prior to June 3, 2021]	-	-	11,444
Research and Development			
9335-1427 Quebec Inc.	-	-	75,020
Mac Engineering, SASU	545,892	666,178	176,500
Travel and entertainment			
EB Rental Ltd. [prior to June 3, 2021]	-	-	8,926
Advertising and promotion			
EB Rental Ltd. [prior to June 3, 2021]	-	-	11,245
Office salaries and benefits			
Montana Strategies Inc.	29,059	62,462	-

The Company leases its Boisbriand premises from California Electric Boat Company Inc. with a right-of-use assets as at August 31, 2023 of \$1,270,955 [August 31, 2021 – \$889,866] and lease liability of \$1,395,732 [August 31, 2021 – \$971,399] [notes 9 and 15].

Vision Marine Technologies Inc.**Notes to the consolidated financial statements**

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Remuneration of directors and key management of the Company

	2023	2022	2021
	\$	\$	\$
Wages	2,447,827	2,324,770	1,299,402
Share-based payments – capital stock	433,263	-	-
Share-based payments – stock options	382,196	2,560,031	6,081,900
	<u>3,263,286</u>	<u>4,884,801</u>	<u>7,381,302</u>

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

	2023	2022
	\$	\$
Share subscription receivable		
9335-1427 Quebec Inc.	25,000	25,000
Alexandre Mongeon	14,200	14,200
	<u>39,200</u>	<u>39,200</u>
Current advances to related party		
Alexandre Mongeon	20,135	16,736
Amounts due to related parties included in trade and other payable		
Alexandre Mongeon	19,384	16,000
Patrick Bobby	13,847	12,308
Kulwant Sandher	8,654	8,062
Xavier Montagne	10,454	8,292
Mac Engineering, SASU	9,935	-
	<u>62,274</u>	<u>44,662</u>

Vision Marine Technologies Inc.

Notes to the consolidated financial statements

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18. Capital stock

Authorized

Voting Common Shares – Series Founder, Series Investor 1, Series Investor 2, voting and participating

Non-Voting Common Shares, non-voting

Preferred shares, without par value, non-cumulative annual dividend, redeemable at their issue price, non- participating, non-voting

Issued

	2023	2022
	\$	\$
11,171,800 voting common shares [2022 – 8,471,923]	<u>50,395,717</u>	<u>43,441,591</u>

Subscription and issuance of Voting Common Shares

On January 12, 2022 and February 1, 2022, the Board of Directors authorized the issuance of 25,000 Voting Common Shares and 5,435 Voting Common Shares respectively to a third party in exchange for marketing services provided to the Company.

On January 31, 2022, the Board of Directors authorized the issuance of 6,479 Voting Common Shares to a third party in exchange for sub-contracting services provided to the Company related to research and development.

During the six-month period ended August 31, 2022, the Company issued 53,445 Voting Common Shares to third parties in exchange for marketing services provided to the Company.

On August 25, 2022, the Company issued 2,703 Voting Common Shares upon the exercise of a former employee's stock options.

During the year ended August 31, 2023, the Company issued a total of 299,393 Voting Common Shares, respectively, to third parties in exchange for marketing services provided to the Company.

During the year ended August 31, 2023, the Company issued 57,219 Voting Common Shares upon the exercises of two former employees and a consultant's stock options.

During the year ended August 31, 2023, the Company issued 2,398,265 Voting Common Shares and warrants to purchase Voting Common Shares, respectively as part of the financing rounds for a total cash consideration price of \$12,012,591, net of transaction costs of \$1,225,676. During the year ended August 31, 2023, the warrants issued are to purchase 2,398,265 Voting Common Shares of the Company for a period of three years from the issuance date at an exercise price at U.S. \$4.21.

As at August 31, 2023, the derivative liabilities related to the warrants issued amounted to \$5,558,822 [August 31, 2022 – Nil], with the allocated transaction costs of \$718,546 recorded in net finance income (expense) [note 22].

Notes to the consolidated financial statements

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	2023	2022
	\$	\$
Opening balance	-	-
Additions	7,614,510	-
Change in estimate	(2,055,688)	-
Closing balance	<u>5,558,822</u>	<u>-</u>

19. Share-based payments

Description of the plan

The Company has a fixed option plan. The Company's stock option plan is administered by the Board of Directors. Under the plan, the Company's Board of Directors may grant stock options to employees, advisors and consultants, and designates the number of options and the share price pursuant to the new options, subject to applicable regulations. The options, when granted, will have an exercise price of no less than the estimated fair value of shares at the date of grant.

Stock options

On multiple grant dates, the Company granted a total of 1,664,526 stock options at exercise prices varying between

\$2.78 and \$16.29 per share to directors, officers, employees and consultants of the Company. The stock options will expire 5 to 10 years from the grant dates.

The Company recognizes share-based payments expense for option grants based on the fair value at the date of grant using the Black-Scholes valuation model. The share-based payments expense recognized for the year ended August 31, 2023 amounts to \$1,136,182 [2022 – \$2,699,481; 2021 - \$7,121,444]. The table below lists the assumptions used to determine the fair value of these option grants. Volatility is based on the historical share price volatility of the Company and other public companies with characteristics similar to the Company.

Vision Marine Technologies Inc.

Notes to the consolidated financial statements

August 31, 2023

Grant date	Exercise price \$	Market price \$	Expected volatility %	Risk-free interest rate %	Expected life [years]
May 27, 2020	3.70	3.70	84	0.4	5
May 27, 2020	2.78	3.70	84	0.4	5
October 23, 2020	3.70	3.70	97	0.4	5
November 24, 2020	16.29	13.03	101	0.4	5
November 24, 2020	5.68	5.72	75	3.6	4
February 23, 2021	15.75	15.05	103	0.6	5
May 14, 2021	5.68	5.72	75	3.6	3
July 14, 2021	9.25	9.01	105	0.7	5
September 21, 2021	8.85	8.58	106	0.9	5
January 22, 2022	5.65	5.52	107	1.5	5
November 30, 2022	6.09	6.09	107	3.1	5
December 1, 2022	5.83	5.83	107	3.0	5
March 22, 2023	5.76	5.14	75	3.6	2
March 25, 2023	5.77	5.23	75	3.6	3
March 25, 2023	5.77	5.23	75	3.6	4
April 20, 2023	5.79	5.27	75	3.6	5

The following tables summarize information regarding the option grants outstanding as at August 31, 2023:

	Number of options #	Weighted average exercise price \$
Balance at August 31, 2021	1,659,121	9.95
Granted	152,500	6.70
Forfeited	(102,500)	13.59
Exercised	(2,703)	3.70
Balance at August 31, 2022	1,706,418	9.45
Granted	88,500	5.80
Forfeited	(268,158)	9.65
Stock options modifications	(370,000)	5.78
Exercised	(57,219)	2.86
Balance at August 31, 2023	1,099,541	5.22

On March 25, 2023, 425,000 options previously granted to directors and officers of the Company with exercise price ranging from U.S. \$7.42 (\$8.98) to U.S. \$12.50 (\$16.29) and five-year term were cancelled and the Company agreed to issue 255,000 stock options with an exercise price of U.S. \$4.21 (\$5.78). The modification of these stock options granted resulted in an increase in the fair value of the stock options at the date of modification of \$129,800, recorded as stock-based compensation expense for the year ended August 31, 2023.

Vision Marine Technologies Inc.**Notes to the consolidated financial statements**

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Exercise price range \$	Number of options outstanding #	Weighted average grant date fair value \$	Weighted average remaining contractual life [years]	Exercisable options #
2.78 - 3.70	454,041	2.48	2.13	497,869
5.65 - 5.83	580,500	2.94	4.51	498,300
6.09 - 8.85	30,000	6.26	7.83	25,000
16.29	35,000	9.33	7.50	35,000

Warrants

On November 23, 2020, the Company granted the underwriter the option to purchase 151,800 Voting Common Shares of the Company for a period of five years from the date of the initial public offering at an exercise price of

U.S. \$12.50 (\$16.53).

On August 5, 2022, the Company granted the underwriter the option to purchase 50,000 Voting Common Shares of the Company for a period of four years from the grant date at an exercise price of U.S. \$8.00 (\$10.30).

On January 19, 2023, as part of a share subscription, the Company issued warrants with the option to purchase 554,253 Voting Common Shares of the Company for a period of three years from the grant date at an exercise price of U.S. \$4.21 (\$5.63).

On February 17, 2023, as part of a share subscription, the Company issued warrants with the option to purchase 475,059 Voting Common Shares of the Company for a period of three years from the grant date at an exercise price of U.S. \$4.21 (\$5.67).

On April 19, 2023, as part of a share subscription, the Company issued warrants with the option to purchase 381,293 Voting Common Shares of the Company for a period of three years from the grant date at an exercise price of U.S. \$4.21 (\$5.64).

On June 16, 2023, as part of a share subscription, the Company issued warrants with the option to purchase 493,828 Voting Common Shares of the Company for a period of three years from the grant date at an exercise price of U.S. \$4.21 (\$5.35).

On August 2, 2023, as part of a share subscription, the Company issued warrants with the option to purchase 493,8323 Voting Common Shares of the Company for a period of three years from the grant date at an exercise price of U.S. \$4.21 (\$5.37).

The table below lists the assumptions used to determine the fair value of these warrants granted or issued at the grant or issuance date. Volatility is based on the historical share price volatility of the Company and other public companies with characteristics similar to the Company.

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Grant or issuance date	Exercise price \$	Market price \$	Expected volatility %	Risk-free interest rate %	Expected life [years]
August 5, 2022	10.30	7.20	100	2.9	3
January 19, 2023	5.63	5.63	100	3.4	3
February 17, 2023	5.67	6.05	100	4.0	3
April 19, 2023	5.64	5.55	75	3.9	3
June 16, 2023	5.35	5.50	75	4.1	3
August 2, 2023	5.37	5.10	75	4.8	3

Grant or issuance date	Exercise price \$	Number of warrants outstanding #	Weighted average remaining contractual life [years]
November 23, 2020	16.53	151,800	2.23
August 5, 2022	10.30	50,000	1.93
January 19, 2023	5.63	554,253	2.39
February 17, 2023	5.67	475,059	2.47
April 19, 2023	5.64	381,293	2.64
June 16, 2023	5.35	493,828	2.79
August 2, 2023	5.37	493,832	2.92

20. Revenues

	2023 \$	2022 \$	2021 \$
Sales of boats	1,287,979	2,459,365	2,080,110
Sales of parts and boat maintenance	324,720	97,721	75,205
Boat rental and boat club membership revenue	4,038,803	4,793,860	1,355,548
Other	-	-	2,925
	5,651,502	7,350,946	3,513,788

The geographical distribution of revenues from external customers is as follows:

	2023		
	Sale of electric boats \$	Rental of electric boats \$	Total \$
Canada	348,570	-	348,570
USA	1,078,124	4,038,803	5,116,927
Other	186,005	-	186,005
	1,612,699	4,038,803	5,651,502

Notes to the consolidated financial statements

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	Sale of electric boats	Rental of electric boats	2022 Total	2021 Total
	\$	\$	\$	\$
Canada	557,639	-	557,639	571,216
USA	1,292,666	4,793,861	6,086,527	2,692,599
Other	706,780	-	706,780	249,973
	<u>2,557,085</u>	<u>4,793,861</u>	<u>7,350,946</u>	<u>3,513,788</u>

21. Grants and investment tax credits

During the year ended August 31, 2023, the Company recognized grants and investment tax credits amounting to

\$232,882 [August 31, 2022 – \$1,458,632; August 31, 2021 - \$921,658], of which \$144,032 are presented against research and development expenses [August 31, 2022 – \$1,408,840; August 31, 2021 - \$859,516], \$Nil against cost of sales [August 31, 2022 – \$8,535; August 31, 2021 - \$Nil] and \$Nil as a reduction of property and equipment and intangible assets [August 31, 2022 – \$40,584; August 31, 2021 - \$44,939]. Office salaries and benefits are presented net of \$88,850 [August 31, 2022 – \$Nil; August 31, 2021 - \$17,203] of grants.

22. Net finance expense (income)

	2023	2022	2021
	\$	\$	\$
Interest and bank charges	142,117	184,895	123,100
Interest income	(113,334)	(379,288)	-
Foreign currency exchange (gain) loss	(208,132)	(251,947)	1,583,292
Transaction costs	719,167	-	-
Gain on derivative liabilities	(2,055,688)	-	-
Loss (gain) on Debentures [note 8]	(88,666)	670,000	550,000
	<u>(1,604,536)</u>	<u>223,660</u>	<u>2,256,392</u>

Vision Marine Technologies Inc.

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23. Income taxes

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

	2023 \$	2022 \$	2021 \$
Income taxes at the applicable tax rate of 26.5% [2022 – 26.5%; 2021 – 26.5%]	(5,606,886)	(3,406,162)	(3,977,204)
Change in tax status following the initial public offering	-	-	(127,979)
Adjustment in respect of current and deferred income tax of previous year	(72,894)	(4,396)	(207,601)
Permanent differences	70,418	823,119	2,100,615
Change in recognition of deferred income tax assets	5,328,487	2,816,417	2,317,759
Other	-	29,365	-
Total income tax expense (recovery)	<u>(280,875)</u>	<u>258,343</u>	<u>105,590</u>

Deferred income taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components of the deferred tax expense and deferred tax assets and liabilities were as follows:

	Balance as at August 31, 2022 \$	Recognized in net loss \$	Recognized in equity \$	Other \$	Balance as at August 31, 2023 \$
Temporary differences					
Property and equipment	(155,298)	(20,228)	-	(8,650)	(184,176)
Intangibles	(294,385)	39,009	-	98	(255,278)
Net operating losses	4,790,012	4,564,752	-	-	9,354,764
Financing fees	705,594	(107,450)	134,225	-	732,369
Research and development	430,835	557,162	-	-	987,997
Difference in timing of recognition	259,118	493,379	-	3,403	755,900
Right-of-use asset	(616,907)	19,531	-	(6,613)	(603,989)
Lease liability	658,847	(7,400)	-	12,861	664,308
Net capital losses	50,418	-	-	-	50,418
Unrecognized deferred tax assets	(6,016,278)	(5,328,487)	(134,225)	-	(11,478,990)
Deferred tax liability	<u>(188,044)</u>	<u>210,268</u>	<u>-</u>	<u>1,099</u>	<u>23,323</u>

The net operating losses carried forward and deductible temporary differences for which deferred tax assets have not been recognized amounted to \$45,415,000 as at August 31, 2023 [2022 - \$23,849,000]. Of these amounts, \$35,333,000 [2022 - \$18,194,000] relates to net operating losses carried forward, that will expire between 2040 and 2043 and \$3,541,000 [2022 - \$1,439,000] relates to research and development expenditures, which can be carried forward indefinitely.

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As of August 31, 2023, the Company has available Canadian federal non-refundable investment tax credits of \$642,000 [2022 - \$240,000] related to research and development expenditures which may be used to reduce Canadian federal income taxes payable in future years. These non-refundable investment tax credits will expire between 2041 and 2043. The benefits of these non-refundable investment tax credits have not been recognized in the consolidated financial statements.

24. Capital disclosures

The Company's objectives in managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

Capital is regarded as total equity, as recognized in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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

The Company does not have any externally imposed capital compliance requirements at August 31, 2023.

25. Financial risk management and fair value measurement

Fair value measurement and hierarchy

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

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

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

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

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

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Classified as Level 2, the fair value of Debentures was estimated using the partial differential equation model to value convertible debentures that include a call feature. Key assumptions used in the model include volatility, which was based on actual trading data, difference in volatility since initial issuance of the instrument and similar instruments on the market, and credit spread, which was based on corporate bond yield spreads in the market and credit spread data for similar public companies. The model included a fair value adjustment based on an initial calibration exercise. During the three months ended February 28, 2023, the Company recorded an impairment loss on the Debentures based on the estimated recoverable amount of the financial asset [note 8].

The fair value of the derivative liabilities related to the warrants issued is classified as Level 2 in the fair value hierarchy and is calculated using the Black-Scholes Option Pricing Model using the historical volatility of comparable companies as an estimate of future volatility. As at August 31, 2023, the Company used volatility of approximately 75% over the remaining contractual life in order to determine the fair value of the derivative liabilities. As at August 31, 2023, if the volatility used was increased by 10% the impact would be an increase of \$628,000 to the derivative liabilities with corresponding increase in total comprehensive loss.

Financial risk management

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

[a] Credit risk

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

Credit risk related with the Debentures is reflected in the fair value of the instrument [note 8].

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

[b] Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company is exposed to liquidity risk primarily from its trade and other payables, other financial liabilities and long-term debt.

	Contractual cash flows \$	Less than one year \$	1-5 years \$
August 31, 2023			
Trade and other payables	550,836	550,836	-
Other financial liabilities	113,694	113,694	-
Long-term debt	305,329	231,546	73,783
	<u>969,859</u>	<u>896,076</u>	<u>73,783</u>
August 31, 2022			
Trade and other payables	1,030,331	1,030,331	-
Other financial liabilities	177,834	177,834	-
Long-term debt	227,349	72,090	155,259
	<u>1,435,514</u>	<u>1,280,255</u>	<u>155,259</u>

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[c] Interest rate risk

The Company is exposed to interest rate risk on its variable rate bank indebtedness and variable and fixed rate long-term debt. Fixed-rate borrowings expose the Company to fair value risk while variable rate borrowings expose the Company to cash flow risk.

[d] Foreign exchange risk

Foreign exchange risk is the risk that future cash flows or fair value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of the Company and its subsidiaries.

The Company has certain financial assets and liabilities denominated in United States dollars. The Canadian dollar equivalent carrying amounts of these assets and liabilities are as follows:

	2023	2022
	\$	\$
Cash	3,258,419	5,142,703
Trade and other receivables	188,001	103,116
Trade and other payables	800,149	172,871

Sensitivity

A reasonably possible 5% strengthening (weakening) of the U.S. dollar against the Canadian Dollar at the reporting date would have increased (decreased) net loss and other comprehensive loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Net loss		Other comprehensive income	
	+5%	-5%	+5%	-5%
	\$	\$	\$	\$
August 31, 2023	24,281	(24,281)	350,586	(350,586)

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26. Segment information

The Company operates in two reportable business segments.

The two reportable business segments offer different products and services, require different processes and are based on how the financial information is produced internally for the purposes of monitoring operating results and making decisions about resource allocation and performance assessment by the Company's Chief Operating Decision Maker.

The following summary describes the operations of each of the Company's reportable business segments:

- Sale of electric boats – manufacture of customized electric boats for consumer market and sale of boat parts maintenance, and
- Rental of electric boats – short-term rental operation and boat club membership.

Sales between segments are accounted for at prices that approximate fair value. No business segments have been aggregated to form the above reportable business segments.

	Year ended August 31, 2023			
	Sale of electric boats	Rental of electric boats	Inter-segment eliminations	Total
	\$	\$	\$	\$
Revenue from external customers	1,612,699	4,038,803	-	5,651,502
Revenue from other segments	867,097	336,683	(1,203,780)	-
Segment revenues	2,479,796	4,375,486	(1,203,780)	5,651,502
Segment gross profit (loss)	(242,590)	1,966,466	(187,450)	1,536,426
Segment loss before tax	(20,363,838)	(623,856)	(170,367)	(21,158,061)
Research and development	5,938,010	-	(233,098)	5,704,912
Office salaries and benefits	2,769,196	1,237,246	7,739	4,014,181

	Year ended August 31, 2023			
	Sale of electric boats	Rental of electric boats	Inter-segment eliminations	Total
	\$	\$	\$	\$
Revenue from external customers	2,557,086	4,793,860	-	7,350,946
Revenue from other segments	820,383	80,842	(901,225)	-
Segment revenues	3,377,469	4,874,702	(901,225)	7,350,946
Segment gross profit (loss)	596,570	2,839,970	(150,975)	3,285,565
Segment (loss) profit before tax	(13,632,377)	872,787	(93,852)	(12,853,442)
Research and development	2,242,794	-	-	2,242,794
Office salaries and benefits	2,384,746	951,053	-	3,335,799

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	August 31, 2021			
	Sale of electric boats	Rental of electric boats	Sale of electric boats	Total
	\$	\$	\$	\$
Revenue from external customers	2,158,240	1,355,548	-	3,513,788
Revenue from other segments	142,007	7,476	(149,483)	-
Segment revenues	2,300,247	1,363,024	(149,483)	3,513,788
Segment gross profit (loss)	640,228	1,003,596	(39,642)	1,604,182
Segment (loss) profit before tax				
Research and development	(15,517,319)	541,257	(32,255)	(15,008,317)
Office salaries and benefits	1,489,953	-	-	1,489,953

	August 31, 2023			
	Sale of electric boats	Rental of electric boats	Sale of electric boats	Total
	\$	\$	\$	\$
Segment assets	20,344,002	13,941,898	(10,239,388)	24,046,512
Cash	3,025,565	333,692	-	3,359,257
Additions to property and equipment	194,820	974,533	(185,744)	983,609
Segment liabilities	10,154,031	3,341,868	(1,013,824)	12,482,075

	August 31, 2022			
	Sale of electric boats	Rental of electric boats	Sale of electric boats	Total
	\$	\$	\$	\$
Segment assets	24,499,107	14,039,428	(9,438,326)	29,100,209
Cash	4,146,260	1,678,456	-	5,824,716
Additions to property and equipment	412,158	859,176	(162,446)	1,108,888
Segment liabilities	2,023,368	3,311,128	(262,883)	5,071,613

The Company has disclosed the above amounts for each reportable segment because they are regularly reviewed by the Chief Operating Decision Maker.

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27. Additional cash flows information

Financing and investing activities not involving cash:

	2023	2022	2021
	\$	\$	\$
Advances to related parties converted to shares	-	-	898,489
Unpaid share subscription	-	-	39,200
Right-of-use assets transferred to intangibles, net of accumulated depreciation	-	-	5,981
Additions to right-of-use assets	921,498	234,608	852,467
Lease termination	101,471	273,652	37,033
Shares issued as consideration for the acquisition of intangible assets	-	-	573,936
Shares issued as consideration for business acquisition	-	-	3,474,232
Transaction costs for share issuance transferred from prepaid	-	-	213,019

28. Commitments

In addition to the obligations under leases [note 15], the Company is subject to supply agreements with minimum spend commitments. The amount of the minimum fixed and determinable portion of the unconditional purchase obligations over the next years, is as follows:

	\$
2024	10,943,420

In October 2021, EB Rental Ltd. has entered into lease arrangement for premises, which have not commenced yet and therefore related right-of-use asset and lease liability are not recorded as at August 31, 2023. The lease offers EB Rental Ltd. a termination clause in case certain contractual requirements are not met by the lessor at the lease commencement date.

The Company's undiscounted lease commitments related to this lease are as follows as at August 31, 2023:

	\$
2024	67,675
2025	163,774
2026	167,049
2027 and thereafter	446,736

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29. Subsequent events

During the months of September, October and November 2023, the Company issued a total of 103,650 Voting Common Shares to third parties in exchange of sub-contracting services provided to the Company related to marketing and investor relations.

On September 20, 2023, the Company issued 372,870 Voting Common Shares and warrants to purchase Voting Common Shares, respectively as part of the financing rounds for a total cash consideration price of \$1,695,388, net of transaction costs of \$334,672. The warrants issued are to purchase 372,870 Voting Common Shares of the Company for a period of three years from the grant date at an exercise price at U.S. \$4.05.
