

AUTO PARTS 4LESS GROUP, INC.

FORM 10-Q (Quarterly Report)

Filed 02/14/24 for the Period Ending 10/31/23

Address	106 WEST MAYFLOWER NORTH LAS VEGAS, NV, 89030
Telephone	(702) 267-6100
CIK	0001438901
Symbol	FLES
SIC Code	7389 - Services-Business Services, Not Elsewhere Classified
Industry	Internet Services
Sector	Technology
Fiscal Year	01/31

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2023

OR

☐ TRANSITION REPORT UNDER SECTION 13 OF 15(d) OF THE EXCHANGE ACT OF 1934

From the transition period _____ to _____.

Commission File Number 000-55089

AUTO PARTS 4LESS GROUP, INC.

(Exact name of small business issuer as specified in its charter)

Nevada
(State or jurisdiction of
incorporation or organization)

7389
(Primary Standard Industrial
Classification Code Number)

90-1494749
(IRS Employer
Identification No.)

106 W. Mayflower, North Las Vegas, NV 89030
(Address of principal executive offices)

(702) 267-6100
(Issuer's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
N/A	N/A	N/A

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer ☐ Accelerated Filer ☐

Non-Accelerated Filer ☒ Smaller Reporting Company ☒ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by a check mark whether the company is a shell company (as defined by Rule 12b-2 of the Exchange Act):

Yes ☐ No ☒

As of January 26, 2024, there were 8,845,362 shares of Common Stock of the issuer outstanding.

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PART I — FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

AUTO PARTS 4LESS GROUP, INC. Condensed Consolidated Balance Sheets (Unaudited)

	October 31, 2023	January 31, 2023 *
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 12,490	\$ 4,737
Inventory	33,337	50,000
Prepaid Expenses	35,881	8,019
Other Current Assets	7,023	34,989
Total Current Assets	88,731	97,745
Operating Lease Assets	90,556	138,551
Property and Equipment, net of accumulated depreciation of \$160,672 and \$173,475	74,131	171,472
Total Assets	\$ 253,418	\$ 407,768
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts Payable	\$ 1,441,366	\$ 1,378,637
Accrued Interest Payable and Accrued Expenses	4,111,997	2,334,368
Accrued Expenses – Related Party	—	74,111
Customer Deposits	8,912	38,448
Deferred Revenue	1,296	66,153
Short-Term Debt	3,108,514	3,088,993
Current Operating Lease Liability	24,373	53,912
Short-Term Convertible Debt, net of debt discount of \$361,023 and \$840,067	11,763,014	10,438,583
Derivative Liabilities	6,468,586	3,271,058
Shareholder Loans Payable	255,893	—
Current Portion – Long-Term Debt	15,558	24,569
Total Current Liabilities	27,199,509	20,768,832
Non-Current Lease Liability	66,183	84,639
Long-Term Debt	39,585	87,423
Total Liabilities	27,305,277	20,940,894
Commitments and Contingencies		
Redeemable Preferred Stock (Temporary Equity)		
Series D Preferred Stock, \$0.001 par value, 870 shares authorized, 870 and 870 shares issued and outstanding, see Note 11	870,000	870,000
Stockholders' Deficit		
Preferred Stock – Series A, \$0.001 par value, 330,000 shares authorized, 0 and 0 shares issued and outstanding	—	—
Preferred Stock – Series B, \$0.001 par value, 20,000 shares authorized, 20,000 and 20,000 shares issued and outstanding	20	20
Preferred Stock – Series C, \$0.001 par value, 7,250 shares authorized, 0 and 0 shares issued and outstanding	—	—
Common Stock, \$0.000001 par value, 75,000,000 shares authorized, 7,082,421 and 1,917,982 shares issued, issuable and outstanding	7	2
Additional Paid In Capital	25,488,242	24,833,110
Accumulated Deficit	(53,410,128)	(46,236,258)
Total Stockholders' Deficit	(27,921,859)	(21,403,126)
Total Liabilities and Stockholders' Deficit	\$ 253,418	\$ 407,768

* Derived from audited information

The Accompanying Notes are an Integral Part of these Unaudited Condensed Consolidated Financial Statements.

AUTO PARTS 4LESS GROUP, INC.
Condensed Consolidated Statements of Operations
For the Three and Nine Months Ended October 31, 2023 and October 31, 2022
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 31, 2023	October 31, 2022	October 31, 2023	October 31, 2022
Revenue	\$ 143,696	\$ 1,017,986	\$ 339,116	\$ 4,089,037
Cost of Revenue	<u>37,638</u>	<u>846,898</u>	<u>70,505</u>	<u>3,296,546</u>
Gross Profit	106,058	171,088	268,611	792,491
Operating Expenses:				
Depreciation	8,852	12,743	30,310	38,587
Postage, Shipping and Freight	15,639	32,013	29,190	146,962
Marketing and Advertising	32,469	156,522	135,986	671,348
E Commerce Services, Commissions and Fees	92,313	396,065	360,318	1,076,787
Operating lease cost	7,500	29,219	54,502	90,177
Personnel Costs	22,965	131,937	134,730	505,253
General and Administrative	180,539	251,408	596,638	2,849,042
Total Operating Expenses	<u>360,277</u>	<u>1,009,907</u>	<u>1,341,674</u>	<u>5,378,156</u>
Net Operating Loss	(254,219)	(838,819)	(1,073,063)	(4,585,665)
Other Income (Expense)				
Gain (Loss) on Sale of Property and Equipment	6,411	—	9,468	—
Gain (Loss) on Derivatives	(38,261)	(184,146)	(2,178,051)	(841,772)
Gain on Settlement of Debt	—	10,128	37,382	19,539
Amortization of Debt Discount	(335,672)	(1,932,722)	(1,422,910)	(4,309,329)
Interest Expense	(731,321)	(1,186,132)	(2,546,696)	(2,511,548)
Total Other Income (Expense)	<u>(1,098,843)</u>	<u>(3,292,872)</u>	<u>(6,100,807)</u>	<u>(7,643,110)</u>
Net (Loss)	<u>\$ (1,353,062)</u>	<u>\$ (4,131,691)</u>	<u>\$ (7,173,870)</u>	<u>\$ (12,228,775)</u>
Basic Weighted Average Shares Outstanding;	<u>4,756,296</u>	<u>1,805,316</u>	<u>3,302,841</u>	<u>1,576,024</u>
Basic (Loss) per Share	<u>\$ (0.28)</u>	<u>\$ (2.29)</u>	<u>\$ (2.17)</u>	<u>\$ (7.76)</u>
Diluted Average Shares Outstanding;	<u>4,756,296</u>	<u>1,805,316</u>	<u>3,302,841</u>	<u>1,576,024</u>
Diluted (Loss) per Share	<u>\$ (0.28)</u>	<u>\$ (2.29)</u>	<u>\$ (2.17)</u>	<u>\$ (7.76)</u>

The Accompanying Notes are an Integral Part of these Unaudited Condensed Consolidated Financial Statements.

AUTO PARTS 4LESS GROUP, INC.
Condensed Consolidated Statement of Changes in Stockholders' Deficit
For the Nine Months Ended October 31, 2023 and October 31, 2022
(Unaudited)

	<u>Preferred Series A</u>		<u>Preferred Series B</u>		<u>Preferred Series C</u>		<u>Common Stock</u>		<u>Paid in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance at January 31, 2022	—	\$ —	20,000	\$ 20	7,250	\$ 7	341,023	\$ —	\$ 19,465,327	\$ (28,451,733)	\$ (8,986,379)
Conversion of Preferred Series C Shares into Shares Of Common Stock	—	—	—	—	(7,250)	(7)	905,110	1	6	—	—
Relative Fair Value of Equity Issued with Debt	—	—	—	—	—	—	254,141	—	1,064,965	—	1,064,965
Penalty Warrants Recorded as Interest	—	—	—	—	—	—	—	—	315,150	—	315,150
Rounding shares	—	—	—	—	—	—	88	—	—	—	—
Net (Loss)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,594,158)</u>	<u>(2,594,158)</u>
Balance at April 30, 2022	<u>—</u>	<u>\$ —</u>	<u>20,000</u>	<u>\$ 20</u>	<u>—</u>	<u>\$ —</u>	<u>1,500,362</u>	<u>\$ 1</u>	<u>\$ 20,845,448</u>	<u>\$ (31,045,891)</u>	<u>\$ (10,200,422)</u>
Relative Fair Value of Equity Issued with Debt	—	—	—	—	—	—	221,500	1	794,465	—	794,466
Exercise of Warrants	—	—	—	—	—	—	10,000	—	—	—	—
Penalty Warrants Recorded as Interest	—	—	—	—	—	—	—	—	280,050	—	280,050
Stock Based Compensation	—	—	—	—	—	—	—	—	1,998,000	—	1,998,000
Rounding shares	—	—	—	—	—	—	2,587	—	—	—	—
Net (Loss)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,502,926)</u>	<u>(5,502,926)</u>
Balance at July 31, 2022	<u>—</u>	<u>\$ —</u>	<u>20,000</u>	<u>\$ 20</u>	<u>—</u>	<u>\$ —</u>	<u>1,734,449</u>	<u>\$ 2</u>	<u>\$ 23,917,963</u>	<u>\$ (36,548,817)</u>	<u>\$ (12,630,832)</u>
Relative Fair Value of Equity Issued with Debt	—	—	—	—	—	—	80,000	—	567,905	—	567,905
Exercise of Warrants	—	—	—	—	—	—	10,000	—	—	—	—
Penalty Warrants Recorded as Interest	—	—	—	—	—	—	—	—	203,250	—	203,250
Cancelled Shares Pursuant to SEC Ruling	—	—	—	—	—	—	(741)	—	—	—	—
Net (Loss)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,131,691)</u>	<u>(4,131,691)</u>
Balance at October 31, 2022	<u>—</u>	<u>\$ —</u>	<u>20,000</u>	<u>\$ 20</u>	<u>—</u>	<u>\$ —</u>	<u>1,823,708</u>	<u>\$ 2</u>	<u>\$ 24,689,118</u>	<u>\$ (40,680,508)</u>	<u>\$ (15,991,368)</u>

	Preferred Series A		Preferred Series B		Preferred Series C		Common Stock		Paid in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
January 31, 2023	—	\$ —	20,000	\$ 20	—	\$ —	1,917,982	\$ 2	\$ 24,833,110	\$ (46,236,258)	\$ (21,403,126)
Common Stock Issued as Payment for Accrued Expenses	—	—	—	—	—	—	167,958	—	122,109	—	122,109
Conversion of Notes Payable and Accrued Interest into Shares Of Common Stock	—	—	—	—	—	—	434,434	1	105,819	—	105,820
Derivative Liability Reclassified as Equity Upon Conversion of Common Shares	—	—	—	—	—	—	—	—	81,429	—	81,429
Penalty Warrants Expensed as Interest	—	—	—	—	—	—	—	—	34,500	—	34,500
Relative Fair Value of Equity Issued with Debt	—	—	—	—	—	—	50,000	—	32,984	—	32,984
Net (Loss)	—	—	—	—	—	—	—	—	—	(2,871,291)	(2,871,291)
April 30, 2023	—	\$ —	20,000	\$ 20	—	\$ —	2,570,374	\$ 3	\$ 25,209,951	\$ (49,107,549)	\$ (23,897,575)
Penalty Warrants Expensed as Interest	—	—	—	—	—	—	—	—	78,020	—	78,020
Relative Fair Value of Equity Issued with Debt	—	—	—	—	—	—	962,000	1	(1)	—	—
Net (Loss)	—	—	—	—	—	—	—	—	—	(2,949,517)	(2,949,517)
July 31, 2023	—	\$ —	20,000	\$ 20	—	\$ —	3,532,374	\$ 4	\$ 25,287,970	\$ (52,057,066)	\$ (26,769,072)
Conversion of Notes Payable and Accrued Interest into Shares Of Common Stock	—	—	—	—	—	—	3,415,847	3	65,161	—	65,164
Derivative Liability Reclassified as Equity Upon Conversion of Common Shares	—	—	—	—	—	—	—	—	124,764	—	124,764
Penalty Warrants Expensed as Interest	—	—	—	—	—	—	—	—	8,370	—	8,370
Relative Fair Value of Equity Issued with Debt	—	—	—	—	—	—	134,200	—	1,977	—	1,977
Net (Loss)	—	—	—	—	—	—	—	—	—	(1,353,062)	(1,353,062)
October 31, 2023	—	\$ —	20,000	\$ 20	—	\$ —	7,082,421	\$ 7	\$ 25,488,242	\$ (53,410,128)	\$ (27,921,859)

The Accompanying Notes are an Integral Part of these Unaudited Condensed Consolidated Financial Statements.

AUTO PARTS 4LESS GROUP, INC.
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended October 31, 2023 and October 31, 2022
(Unaudited)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss)	\$ (7,173,870)	\$ (12,228,775)
Adjustments to reconcile net income (loss) to cash used by operating activities:		
Depreciation	30,310	38,587
Inventory Provision	—	143,000
Reduction of Right of Use Asset	47,995	77,782
Accretion of Lease Liability	6,507	12,396
(Gain) loss in Fair Value on Derivative Liabilities	2,178,051	841,772
Amortization of Debt Discount	1,422,910	4,309,329
Debt Discount in Excess of Face Value of Note to Interest Expense	318,355	225,429
Loan Penalties Capitalized to Loan and Accrued Interest	90,928	600,000
Debt Discount Expensed	5,000	—
Interest Expense on Penalty Warrants	120,890	798,450
Stock Based Compensation	—	1,998,000
Gain on Sale of Property and Equipment	(9,468)	—
Deferred salary for former CEO	20,000	—
Gain on Settlement of Debt	(37,382)	(19,539)
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Inventory	16,661	147,333
(Increase) Decrease in Prepaid Rent and Expenses	(27,862)	12,077
(Increase) Decrease in Other Current Assets	27,966	(17,779)
Decrease in Bank Overdraft	—	(11,055)
Increase in Accounts Payable	85,056	95,931
Increase in Accrued Interest Payable and Accrued Expenses	1,986,639	741,729
Operating Lease Payments	(54,502)	(90,178)
Decrease in Accrued Expenses -Related Party	—	(500)
Increase (Decrease) in Customer Deposits	(29,536)	(473,044)
Decrease in Deferred Revenue	(64,857)	(598,990)
CASH FLOWS (USED IN) OPERATING ACTIVITIES	(1,040,209)	(3,398,045)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of fixed assets	11,500	—
Purchase of Property and Equipment	—	(1,142)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	11,500	(1,142)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Convertible Notes Payable	788,702	4,006,714
Proceeds on Short Term Debt	107,980	—
Payments on Short Term Debt	(91,900)	(376,699)
Shareholder Loans Payable	255,893	20,000
Repayments on Shareholder Loans Payable	—	(33,561)
Payments on Long Term Debt	(14,213)	(20,739)
Payments on Convertible Notes Payable	(10,000)	(228,000)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	1,036,462	3,367,715
NET INCREASE (DECREASE) IN CASH	7,753	(31,472)
CASH AT BEGINNING OF PERIOD	4,737	77,498
CASH AT END OF PERIOD	\$ 12,490	\$ 46,026
Supplemental Disclosure of Cash Flows Information:		
Cash Paid for Interest	\$ 45,783	\$ 75,038
Convertible Notes Interest and Derivatives Converted to Common Stock	\$ 374,577	\$ —
Fair Value of Instruments Issued With Debt	\$ 34,961	\$ 2,427,336
Derivative Debt Discount	\$ 779,922	\$ 1,557,922
Debt Discount	\$ 128,869	\$ 772,796
Transfer of Short-term Loan , Shareholder Loan and Accounts payable to Convertible Note	\$ —	\$ 210,740
Issuance of Shares as Payment of Accrued Expenses	\$ 122,109	\$ —
Transfer of Vehicle at Fair Market Value to Accounts Payable Related Party	\$ 65,000	\$ —
Transfer of Vehicle Loan to Accounts Payable Related Party	\$ 42,535	\$ —

The Accompanying Notes are an Integral Part of these Unaudited Condensed Consolidated Financial Statements.

AUTO PARTS 4LESS GROUP, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Business:

Nature of Business – Auto Parts 4Less Group, Inc., (the “Company”), formerly The 4Less Group, Inc., was incorporated under the laws of the State of Nevada on December 5, 2007. The Company, under the name MedCareers Group, Inc. (“MCGI”) formally operated a website for nurses, nursing schools and nurses’ organizations designed for better communication between nurses and the nursing profession.

On November 29, 2018, the Company entered into a transaction (the “Share Exchange”), pursuant to which the Company acquired 100% of the issued and outstanding equity securities of The 4LESS Corp. (“4LESS”), in exchange for the issuance of (i) nineteen thousand (19,000) shares of Series B Preferred Stock, (ii) six thousand seven hundred fifty (6,750) shares of Series C Preferred Stock, and (iii) 870 shares of Series D Preferred Stock. The Series C Preferred Shares have a right to convert into common stock of the Company by multiplying the number of issued and outstanding shares of common stock by 2.63 on the conversion date. The Share Exchange closed on November 29, 2018. As a result of the Share Exchange, the former shareholders of 4LESS became the controlling shareholders of the Company. The Share Exchange was accounted for as a reverse takeover/recapitalization effected by a share exchange, wherein 4LESS is considered the acquirer for accounting and financial reporting purposes. The capital, share price, and earnings per share amount in these consolidated financial statements for the period prior to the reverse merger were restated to reflect the recapitalization in accordance with the shares issued as a result of the reverse merger except otherwise noted.

4LESS was formed as Vegas Suspension & Offroad, LLC on October 24, 2013 as a Nevada limited liability company and converted to a Nevada corporation with the same name on May 8, 2017. On April 2, 2018, the Company changed its name to The 4LESS Corp. The Corporation had S Corporation status. The Corporation operates as an e-commerce auto and truck parts sales company. As a result of the share exchange, The 4Less Group, Inc. is now a holding company operating through 4LESS and offers products including exhaust systems, suspension systems, wheels, tires, stereo systems, truck bed covers, and shocks. On December 30, 2019 4LESS changed its name to Auto Parts 4Less, Inc. On April 28, 2022 the Company changed its name from The 4Less Group, Inc. to Auto Parts 4Less Group, Inc.

Significant Accounting Policies:

The Company’s management selects accounting principles generally accepted in the United States of America and adopts methods for their application. The application of accounting principles requires the estimating, matching and timing of revenue and expense. The accounting policies used conform to generally accepted accounting principles which have been consistently applied in the preparation of these condensed financial statements.

Basis of Presentation:

The Company prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for interim unaudited consolidated financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete consolidated financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to instructions, rules, and regulations prescribed by the SEC. The unaudited consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of the results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended January 31, 2023 and notes thereto contained in the Company’s Annual Report on Form 10-K filed on August 11, 2023.

Principles of Consolidation:

The condensed financial statements include the accounts of Auto Parts 4Less Group, Inc. as well as The Auto Parts 4Less, Inc., and JBJ Wholesale LLC. All significant inter-company transactions have been eliminated. All amounts are presented in U.S. Dollars unless otherwise stated.

Use of Estimates:

In order to prepare financial statements in conformity with accounting principles generally accepted in the United States, management must make estimates, judgments and assumptions that affect the amounts reported in the financial statements and determine whether contingent assets and liabilities, if any, are disclosed in the financial statements. The ultimate resolution of issues requiring these estimates and assumptions could differ significantly from resolution currently anticipated by management and on which the financial statements are based. The most significant estimates included in these consolidated financial statements are those associated with the assumptions used to value derivative liabilities.

Reclassifications

Certain amounts in the Company's condensed consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods.

Cash and Cash Equivalents:

The Company considers all highly liquid instruments with a maturity of three months or less to be cash equivalents. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limits. The carrying amount of cash and cash equivalents approximates fair market value.

Inventory Valuation

Inventories are stated at the lower of cost or net realizable value. Inventories are valued on a first-in, first-out (FIFO) basis. Inventory is comprised of finished goods.

Concentrations

Cost of Goods Sold

For the nine months ended October 31, 2023 the Company purchased approximately 49% of its inventory and items available for sale from third parties from three vendors. As of October 31, 2022, the net amount due to the vendors included in accounts payable was \$339,864. For the nine months ended October 31, 2022 the Company purchased approximately 51% of its inventory and items available for sale from third parties from three vendors. As of October 31, 2022, the net amount due to the vendors included in accounts payable was \$426,606. The Company believes there are numerous other suppliers that could be substituted should a supplier become unavailable or non-competitive.

Leases

We elected the hindsight practical expedient to determine the lease term for existing leases. Our election of the hindsight practical expedient resulted in the shortening of lease terms for certain existing leases and the useful lives of corresponding leasehold improvements. In our application of hindsight, we evaluated the performance of the leased stores and the associated markets in relation to our overall real estate strategies, which resulted in the determination that most renewal options would not be reasonably certain in determining the expected lease term.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized when items of income and expense are recognized in the financial statements in different periods than when recognized in the tax return. Deferred tax assets arise when expenses are recognized in the financial statements before the tax returns or when income items are recognized in the tax return prior to the financial statements. Deferred tax assets also arise when operating losses or tax credits are available to offset tax payments due in future years. Deferred tax liabilities arise when income items are recognized in the financial statements before the tax returns or when expenses are recognized in the tax return prior to the financial statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Act”) was signed into law. ASC 740, Accounting for Income Taxes requires companies to recognize the effects of changes in tax laws and rates on deferred tax assets and liabilities and the retroactive effects of changes in tax laws in the period in which the new legislation is enacted. The Company’s gross deferred tax assets were revalued based on the reduction in the federal statutory tax rate from 35% to 21%. A corresponding offset has been made to the valuation allowance, and any potential other taxes arising due to the Tax Act will result in reductions to the Company’s net operating loss carryforward and valuation allowance. The Company will continue to analyze the Tax Act to assess its full effects on the Company’s financial results, including disclosures, for the Company’s fiscal year ending January 31, 2023, but the Company does not expect the Tax Act to have a material impact on the Company’s consolidated financial statements.

Fair Value of Financial Instruments:

The Company’s financial instruments consist of cash, accounts payable, advances and notes payable. The Company considers the carrying value of such amounts in the financial statements to approximate their fair value due to the short-term nature of these financial instruments. Derivatives are recorded at fair value at each period end. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date.

The ASC guidance for fair value measurements and disclosure establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs – Quoted prices for identical instruments in active markets.

Level 2 Inputs – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs – Instruments with primarily unobservable value drivers.

The following table sets forth, by level within the fair value hierarchy, the Company’s financial liabilities that were accounted for at fair value on a recurring basis as of October 31, 2023:

	October 31, 2023	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Derivative Liabilities – embedded redemption feature	\$ 6,468,586	\$ —	\$ —	\$ 6,468,586
Totals	\$ 6,468,586	\$ —	\$ —	\$ 6,468,586

Related Party Transactions:

The Company has a verbal policy that includes procedures intended to ensure compliance with the related party provisions in common practice for public companies. For purposes of the policy, a “related party transaction” is a transaction in which the Company or any one of its subsidiaries participates and in which a related party has a direct or indirect material interest, other than ordinary course, arms-length transactions of less than 1% of the revenue of the counterparty. Any transaction exceeding the 1% threshold, and any transaction involving consulting, financial advisory, legal or accounting services that could impair a director’s independence, must be approved by the CEO. Any related party transaction in which an executive officer or a Director has a personal interest, or which could present a possible conflict under the Guide to Ethical Conduct, must be approved by Board of Directors, following appropriate disclosure of all material aspects of the transaction.

Derivative Liability

The derivative liabilities are valued as a level 3 input under the fair value hierarchy for valuing financial instruments. The derivatives arise from convertible debt where the debt and accrued interest is convertible into common stock at variable conversion prices and reclassification of equity instrument to liability due to insufficient shares for issuance. As the price of the common stock varies, it triggers a gain or loss based upon the discount to market assuming the debt was converted at the balance sheet date. When evaluating the effect of the issuance of new equity-linked or equity-settled instruments on previously issued instruments, the Company uses first-in, first-out method (“FIFO”) where authorized and unused shares would first be used to satisfy the earliest issued equity-linked instruments.

The fair value of the derivative liability is determined using a lattice model, is re-measured on the Company’s reporting dates, and is affected by changes in inputs to that model including our stock price, historical stock price volatility, the expected term, and both high risk and the risk-free interest rate. The most sensitive inputs to the model are for expected time for the holder to convert or be repaid and the estimated historical volatility of the Company’s common stock. However, because the historical volatility of the Company’s common stock is so high (see Note 10), the sensitivity required to change the liability by 1% as of October 31, 2022 is greater than 25% change in historical volatility as of that date. The other inputs, such as risk free rate, high yield cash rate and stock price all have a sensitivity for a 1% change in the input variable results in a significantly less than 1% change in the calculated derivative liability.

Revenue Recognition

The Company recognizes revenue under ASC 606, “*Revenue from Contracts with Customers*”. The core principle of the revenue standard is that a company should recognize revenue when control is transferred over the promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods and services transferred to the customer. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the company satisfies a performance obligation

Because the Company’s sales agreements generally have an expected duration of one year or less, the Company has elected the practical expedient in ASC 606-10-50-14(a) to not disclose information about its remaining performance obligations.

Disaggregation of Revenue: Channel Revenue

The following table shows revenue split between proprietary and third-party website revenue for the three months ended October 31, 2023 and 2022:

	2023	2022	Change	
			\$	%
Proprietary website revenue	\$ 41,710	\$ 611,799	\$ (570,089)	(93%)
Third party website revenue	101,986	406,187	(304,201)	(75%)
Total Revenue	<u>\$ 143,696</u>	<u>\$ 1,017,986</u>	<u>\$ (874,290)</u>	<u>(86%)</u>

The following table shows revenue split between proprietary and third-party website revenue for the nine months ended October 31, 2023 and 2022:

	2023	2022	Change	
			\$	%
Proprietary website revenue	\$ 159,726	\$ 2,750,636	\$ (2,590,910)	(94%)
Third party website revenue	179,390	1,338,401	(1,159,011)	(87%)
Total Revenue	<u>\$ 339,116</u>	<u>\$ 4,089,037</u>	<u>\$ (3,749,921)</u>	<u>(92%)</u>

The Company's performance obligations are satisfied at the point in time when products are received by the customer, which is when the customer has title and obtained the significant risks and rewards of ownership. Therefore, the Company's contracts have a single performance obligation (shipment of product). The Company primarily receives fixed consideration for sales of product. Shipping and handling amounts paid by customers are primarily for online orders, and are included in revenue. Sales tax and other similar taxes are excluded from revenue.

Stock-Based Compensation:

The Company accounts for stock options at fair value. The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model and provides for expense recognition over the service period, if any, of the stock option.

Earnings (Loss) Per Common Share:

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS give effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used to determine the number of shares assumed to be purchased from the exercise of stock options and/or warrants. Diluted EPS excluded all dilutive potential shares if their effect is anti-dilutive.

Basic loss per common share is computed based on the weighted average number of shares outstanding during the period. Diluted loss per share is computed in a manner similar to the basic loss per share, except the weighted-average number of shares outstanding is increased to include all common shares, including those with the potential to be issued by virtue of convertible debt and other such convertible instruments. Diluted loss per share contemplates a complete conversion to common shares of all convertible instruments only if they are dilutive in nature with regards to earnings per share.

Recently Issued Accounting Standards:

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350) which simplifies goodwill impairment testing by requiring that such periodic testing be performed by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The policy is effective for fiscal years, including interim periods, beginning after December 15, 2019. We adopted on February 1, 2020 and the adoption had no impact.

Fair Value Measurement: In 2018, the FASB issued amended guidance to remove, modify and add disclosure requirements for fair value measurements. This amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted for any removed or modified disclosure requirements. Transition is on a prospective basis for the new and modified disclosures, and on a retrospective basis for disclosures that have been eliminated. The adoption of this guidance on February 1, 2020 did not have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvement to Nonemployee Share-Based Payment Accounting, which is part of the FASB's simplification initiative to maintain or improve the usefulness of the information provided to the users of financial statements while reducing cost and complexity in financial reporting. This update provides consistency in the accounting for share-based payments to nonemployees with that of employees. The updated guidance had no impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2019, the Financial Accounting Standards Board (FASB) issued amended guidance on the accounting and reporting of income taxes. The guidance is intended to simplify the accounting for income taxes by removing exceptions related to certain intra-period tax allocations and deferred tax liabilities; clarifying guidance primarily related to evaluating the step-up tax basis for goodwill in a business combination; and reflecting enacted changes in tax laws or rates in the annual effective tax rate. The Company adopted the new guidance effective February 1, 2021. There was no impact to the Company's consolidated financial statements upon adoption.

In January 2020, the FASB issued new guidance intended to clarify certain interactions between accounting standards related to equity securities, equity method investments and certain derivatives. The guidance addresses accounting for the transition into and out of the equity method of accounting and measuring certain purchased options and forward contracts to acquire investments. The Company adopted the new guidance effective February 1, 2021. There was no impact to the Company's consolidated financial statements upon adoption.

In August 2020, the FASB issued amended guidance on the accounting for convertible instruments and contracts in an entity's own equity. The guidance removes the separation model for convertible debt instruments and preferred stock, amends requirements for conversion options to be classified in equity as well as amends diluted earnings per share (EPS) calculations for certain convertible debt instruments. The amended guidance is effective for interim and annual periods in 2022. The application of the amendments in the new guidance are to be applied either on a modified retrospective or a retrospective basis. We are currently assessing the effect that the adoption of this standard will have on the Company's consolidated financial statements upon adoption.

In addition to the above, the Company has reviewed all other recently issued, but not yet effective, accounting pronouncements, and does not believe the future adoption of any such pronouncements will have a material impact on its financial condition or the results of its operations.

Recently Issued Accounting Standards Not Yet Adopted

In March 2020, the FASB issued optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting and subsequently issued clarifying amendments. The guidance provides optional expedients and exceptions for accounting for contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. The optional guidance is effective upon issuance and can be applied on a prospective basis at any time between January 1, 2020 through December 31, 2022. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

In October 2021, the FASB issued amended guidance that requires acquiring entities to recognize and measure contract assets and liabilities in a business combination in accordance with existing revenue recognition guidance. The amended guidance is effective for interim and annual periods in 2023 and is to be applied prospectively. Early adoption is permitted on a retrospective basis to the beginning of the fiscal year of adoption. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements for prior acquisitions; however, the impact in future periods will be dependent upon the contract assets and contract liabilities acquired in future business combinations.

In November 2021, the FASB issued new guidance to increase the transparency of transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. The guidance requires annual disclosures of such transactions to include the nature of the transactions and the significant terms and conditions, the accounting treatment and the impact to the company's financial statements. The guidance is effective for annual periods beginning in 2022 and is to be applied on either a prospective or retrospective basis. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

There were various other accounting standards and interpretations issued recently, none of which are expected to have a material impact on our financial position, operations or cash flows.

NOTE 2 – GOING CONCERN AND FINANCIAL POSITION

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has an accumulated deficit of \$53,410,128 as of October 31, 2023 and has a working capital deficit at October 31, 2023 of \$27,110,778. As of October 31, 2023, the Company only had cash and cash equivalents of \$12,490 and approximately \$14,446,000 of short-term debt in default. The short-term debt agreements provide legal remedies for satisfaction of defaults, none of the lenders of which to this point have pursued their legal remedies. While the Company has plans to grow its revenues through the new website, at this time, our current liquidity position raises substantial doubt about the Company's ability to continue as a going concern.

Management's plan is to raise additional funds in the form of debt or equity in order to continue to fund losses until such time as revenues can sustain the Company. However, there is no assurance that management will be successful in being able to continue to obtain additional funding. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 – PROPERTY

The Company capitalizes all property purchases over \$1,000 and depreciates the assets on a straight-line basis over their useful lives of 3 years for computers and 7 years for all other assets. Property consists of the following at October 31, 2023 and January 31, 2023:

	October 31, 2023	January 31, 2023
Office furniture, fixtures and equipment	\$ 95,183	\$ 95,183
Shop equipment	43,004	43,004
Vehicles	96,616	206,760
Sub-total	234,803	344,947
Less: Accumulated depreciation	(160,672)	(173,475)
Total Property	<u>\$ 74,131</u>	<u>\$ 171,472</u>

There were no additions to fixed assets for the nine months ended October 31, 2023. Additions to fixed assets for the nine months ended October 31, 2022 were \$1,142.

For the nine months ended October 31, 2023, a vehicle having a cost of \$89,711 and a net book value of \$61,953 was sold to a former director for fair value proceeds of \$65,000 and a gain on sale of property and equipment of \$3,057 were recorded. Also, another vehicle having a cost of \$20,433 and a net book value of \$5,089 was sold for proceeds of \$11,500 and a gain on sale of property and equipment of \$6,411 was recorded. There were no disposals for the nine months ended October 31, 2022.

Depreciation expense was \$8,852 and \$12,743 for the three months ended October 31, 2023, and October 31, 2022, respectively.

Depreciation expense was \$30,310 and \$38,587 for the nine months ended October 31, 2023, and October 31, 2022, respectively.

NOTE 4 – LEASES

We lease certain warehouses and office space. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. For lease agreements entered into or reassessed after the adoption of Topic 842, we did not combine lease and non-lease components.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 17 years or more. The exercise of lease renewal options is at our sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Below is a summary of our lease assets and liabilities at October 31, 2023 and January 31, 2023.

Leases	Classification	October 31, 2023	January 31, 2023
Assets			
Operating	Operating Lease Assets	<u>\$ 90,556</u>	<u>\$ 138,551</u>
Liabilities			
Current			
Operating	Current Operating Lease Liability	\$ 24,373	\$ 53,912
Noncurrent			
Operating	Noncurrent Operating Lease Liabilities	66,183	84,639
Total lease liabilities		<u>\$ 90,556</u>	<u>\$ 138,551</u>

Note: As most of our leases do not provide an implicit rate, we use our incremental borrowing rate of 8% based on the information available at commencement date in determining the present value of lease payments.

CAM charges were not included in operating lease expense and were expensed in general and administrative expenses as incurred.

Operating lease cost and rent was \$7,500 and \$29,219 for the three months ended October 31, 2023, and October 31, 2022, respectively.

Operating lease cost and rent was \$54,502 and \$90,177 for the nine months ended October 31, 2023, and October 31, 2022, respectively.

NOTE 5 – ACCRUED INTEREST PAYABLE AND ACCRUED EXPENSES

Accrued interest payable and accrued expenses as of October 31, 2023 and January 31, 2023 were as follows:

	October 31, 2023	January 31, 2023
Accrued interest payable	\$ 3,954,350	\$ 2,001,391
Accrued expenses	157,647	332,977
Total	<u>\$ 4,111,997</u>	<u>\$ 2,334,368</u>

NOTE 6 – CUSTOMER DEPOSITS

The Company receives payments from customers on orders prior to shipment and these customer deposits on cancelled orders were either returned to the customers subsequent to October 31 2023 or will remain as deposits until the item is either delivered and recorded as revenue or cancelled and refunded. At October 31, 2023 the Company had received \$8,912 (January 31, 2023 - \$38,448) in customer deposits for orders that were unfulfilled at October 31, 2023 and either canceled subsequent to year end or still awaiting shipment.

NOTE 7 – DEFERRED REVENUE

The Company receives payments from customers on orders prior to shipment and orders that were unfulfilled at October 31, 2023 because of both normal order processing and fulfillment requirements, and back orders are recorded as deferred revenue. At October 31, 2023 the Company had received \$1,296 (January 31, 2023 - \$66,153) in customer payments for orders that were unfulfilled at October 31, 2023 and delivered subsequent to October 31, 2023.

NOTE 8 – SHORT-TERM AND LONG-TERM DEBT

The components of the Company's debt as of October 31, 2023 and January 31, 2023 were as follows:

	October 31, 2023	January 31, 2023
Forklift Note Payable, original note of \$20,433 Sept 26, 2018, 6.23% interest, 60 monthly payments of \$394.54 ending August 2023. ⁽¹⁾	—	3,836
Vehicle loan original loan of \$93,239 February 16, 2021, 2.90 % interest. 72 monthly payments of \$1,414 beginning on April 2, 2021 and ending on March 2, 2027. Secured by vehicle having net book value of \$62,646.	55,143#	66,538
Vehicle loan original loan of \$59,711 March 20,2021, 7.89% interest. 72 monthly payments of \$1,048 beginning on May 4, 2021 and ending on April 4, 2027. Secured by vehicle having net book value of \$61,943.	—	45,454
Working Capital Note Payable - \$700,000, dated October 29, 2021, repayment of \$17,904 per week until Oct 29, 2022, interest rate of approximately 31%. ^{(2,4,7)†}	265,846*	351,923
Working Capital Note Payable - \$650,000, dated October 25, 2021, repayment of \$15,875 per week until October 25, 2022, interest rate of approximately 26%. ^{(2,4,8)†}	440,273*	443,819
Demand loan - \$5,000 dated February 1, 2020, 15% interest, 5% fee on outstanding balance	5,000*	5,000
Demand loan - \$2,500, dated March 8, 2019, 25% interest, 5% fee on outstanding balance	2,500*	2,500
Demand loan - \$65,500 dated February 27, 2019, 25% interest, 5% fee on outstanding balance, Secured by the general assets of the Company	12,415*	12,415
Promissory note - \$60,000 dated September 18, 2020 maturing April 30, 2022 ⁽¹⁰⁾ , including \$5,000 original issue discount, 15% per annum compounded interest, payable monthly. [†]	60,000*	60,000
Promissory note - \$425,000 dated August 28, 2020, including \$50,000 original issue discount, 15% per annum compounded interest payable at maturity. This note matures when the Company receives proceeds through a financing event of \$825,000 plus accrued interest on the note. ^{(5)†}	425,000*	425,000
Promissory note - \$1,200,000 dated August 28, 2020, maturing August 28, 2022, 12% interest payable monthly with the first six months interest deferred until the 6th month and added to principal. ^{(6)†}	1,200,000*	1,200,000
Promissory note - \$420,000 dated December 27, 2021, including \$20,000 original issue discount, maturing January 27, 2022, non-interest bearing. ^{(9)†}	420,000*	420,000
Promissory note - \$30,000 dated November 4, 2022, including \$5,000 original issue discount, maturing April 30, 2023, non-interest bearing. ^{(11)†}	30,000*	30,000
Promissory note - \$90,000 dated November 7, 2022, including \$15,000 original issue discount, maturing April 30, 2023, non-interest bearing. ^{(3)†}	90,000*	90,000
Demand loan, non-interest bearing.	80,480*	22,500
Promissory note - \$22,000 dated December 27, 2022, including \$2,000 original issue discount maturing January 6, 2023, non-interest bearing. ^{(10)†}	22,000*	22,000
Promissory note - \$22,000 dated February 21, 2023, including \$2,000 original issue discount maturing April 1, 2023, non-interest bearing. ^{(10)†}	22,000*	—
Promissory note - \$30,000 dated April 21, 2023, including \$3,000 original issue discount maturing September 30, 2023, non-interest bearing. ^{(12)†}	33,000*	—
Total	<u>\$ 3,163,657</u>	<u>\$ 3,200,985</u>

	October 31, 2023	January 31, 2023
Short-Term Debt	\$ 3,108,514	\$ 3,088,993
Current Portion of Long-Term Debt	15,558	24,569
Long-Term Debt	39,585	87,423
Total	<u>\$ 3,163,657</u>	<u>\$ 3,200,985</u>

* Short-term loans.

Long-term loan of \$55,143 including current portion \$15,558.

† In default \$3,008,119.

- (1) Vehicle sold and loan fully paid on October 6, 2023.
- (2) The amounts due under the note are personally guaranteed by an officer or a director of the Company.
- (3) Secured by all the assets of the Company. Penalty of 10% of principal amount and 60,000 3 year warrants with an exercise price based on previous day closing price on initial default and 2% of principal amount and 60,000 3 year warrants with an exercise price based on previous day closing price for every 30 day default period thereafter.
- (4) The Company has pledged a security interest on all accounts receivable and banks accounts of the Company.
- (5) Financing event would be a sale or issuance of assets, debt, shares or any means of raising capital. As the Company has entered into such a transaction the loan has reached maturity and is treated as current. An extension was granted on December 13, 2021 amending the maturity date to April 30, 2022. The April 30, 2022 payment has not been made.
- (6) Secured by all assets of the Company. Loan payable in 2 instalments, \$445,200 payable August 28, 2021 and \$826,800 payable August 28, 2022. On December 13, 2021 the parties amended the maturity date for the first instalment to be April 30, 2022 with the second instalment date unchanged. The April 30, 2022 payment has not been made.
- (7) This loan replaces \$500,000 loan dated June 4, 2021, \$422,009 proceeds were used to repay this loan, net cash received was \$253,491 after payment of \$26,500 in fees.
- (8) This loan replaces \$500,000 loan dated June 4, 2021, \$359,919 proceeds were used to repay this loan, net cash received was \$267,606 after payment of \$22,475 in fees.
- (9) Penalty of 10% of principal amount and 30,000 3 year warrants with an exercise price of \$15.00 on initial default and 2% of principal amount and 15,000 3 year warrants with an exercise price based on previous day closing price for every 30 day default period thereafter. Initial default and subsequent defaults to October 31, 2022 have been recorded.
- (10) Secured by all the assets of the Company and a personal guaranty from the CEO. Penalty of 15% of principal amount on initial default and 1.5% for every subsequent 7 day default period.
- (11) Secured by all the assets of the Company. Penalty of 10% of principal amount and 20,000 3 year warrants with an exercise price based on previous day closing price on initial default and 2% of principal amount and 20,000 3 year warrants with an exercise price based on previous day closing price for every 30 day default period thereafter.
- (12) Secured by all the assets of the Company. Penalty of 10% of principal amount on initial default and 1.5% for every subsequent 30 day default period.

The following are the minimum amounts due on the notes as of October 31, 2023:

Year Ended	Amount
October 31, 2024	\$ 3,124,072
October 31, 2025	16,022
October 31, 2026	16,499
October 31, 2027	7,064
Total	<u>\$ 3,163,657</u>

NOTE 9 – SHORT-TERM CONVERTIBLE DEBT

The components of the Company's debt as of October 31, 2023 and January 31, 2023 were as follows.

Maturity Date	Interest	Default Interest	Conversion	Outstanding Principal at	
	Rate	Rate	Price ^(a)	October 31, 2023	January 31, 2023
Nov. 4, 2013*	12%	12%	\$1,800,000	\$ 100,000	\$ 100,000
Jan. 31, 2014*	12%	18%	\$2,400,000	16,000	16,000
July 31, 2013*	12%	12%	\$1,440,000	5,000	5,000
Jan. 31, 2014*	12%	12%	\$2,400,000	30,000	30,000
Nov. 12, 2022*	8%	12%	(1)	3,000,000	3,000,000
Feb. 14, 2023*	12%	20%	(4)	2,400,000	2,400,000
Feb. 25, 2023*	12%	20%	(4)	179,650	250,000
Feb. 25, 2023*	12%	20%	(4)	700,000	700,000
Mar. 9, 2023*	12%	20%	(4)	400,000	400,000
Mar. 9, 2023*	12%	20%	(4)	400,000	400,000
Apr. 22, 2023*	12%	20%	(4)	880,000	880,000
Apr. 22, 2023*	12%	20%	(4)	220,000	220,000
May 19, 2023*	12%	16%	(5)	500,000	500,000
Feb. 11, 2023*	12%	18%	(4)	275,000	275,000
Dec. 27, 2022*	12%	18%	(4)	275,000	275,000
Jan. 6, 2023*	12%	18%	(4)(b)(iv)	140,000	125,000
Jan. 6, 2023*	12%	18%	(4)(b)(iv)	140,000	125,000
Jan. 11, 2023*	12%	18%	(4)(b)(iv)	153,890	138,890
Apr. 22, 2023*	12%	18%	(4)(b)(iv)	290,000	275,000
Apr. 22, 2023*	12%	18%	(4)(b)(iv)	290,000	275,000
Sept. 29, 2023*	12%	22%	(6)(b)(iii)	142,263	211,428
May 10, 2023	12%	18%	(2)	186,450	186,450
May 10, 2023	12%	18%	(2)	186,450	186,450
Nov. 21, 2023	12%	22%	(2)	54,432	54,432
July 5, 2023*	12%	18%	(4)	527,947	250,000
Apr. 20, 2024	12%	18%	(3)	69,230	—
May 3, 2024	10%	18%	(7)	176,000	—
June 13, 2024	10%	18%	(7)	127,500	—
June 13, 2024	12%	16%	(3)	64,625	—
July 17, 2024	10%	18%	(7)	127,500	—
Sept. 7, 2024	10%	18%	(7)	67,100	—
Sub-total				12,124,037	11,278,650
Debt Discount				(361,023)	(840,067)
				<u>\$ 11,763,014</u>	<u>\$ 10,438,583</u>

* In default at filing date \$11,437,650.

- (1) lesser of \$ 1.25 or 75 % of offering price if there is an uplisting to a national securities exchange.
- (2) convertible at 20% discount of the offering price on company's uplist to NASDAQ and convertible upon default at conversion price lower of 75% of lowest trading price 20 days prior to conversion.
- (3) lesser of \$ 0.25 or 75 % of offering price if there is an uplisting to a national securities exchange.
- (4) convertible upon default at conversion price lower of i) lowest price 20 days prior to Issuance ii) lowest price 20 days prior to conversion.
- (5) lesser of \$ 5.00 or 75 % of offering price if there is an uplisting to a national securities exchange.
- (6) 75% of lowest closing bid price ten days preceding conversion date in event of default.
- (7) lower of \$0.20 or 20% discount on previous days close
- (a) Note all conversions are subject to dilutive issuance clauses where the conversion price will revert to the lowest transacted share price.
- (b) All debt issuances are subject to events of default which may trigger penalties. The Company was in default of non payment at maturity and therefore penalties resulted on some of the loans. Penalties totaling \$90,928 were added to the principal of the loan with a corresponding adjustment to interest expense.
 - (i) Penalty of 100% of the loan and accrued interest added to the principal and accrued interest, respectively.
 - (ii) Penalty of 25% of the loan and accrued interest added to the principal and accrued interest, respectively.
 - (iii) Penalty of 50% of the loan and accrued interest added to the principal and accrued interest, respectively.
 - (iv) Penalty of 15,000 added to the principal of the loan.

The Company had accrued interest payable of \$2,849,339 and \$1,342,097 on the notes at October 31, 2023 and January 31, 2023, respectively.

The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 “Derivatives and Hedging” and determined that some instruments should be classified as liabilities due to there being a variable number of shares to be delivered upon settlement of the above conversion options. The instruments are measured at fair value at the end of each reporting period or termination of the instrument with the change in fair value recorded to earnings. The fair value of the embedded conversion option resulted in a discount to the note on the debt modification date. For the three months ended October 31, 2023 and 2022, the Company recorded amortization of debt discount expense of \$335,672 and \$1,932,722, respectively. For the nine months ended October 31, 2023 and 2022, the Company recorded amortization of debt discount expense of \$1,422,910 and \$4,309,329, respectively.

For both the three months ended October 31, 2023 and 2022 there was \$0 in penalty interest to the loans. For the nine months ended October 31, 2023 and 2022 there was \$90,028 and \$0 in penalty interest to the loans, respectively. For the three months ended October 31, 2023 lenders converted \$57,957 of principal, \$4,087 of interest, derivative of \$124,764 and \$3,120 of fees all totaling \$189,928 into 3,415,847 common shares with a corresponding increase in paid in capital. For the three months ended October 31, 2022 there were no debt conversions. For the nine months ended October 31, 2023, lenders converted \$153,212 of principal, \$12,052 of interest, derivative of \$206,193 and \$5,720 of fees all totaling \$377,177 into 3,850,281 common shares with a corresponding increase in paid in capital. For the nine months ended October 31, 2022 there were no debt conversions.

On April 20, 2023, the Company entered into a convertible note for \$77,000 with a one year maturity, interest rate of 12% with a warrant to purchase 388,884 common shares with a five year maturity and an exercise price of \$0.25, and 50,000 common shares. The Company will receive \$60,800 and recorded an original issue discount of \$7,000 along with fees of \$9,200, a derivative discount of 60,800 for the conversion feature, recognized \$27,541 based on a relative fair value calculation as debt discount with a corresponding adjustment to paid-in capital for the attached warrants and shares. The Company expensed \$13,428 as interest which was the amount of the derivative discount that exceeded the face value of the loan. The discount is amortized over the term of the loan. The note has certain default provisions such as failure to pay any principal or interest when due and failure to issue shares upon conversion. In the event of these or any other default provisions, the note becomes due and payable at 150%. The note is secured on all assets of the Company subordinated to a prior security.

In April 2023, the Company issued an amended and restated note replacing the July 5, 2022 \$250,000 note with a January 5, 2023 maturity. In addition, the Company issued a warrant to acquire 97,221 shares with a \$1.00 exercise price and a 5 year maturity, and the maturity of the note was revised to July 5, 2023. The terms of the amended note are that the Company received \$70,000 with an original issue discount of \$7,000 a derivative discount of \$76,212 for the conversion feature, recognized \$5,443 based on a relative fair value calculation as debt discount with a corresponding adjustment to paid-in capital for the attached warrants. The original note had cash proceeds of \$225,000 and an original issue discount of \$25,000, a derivative discount of \$33,860 for the conversion feature, recognized \$139,638 based on a relative fair value calculation as debt discount with a corresponding adjustment to paid-in capital for the attached warrants and shares, and transaction fees of \$35,000. When combined with the original note, the total new note will now be for \$327,000 having total cash proceeds of \$295,000 and total original issue discount of \$32,000 a derivative discount of \$110,072 for the conversion feature, recognized \$145,101 based on a relative fair value calculation as debt discount with a corresponding adjustment to paid-in capital for the attached warrants and shares and transaction fees of \$35,000. The discount is amortized over the term of the loan. The note has certain default provisions such as failure to pay any principal or interest when due and failure to issue shares upon conversion.

On May 5, 2023, the Company entered into a convertible note for \$176,000 with a May 3, 2024, maturity, interest rate of 10% with 352,000 common shares. The Company will receive \$155,000 and recorded an original issue discount of \$16,000 along with fees of \$5,000. The Company recognized a derivative discount of \$155,000 for the conversion feature with an additional \$82,212 expensed as interest. The discount is amortized over the term of the loan. The note is convertible at a price lower of \$0.20 or 80% of closing market price prior to conversion date. The note has certain default provisions such as failure to pay any principal or interest when due and failure to issue shares upon conversion. In the event of these or any other default provisions, default interest is 18%. Penalty shares of 16.67% of the outstanding loan balance, per month is due if the note is not paid by November 3, 2023.

On June 1, 2023 the Company further amended the July 5, 2022 note above with a second amendment. The Company received \$72,652 with an original issue discount of \$8,850 bringing the value of the new note to \$408,502 having total cash proceeds of \$367,652 with a total original issue discount of \$40,850. In addition, the Company issued 100,000 common shares and a warrant to acquire up to 1,000,000 common shares at an exercise price of \$0.00001 and a maturity upon full exercise of this warrant. The Company recognized a derivative discount of \$72,652 for the conversion feature with an additional \$665 expensed as interest. On July 12, 2023, the Company again amended the above note with a third amendment. The Company received \$50,000 with an original issue discount of \$25,000. The Company recognized a derivative discount of \$50,000 for the conversion feature with an additional \$16,119 expensed as interest. The discount is amortized over the term of the loan. The principal value of this amended note is now \$483,502 with total cash proceeds of \$417,652 and total original issue discount of \$65,850. All other terms and conditions remain the same. Default interest is 18%.

On June 13, 2023, the Company entered into a convertible note for \$127,500 with a June 13, 2024, maturity, interest rate of 10% with 255,000 common shares. The Company received \$115,000 and recorded an original issue discount of \$11,500 along with fees of \$1,000. The Company recognized a derivative discount of \$115,000 for the conversion feature with an additional \$80,908 expensed as interest. The discount is amortized over the term of the loan. The note is convertible at a price lower of \$0.20 or 80% of closing market price prior to conversion date. The note has certain default provisions such as failure to pay any principal or interest when due and failure to issue shares upon conversion. In the event of these or any other default provisions, default interest is 18%. Penalty shares of 16.67% of the outstanding loan balance, per month is due if the note is not paid by November 3, 2023.

On June 13, 2023, the Company entered into a convertible note for \$64,625 with a June 13, 2024, maturity and an interest rate of 10%. The Company received \$50,250 and recorded an original issue discount of \$6,425 along with fees of \$8,500. In addition, the Company issued a warrant to acquire up to 427,750 common shares at an exercise price of \$0.25 and a five year term. The Company recognized a derivative discount of \$50,250 for the conversion feature with an additional \$17,605 expensed as interest. The discount is amortized over the term of the loan. The note is convertible at a price lower of \$0.25 or 75% of offering price on uplisting. The note has certain default provisions such as failure to pay any principal or interest when due and failure to issue shares upon conversion. In the event of these or any other default provisions, default interest is 16%.

On July 17, 2023, the Company entered into a convertible note for \$127,500 with a July 17, 2024, maturity, interest rate of 10% with 255,000 common shares. The Company received \$115,000 and recorded an original issue discount of \$11,500 along with fees of \$1,000. The Company recognized a derivative discount of \$115,000 for the conversion feature with an additional \$107,418 expensed as interest. The discount is amortized over the term of the loan. The note is convertible at a price lower of \$0.20 or 80% of closing market price prior to conversion date. The note has certain default provisions such as failure to pay any principal or interest when due and failure to issue shares upon conversion. In the event of these or any other default provisions, default interest is 18%. Penalty shares of 16.67% of the outstanding loan balance, per month is due if the note is not paid by January 17, 2024.

On September 7, 2023, the Company entered into a convertible note for \$67,100 with a September 7, 2024, maturity, interest rate of 10% with 134,200 common shares. The Company received \$60,000 and recorded an original issue discount of \$6,000 along with fees of \$1,100. The Company recognized a derivative discount of \$51,061 and recognized \$1,977 based on a relative fair value calculation as a debt discount with a corresponding adjustment to paid-in capital for the attached shares. The discount is amortized over the term of the loan. The note is convertible at a price lower of \$0.20 or 80% of closing market price prior to conversion date. The note has certain default provisions such as failure to pay any principal or interest when due and failure to issue shares upon conversion. In the event of these or any other default provisions, default interest is 18%. Penalty shares of 16.67% of the outstanding loan balance, per month is due if the note is not paid by March 6, 2024. The loan is secured against all assets of the Company.

On September 28, 2023 the Company further amended the July 5, 2022 note above with a fourth amendment. The Company received \$40,000 with an original issue discount of \$4,444 bringing the value of the new note to \$527,947 having total cash proceeds of \$457,653 with a total original issue discount of \$70,294. The Company recognized a derivative discount of \$33,947 for the conversion feature.

As of October 31, 2023, the Company had \$11,437,650 of aggregate convertible debt in default. The agreements provide legal remedies for satisfaction of defaults, none of the lenders to this point have pursued their legal remedies. The Company continues to accrue interest at the listed rates, and plans to seek their conversion or payoff within the next twelve months.

NOTE 10 – DERIVATIVE LIABILITIES

As of October 31, 2023, and January 31, 2023, the Company had derivative liabilities of \$ 6,468,586 and \$3,271,058, respectively. During the three months ended October 31, 2023, and 2022, the Company recorded a loss of \$38,261 and a loss of \$184,146, respectively, from the change in the fair value of derivative liabilities. During the nine months ended October 31, 2023, and 2022, the Company recorded a loss of \$2,178,051 and a loss of \$841,772, respectively, from the change in the fair value of derivative liabilities. Any liabilities resulting from the warrants outstanding are immaterial.

The derivative liabilities are valued as a level 3 input for valuing financial instruments.

The following table presents changes in Level 3 liabilities measured at fair value for the three months ended October 31, 2023. Both observable and unobservable inputs were used to determine the fair value of positions that the Company has classified within the Level 3 category. Unrealized gains and losses associated with liabilities within the Level 3 category include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

	Level 3 Derivatives
Balance, January 31, 2023	\$ 3,271,058
Changes Due to Issuance of New Convertible Notes	1,098,277
Changes due to Settlements of Convertible Notes	127,393
Changes due to Conversions of Notes Payable	(206,193)
Mark to Market Change in Derivatives	2,178,051
Balance, October 31, 2023	<u>\$ 6,468,586</u>

The derivatives arise from convertible debt where the debt is convertible into common stock at variable conversion prices which are linked to the trading and/or bid prices of the Company's common stock as traded on the OTC market.

The fair value of the derivative liability is determined using the lattice model, is re-measured on the Company's reporting dates, and is affected by changes in inputs to that model including our stock price, expected stock price volatility, the expected term, and the risk-free interest rate. A summary of the weighted average (in aggregate) significant unobservable inputs (Level 3 inputs) used in measuring the Company's warrant liabilities and embedded conversion feature that are categorized within Level 3 of the fair value hierarchy as of October 31, 2023, is as follows:

	Embedded Derivative Liability As of October 31, 2023
Strike price	\$0.012 - \$0.10
Contractual term (years)	0.01 - 0.62 years
Volatility (annual)	246.2% - 543.2%
Underlying fair market value	\$0.012
Risk-free rate	5.71% - 6.12%
Dividend yield (per share)	0

NOTE 11 – STOCKHOLDERS' DEFICIT**Preferred Stock:**

The Series A Preferred Stock has an automatic forced conversion into common stock upon the completion of the repurchase or extinguishing of all "toxic" debt (notes having conversion features tied to the Company's common stock), the extinguishing of all other existing dilutive debt or equity structures, and total recapitalization of the Company. As of both October 31, 2023, and January 31, 2023, the Company had 0 shares of Series A Preferred issued and outstanding and 330,000 authorized with a par value of \$0.001 per share.

At both October 31, 2023, and January 31, 2022, there were 20,000 and 20,000 Series B preferred shares outstanding, respectively. The Series B Preferred Stock have voting rights equal to 51% of the total voting rights at any time. There are no conversion rights granted holders of Series B Preferred shares, they are not entitled to dividends, and the Company does not have the right of redemption. Currently, there are 20,000 Series B preferred shares authorized and issued of the Series B Preferred Stock with a par-value of \$0.001 per share.

At both October 31, 2023, and January 31, 2023, there were 0 and 0 Series C preferred shares outstanding, respectively. The Series C Preferred Stock have the right to convert into the common stock of the Company by multiplying the number of issued and outstanding shares of common stock by 2.63 on the conversion date. The holders of Series C Preferred shares are not entitled to dividends, and the Company does not have the right of redemption. Currently, there are 7,250 Series C preferred shares authorized and 0 shares issued with a par-value of \$0.001 per share.

At both October 31, 2023, and January 31, 2023, there were 870 Series D preferred shares authorized and outstanding, respectively which with a par value \$0.001. All shares of Series D Preferred Stock will rank subordinate and junior to all shares of Series A, B and C of Preferred Stock of the Corporation and *pari passu* with any of the Corporation's preferred stock hereafter created as to distributions of assets upon dissolution or winding up of the Corporation, whether voluntary or involuntary. These shares are non-voting, do not receive dividends and are redeemable according to the terms set out as follows:

REDEEMABLE PREFERRED STOCK (OPTIONAL REDEMPTION)

(1) At any time, either the Corporation or the holder may redeem for cash out of funds legally available therefor, any or all of the outstanding Series D Preferred Stock ("Optional Redemption") at \$1,000 per share.

(2) Should the Corporation exercise the right of Optional Redemption it shall provide each holder of Preferred Stock with at least 30 days' notice of any proposed optional redemption pursuant this Section VI (an "Optional Redemption Notice"). Any optional redemption pursuant to this Section VI shall be made ratably among holders in proportion to the Liquidation Value of Preferred Stock then outstanding and held by such holders. The Optional Redemption Notice shall state the Liquidation Value of Preferred Stock to be redeemed and the date on which the Optional Redemption is to occur (which shall not be less than thirty (30) or more than sixty (60) Business Days after the date of delivery of the Optional Redemption Notice) and shall be delivered by the Corporation to the holders at the address of such holder appearing on the register of the Corporation for the Preferred Stock. Within seven (7) business days after the date of delivery of the Optional Redemption Notice, each holder shall provide the Corporation with instructions as to the account to which payments associated with such Optional Redemption should be deposited. On the date of the Optional Redemption, provided for in the relevant Optional Redemption Notice, (A) the Corporation will deliver the redemption amount via wire transfer to the account designated by the holders, and (B) the holders will deliver the certificates relating to that number of shares of Preferred Stock being redeemed, duly executed for transfer or accompanied by executed stock powers, in either case, transferring that number of shares to be redeemed. Upon the occurrence of the wire transfer (or, in the absence of a holder designating an account to which funds should be transferred, delivery of a certified or bank cashier's check in the amount due such holder in connection with such Optional Redemption to the address of such holder appearing on the register of the Corporation for the Preferred Stock), that number of shares of Preferred Stock redeemed pursuant to such Optional Redemption as represented by the previously issued certificates will be deemed no longer outstanding. Notwithstanding anything to the contrary in this Designation, each holder may continue to convert Preferred Stock in accordance with the terms hereof until the date such Preferred Stock is actually redeemed pursuant to an Optional Redemption.

(3) Should the holder exercise the right of Optional Redemption it shall provide the Corporation with at least 30 days' notice of any proposed optional redemption pursuant this Section VI (an "Optional Redemption Notice"). The Optional Redemption Notice shall state the value of the Preferred Stock to be redeemed and the date on which the Optional Redemption is to occur (which shall not be less than thirty (30) or more than sixty (60) Business Days after the date of delivery of the Optional Redemption Notice) and shall be delivered by the holder to the Corporation at the address of the Corporation for the Preferred Stock. Within seven (7) business days after the date of delivery of the Optional Redemption Notice, each holder shall provide the Corporation with instructions as to the account to which payments associated with such Optional Redemption should be deposited. On the date of the Optional Redemption, provided for in the relevant Optional Redemption Notice, (A) the Corporation will deliver the redemption amount via wire transfer to the account designated by the holder, and (B) the holder will deliver the certificates relating to that number of shares of Preferred Stock being redeemed, duly executed for transfer or accompanied by executed stock powers, in either case, transferring that number of shares to be redeemed. Upon the occurrence of the wire transfer (or, in the absence of a holder designating an account to which funds should be transferred, delivery of a certified or bank cashier's check in the amount due such holder in connection with such Optional Redemption to the address of such holder appearing on the register of the Corporation for the Preferred Stock), that number of shares of Preferred Stock redeemed pursuant to such Optional Redemption as represented by the previously issued certificates will be deemed no longer outstanding. Notwithstanding anything to the contrary in this Designation, each holder may continue to convert Preferred Stock in accordance with the terms hereof until the date such Preferred Stock is actually redeemed pursuant to an Optional Redemption.

The Series D Preferred Stock is not entitled to any pre-emptive or subscription rights in respect of any securities of the Corporation. Neither the Company nor any Series D preferred stockholders has given notice to exercise the redemption as of October 31, 2023, on the date of the financial statements. Because the holders of the Series D preferred stock have the right to demand cash redemption, the cumulative amount of the redemption feature is included in Temporary Equity as of October 31, 2023, and January 31, 2023.

Common Stock

The Company is authorized to issue 75,000,000 common shares at a par value of \$0.000001 per share. These shares have full voting rights. The Company undertook a 10-1 reverse stock split on April 28, 2022. The share capital has been retrospectively adjusted accordingly to reflect these reverse stock splits. At October 31, 2023 and January 31, 2023 there were 7,082,421 and 1,917,982 shares outstanding and issuable, respectively. No dividends were paid in the three months ended October 31, 2023 or 2022. The Company's articles of incorporation include a provision that the Company is not allowed to issue fractional shares.

The table below represent the common shares issued, issuable and outstanding at October 31, 2023 and January 31, 2023:

Common shares	October 31, 2023	January 31, 2023
Issued	6,139,346	1,773,987
Shares to be cancelled	(5,000)	(5,000)
Issuable	948,075	148,995
Issued, issuable and outstanding	7,082,421	1,917,982

The issuable shares are presently unissued due to limitations of authorized capital and shares on reserve for convertible debt holders.

The Company issued the following shares of common stock in the nine months ended October 31, 2023:

Lenders converted \$153,212 of principal, \$12,052 of interest, derivative of \$206,193 and \$5,720 of fees all totaling \$377,177 into 3,850,281 common shares.

The Company issued 167,958 common shares at fair value of \$122,109 to settle \$196,958 in accrued expenses and recorded a gain on settlement of debt of \$74,489.

The Company issued 1,146,200 shares and warrants to acquire 1,913,855 common shares along with debt for a relative fair value of \$34,960 with an adjustment to paid -on capital and a corresponding adjustment to debt discount.

Options and Warrants:

The Company has 250,000 and 250,000 options outstanding as of both October 31, 2023, and January 31, 2023.

The Company recorded option and warrant expense of \$0 and \$0 for the nine months ended October 31, 2023, and 2022, respectively.

For the nine months ended October 31, 2023 the Company issued warrants to purchase 1,913,855 common shares along with debt to various lenders as well as warrants to acquire 410,000 common shares as penalty interest. The table below provides the significant estimates used that resulted in the Company determining the relative fair value of the 1,913,855 warrants (and 1,146,200 common shares mentioned above) at \$34,960, which has been recorded as a debt discount and the 695,000 warrants at \$120,890 which has been recorded as interest both with corresponding adjustments to paid-in capital.

Expected volatility	561% - 2,224%
Exercise price	\$0.12 - \$1.03
Stock price	\$0.12 - \$1.10
Expected life	3 - 5 years
Risk-free interest rate	3.57% - 4.93%
Dividend yield	0%

For the nine months ended October 31, 2022 the Company issued 555,641 common shares and warrants to purchase 948,333 common shares along with debt to various lenders as well as warrants to acquire 135,000 common shares as penalty interest. The table below provides the significant estimates used that resulted in the Company determining the relative fair value of the 555,641 common shares and 948,333 warrants at \$2,427,336, which has been recorded as a debt discount and the 135,000 warrants at \$798,450 which has been recorded as interest both with corresponding adjustments to paid-in capital.

Expected volatility	1,686% - 2,227%
Exercise price	\$4.45 - \$15.00
Stock price	\$0.95 - \$11.99
Expected life	3 - 5 years
Risk-free interest rate	1.76% - 4.45%
Dividend yield	0%

The Company had the following fully vested warrants outstanding at October 31, 2023:

Issued To	# Warrants	Dated	Expire	Strike Price *	Expired	Exercised
Lender	95,000	08/28/2020	08/28/2023	\$4.00 per share	Y	N
Broker	250	10/11/2020	10/11/2025	\$45.00 per share	N	N
Broker	300	11/25/2020	11/25/2025	\$30.00 per share	N	N
Triton	30,000	07/27/2021	07/27/2024	\$21.10 per share	N	N
Consultant	25,000	08/26/2021	08/26/2024	\$15.00 per share	N	N
Lender	60,845	11/12/2021	11/12/2026	\$15.00 per share	N	N
Lender	90,000	11/12/2021	11/12/2026	\$15.00 per share	N	N
Lender	30,000	1/27/2022	1/27/2025	\$15.00 per share	N	N
Lender	120,000	2/14/2022	2/14/2027	\$15.00 per share	N	N
Lender	35,000	2/25/2022	2/25/2027	\$15.00 per share	N	N
Lender	15,000	2/25/2022	2/25/2027	\$15.00 per share	N	N
Lender	20,000	3/9/2022	3/9/2027	\$15.00 per share	N	N
Lender	20,000	3/9/2022	3/9/2027	\$15.00 per share	N	N
Lender	11,000	4/22/2022	4/22/2027	\$15.00 per share	N	N
Lender	44,000	4/22/2022	4/22/2027	\$15.00 per share	N	N
Lender	15,000	2/26/2022	2/26/2025	\$5.40 per share	N	N
Lender	15,000	3/28/2022	3/28/2025	\$7.50 per share	N	N
Lender	15,000	4/27/2022	4/27/2025	\$6.99 per share	N	N
Lender	15,000	5/27/2022	5/27/2025	\$5.12 per share	N	N
Lender	33,333	5/19/2022	5/19/2027	\$15.00 per share	N	N
Lender	100,000	6/27/2022	6/27/2027	\$15.00 per share	N	N
Lender	15,000	6/26/2022	6/26/2025	\$5.12 per share	N	N
Lender	15,000	7/26/2022	7/26/2025	\$5.12 per share	N	N
Lender	100,000	7/5/2022	7/5/2027	\$15.00 per share	N	N
Lender	50,000	7/6/2022	7/6/2027	\$15.00 per share	N	N
Lender	50,000	7/6/2022	7/6/2027	\$15.00 per share	N	N
Lender	50,000	7/11/2022	7/11/2027	\$15.00 per share	N	N
Lender	100,000	8/11/2022	8/11/2027	\$15.00 per share	N	N
Lender	100,000	8/22/2022	8/22/2027	\$15.00 per share	N	N
Lender	100,000	8/22/2022	8/22/2027	\$15.00 per share	N	N
Lender	15,000	8/25/2022	8/25/2025	\$5.10 per share	N	N
Lender	15,000	9/24/2022	9/24/2025	\$4.00 per share	N	N
Lender	15,000	10/24/2022	10/24/2025	\$3.30 per share	N	N
Lender	75,000	11/10/2022	11/10/2027	\$15.00 per share	N	N
Lender	75,000	11/10/2022	11/10/2027	\$15.00 per share	N	N
Lender	15,000	11/23/2022	11/23/2025	\$2.20 per share	N	N
Lender	15,000	12/23/2022	12/23/2025	\$3.30 per share	N	N
Lender	15,000	1/22/2023	1/22/2026	\$3.30 per share	N	N
Lender	15,000	2/21/2023	2/21/2026	\$1.03 per share	N	N
Lender	15,000	3/21/2023	1/22/2026	\$1.00 per share	N	N
Lender	388,884	4/20/2023	4/20/2028	\$1.00 per share	N	N
Lender	15,000	4/23/2023	1/22/2026	\$0.20 per share	N	N
Lender	97,221	4/27/2023	4/27/2028	\$0.25 per share	N	N
Lender	60,000	4/30/2023	4/30/2026	\$0.15 per share	N	N
Lender	20,000	4/30/2023	4/30/2026	\$0.15 per share	N	N
Lender	15,000	5/23/2023	5/23/2026	\$0.35 per share	N	N
Lender	60,000	5/30/2023	5/30/2026	\$0.25 per share	N	N
Lender	20,000	5/30/2023	5/30/2026	\$0.25 per share	N	N
Lender	1,000,000	6/1/2023	On exercise	\$0.00001 per share	N	N
Lender	427,750	6/13/2023	6/13/2028	\$0.25 per share	N	N
Lender	15,000	6/22/2023	6/22/2026	\$0.33 per share	N	N
Lender	60,000	6/29/2023	6/29/2026	\$0.25 per share	N	N
Lender	20,000	6/29/2023	6/29/2026	\$0.25 per share	N	N
Lender	15,000	7/22/2023	7/22/2026	\$0.30 per share	N	N
Lender	60,000	7/29/2023	7/29/2026	\$0.30 per share	N	N
Lender	20,000	7/29/2023	7/29/2026	\$0.30 per share	N	N
Lender	15,000	8/21/2023	8/21/2026	\$0.07 per share	N	N
Lender	60,000	8/28/2023	8/28/2026	\$0.05 per share	N	N
Lender	20,000	8/28/2023	8/28/2026	\$0.05 per share	N	N
Lender	15,000	9/20/2023	9/20/2026	\$0.04 per share	N	N
Lender	60,000	9/28/2023	9/28/2026	\$0.02 per share	N	N
Lender	20,000	9/28/2023	9/28/2026	\$0.02 per share	N	N
Lender	15,000	10/20/2023	10/20/2026	\$0.02 per share	N	N
Lender	60,000	10/28/2023	10/28/2026	\$0.01 per share	N	N
Lender	20,000	10/28/2023	10/28/2026	\$0.01 per share	N	N

* The strike price is subject to price adjustments due to dilutive issuance clauses.

The Company had the following fully vested options outstanding at October 31, 2023:

Issued To	# Options	Dated	Expire	Strike Price	Expired	Exercised
T. Armes	250,000	7/11/2022	7/11/2027	\$4.00 per share	N	N

The following table summarizes the activity of options and warrants issued and outstanding as of and for the three months ended October 31, 2023:

	Options	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at January 31, 2023	250,000	\$ 4.00	1,609,728	\$ 13.49
Granted	—	—	2,608,855	0.25
Exercised	—	—	—	—
Forfeited and canceled	—	—	(95,000)	(4.00)
Outstanding at October 31, 2023	250,000	\$ 4.00	4,123,583	\$ 5.33

NOTE 12 – RELATED PARTY TRANSACTIONS

As of October 31, 2023 and January 31, 2023, the Company had \$0 and \$46,173, respectively of related party accrued expenses related to accrued compensation for employees and consultants. On May 17, 2023 former director and CEO Tim Armes resigned (replaced by Christopher Davenport). At this time Mr. Armes exchanged his debt owed by the Company totaling \$94,291 in exchange for the vehicle having a cost of \$89,711 and a net book value of \$61,953 sold for fair value proceeds of \$65,000 and a gain on sale of property and equipment of \$3,057 was recorded by the Company. In addition, the vehicle loan of \$42,635 was also transferred to Mr. Armes. The company recorded a gain on settlement of debt of \$71,926.

As of October 31, 2023 the CEO has advanced the Company \$255,893 (January 31, 2023 - \$0) included in shareholder loans payable. These advances are non-interest bearing with no specified terms of repayment.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

On August 30, 2016, the Company entered into a 60-month lease agreement for its 3,554 sf warehouse facility starting in December 2016 with a minimum base rent of \$2,132 and estimated monthly CAM charges of \$1,017 per month. This lease is with a shareholder.

On July 1, 2018, the Company entered into a 60-month lease agreement with its minority shareholder for its 8,800 sf warehouse facility with a minimum base rent of \$6,400 per month.

Maturity of Lease Liabilities	Operating Leases
October 31, 2024	\$ 30,003
October 31, 2025	30,003
October 31, 2026	30,003
October 31, 2027	2,501
Total lease payments	92,510
Less: Interest	(1,954)
Present value of lease liabilities	\$ 90,556

The Company had total operating lease and rent expense of \$7,500 and \$29,219 for the three months ended October 31, 2023, and 2022 respectively. The Company had total operating lease and rent expense of \$54,502 and \$90,177 for the nine months ended October 31, 2023, and 2022 respectively.

NOTE 14 – EARNINGS (LOSS) PER SHARE

The net income (loss) per common share amounts were determined as follows:

	For the Three Months Ended October 31,	
	2023	2022
Numerator:		
Net income (loss) available to common shareholders	\$ (1,353,062)	\$ (4,131,691)
Denominator:		
Weighted average shares – basic	4,756,296	1,805,316
Net income (loss) per share – basic	<u>\$ (0.28)</u>	<u>\$ (2.29)</u>
Effect of common stock equivalents:		
Add: interest expense on convertible debt	526,466	166,046
Add: amortization of debt discount	335,672	1,932,722
Less: gain on settlement of debt on convertible notes	—	(10,128)
Add (Less): loss (gain) on change of derivative liabilities	38,261	186,146
Net income (loss) adjusted for common stock equivalents	<u>(452,663)</u>	<u>(1,856,905)</u>
Dilutive effect of common stock equivalents:		
Convertible notes and accrued interest	—	—
Convertible Class C Preferred shares	—	—
Warrants and options	<u>—</u>	<u>—</u>
Denominator:		
Weighted average shares – diluted	4,756,296	1,805,316
Net income (loss) per share – diluted	<u>\$ (0.28)</u>	<u>\$ (2.29)</u>

The net income (loss) per common share amounts were determined as follows:

	For the Nine Months Ended October 31,	
	2023	2022
Numerator:		
Net income (loss) available to common shareholders	\$ (7,173,870)	\$ (12,228,775)
Denominator:		
Weighted average shares – basic	3,302,841	1,576,024
Net income (loss) per share – basic	<u>\$ (2.17)</u>	<u>\$ (7.76)</u>
Effect of common stock equivalents:		
Add: interest expense on convertible debt	1,519,052	278,788
Add: amortization of debt discount	1,422,910	4,309,329
Add (less): loss (gain) on settlement of debt on convertible notes	127,393	(19,539)
Add (less): loss (gain) on change of derivative liabilities	2,178,051	841,772
Net income (loss) adjusted for common stock equivalents	(1,926,464)	(6,818,425)
Dilutive effect of common stock equivalents:		
Convertible notes and accrued interest	—	—
Convertible Class C Preferred shares	—	—
Warrants and options	—	—
Denominator:		
Weighted average shares – diluted	3,302,841	1,576,024
Net income (loss) per share – diluted	<u>\$ (2.17)</u>	<u>\$ (7.76)</u>

The anti-dilutive shares of common stock equivalents for the three and nine months ended October 31, 2023 and October 31, 2022 were as follows:

	For the Three and Nine Months Ended October 31,	
	2023	2022
Convertible notes and accrued interest	647,239,296	7,093,733
Convertible Class C Preferred shares	—	4,796,352
Options	250,000	250,000
Warrants	4,123,583	1,414,728
Total	<u>651,612,879</u>	<u>13,554,813</u>

NOTE 15 – SUBSEQUENT EVENTS

Subsequent to October 31, 2023 through to February 14 2024:

- lenders converted \$6,870 in debt, \$5,916 in interest and \$7,520 in fees into 1,762,941 common shares.
- On November 29, 2023 the Company further amended the July 5, 2022 note mentioned in Note 8 with a fifth amendment. The Company received \$86,212 with an original issue discount of \$9,579 for a total of \$ \$95,791 bringing the value of the new note to \$623,738 having total cash proceeds of \$543,864 with a total original issue discount of \$79,874.
- On January 4, 2024, the Company entered into a convertible note for \$744,610 with a July 4, 2024, maturity, interest rate of 12% The Company received \$11,000 along with fees of \$5,000. The remaining \$726,810 will be charges as penalty interest representing the difference in value for commitment fees that were stated versus what was realized. The discount is amortized over the term of the loan. The note is convertible at a price lower of trading price 20 days prior to conversion or issue date. The note has certain default provisions such as failure to pay any principal or interest when due and failure to issue shares upon conversion. In the event of these or any other default provisions, default interest is 18%. If the note is not paid at maturity then principal increases by \$15,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to in this quarterly report as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to in this quarterly report as the Exchange Act. Forward-looking statements are not statements of historical fact but rather reflect our current expectations, estimates and predictions about future results and events. These statements may use words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “predict,” “project” and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management’s beliefs and assumptions, using information currently available to us. These forward-looking statements are subject to risks, uncertainties and assumptions, including but not limited to, risks, uncertainties and assumptions discussed in this quarterly report. Factors that can cause or contribute to these differences include those described under the headings “Risk Factors” and “Management Discussion and Analysis and Plan of Operation.”

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statement you read in this quarterly report reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this quarterly report. The Company expressly disclaims any obligation to release publicly any updates or revisions to these forward-looking statements to reflect any change in its views or expectations. The Company can give no assurances that such forward-looking statements will prove to be correct.

Company.

The Auto Parts 4Less Group Inc. (“FLES”, the “Company”, “we” or “us”), the Company described herein, was incorporated under the laws of the State of Nevada on December 5, 2007, with offices located at 106 W Mayflower, Las Vegas, Nevada 89030. Our phone number is (702) 267-7100.

Nature of Business – Auto Parts 4Less Group Inc., formerly known The 4Less Group, Inc. and as MedCareers Group, Inc. (the “Company”, “MCGI”), was incorporated under the laws of the State of Nevada on December 5, 2007.

On November 29, 2018, the Company entered into a transaction (the “Share Exchange”), pursuant to which the Company acquired 100% of the issued and outstanding equity securities of The 4Less Corp. (“4LESS”), in exchange for the issuance of (i) nineteen thousand (19,000) shares of Series B Preferred Stock, (ii) six thousand seven hundred fifty (6,750) shares of Series C Preferred Stock, and (iii) 870 shares of Series D Preferred Stock. The Series C Preferred Shares have a right to convert into common stock of the Company by multiplying the number of issued and outstanding shares of common stock by 2.63 on the conversion date. The Share Exchange closed on November 29, 2018. As a result of the Share Exchange, the former shareholders of 4LESS became the controlling shareholders of the Company. The Share Exchange was accounted for as a reverse takeover/recapitalization effected by a share exchange, wherein 4LESS is considered the acquirer for accounting and financial reporting purposes. The capital, share price, and earnings per share amount in these consolidated financial statements for the period prior to the reverse merger were restated to reflect the recapitalization in accordance with the shares issued as a result of the reverse merger except otherwise noted.

On November 19, 2019 The 4Less Group acquired the URL Autoparts4Less.com and changed the name of their wholly owned subsidiary from the 4Less Corp. to Auto Parts 4Less, Inc. On April 28, 2022 the Company changed its name from The 4LESS Group, Inc. to Auto Parts 4Less Group, Inc.

Our Business

Like many small businesses, Christopher Davenport, the founder of Auto Parts 4Less (“4Less”) previously named The 4less Corp., the wholly owned subsidiary of Auto Parts 4Less Group, Inc., began selling auto parts on eBay and shipping those items out of his garage in 2013. What started out as a hobby, quickly grew into a fully functioning ecommerce aftermarket auto parts company that required a significant technical staff and facilities to support their growth. In June of 2015, they leased their first office.

Originally the company listed their auto parts in the different marketplaces such as Amazon, eBay, Walmart and Jet.

Starting in 2016 the company began investing to become their own ecommerce platform thereby allowing their auto parts to be direct listed across marketplace and social media sites. Technical achievements including CRM system, warehouse integration API, warehouse inventory software to name a few.

In 2019, shortly after the share exchange with MedCareers Group, Inc., with technology upgrades in place, 4Less began successfully moving majority of sales from third party marketplaces direct to their proprietary ecommerce web site Liftkits4Less.com. By doing so the company saves 8%-10% in fees charged by the major marketplace's such as e-Bay and Amazon as well as further building the 4less brand as a leading ecommerce site for auto parts.

On November 19, 2019 the Company acquired the URL Autoparts4Less.com and changed the name of their wholly owned subsidiary from the 4Less Corp. to Auto Parts 4Less, Inc. With the acquisition of the URL AutoParts4Less.com, the Company also began focusing all of their efforts and resources on building out a flagship automotive marketplace with the potential to offer buyers a wide range of automotive parts for cars, trucks, boats, motorcycles and RV's on a single platform.

In August 2021 the Company launched a beta test version of Autoparts4less.com. In a short period of time after the beta launch the company realized that with the amount of interest received from numerous types of large sellers, which included not only ecommerce sites presently selling parts online, but also interest from other large parts sellers such as warehouse distributors, new car dealers with large inventories of parts as well as brick and mortar parts retailers looking to move sales online, the platform originally created would soon be inadequate. As such, the Company made the decision to upgrade to a larger and more advanced platform solution so they immediately began implementation of the AWS Fargate serverless platform solution.

The platform upgrade was completed in the 1st quarter FYE 2023, with marketplace sales expected to begin in 3rd quarter 2023.

On November 2, 2022 the Company announced that it had officially launched what is believed to be the industry's first pure-play automotive parts-only marketplace, AutoParts4Less.com, with approximately 2 million parts listed from over 25 parts sellers.

On April 28, 2022 the Company changed its name from The 4Less Group, Inc. to Auto Parts 4Less Group, Inc.

Competition

We directly compete for buyers to use our web sites over current e-commerce sites as well as sellers that utilize major marketplaces such as Amazon and eBay. However, we believe our specialty ecommerce website liftkits4less.com offers substantial value-added content including installation guides, install videos, high impact photos, order customization and live chat with a technical expert.

Additionally, we believe that our automotive parts marketplace AutoParts4less.com, with no known large challengers presently in the space outside of "all things to all people" online marketplaces Amazon and eBay, has the opportunity to quickly be branded when launched as the auto part's industry premier marketplace just as sites like Etsy, Wayfair, Uber and Chewey's have been able to successfully do in their industries

Results of Operations For the Nine Months Ended October 31, 2023 Compared to the Nine Months Ended October 31, 2022

The following table shows our results of operations for the nine months ended October 31, 2023, and 2022. The historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	2023	2022	Change	
			\$	%
Total Revenues	\$ 339,116	\$ 4,089,037	\$ (3,749,921)	(92%)
Gross Profit	268,611	792,491	(523,880)	(66%)
Total Operating Expenses	1,341,674	5,378,156	(4,036,482)	(75%)
Total Other Income (Expense)	(6,100,807)	(7,643,110)	1,542,303	(20%)
Net Loss	\$ (7,173,870)	\$ (12,228,775)	\$ 5,054,905	(43%)

Revenue

The following table shows revenue split between proprietary and third-party website revenue for the nine months ended October 31, 2023, and 2022:

	2023	2022	Change	
			\$	%
Proprietary website revenue	\$ 159,726	\$ 2,750,636	\$ (2,590,910)	(94%)
Third party website revenue	179,390	1,338,401	(1,159,011)	(87%)
Total Revenue	<u>\$ 339,116</u>	<u>\$ 4,089,037</u>	<u>\$ (3,749,921)</u>	<u>(92%)</u>

We had total revenue of \$339,116 for the nine months ended October 31, 2023, compared to \$4,089,037 for the nine months ended October 31, 2022. Sales decreased by \$3,749,921. For the nine months ended October 31, 2023, the Company began selling off its inventory and transitioning its business to the newly developed autoparts4less.com marketplace. For the nine months ended October 31, 2023, marketplace revenues were \$22,043 (\$2022 - \$0). There are no associated cost of sales with these revenues as they represent fees earned on sales. However, sales fell dramatically since the Company is only concentrating on the new marketplace which is its future and continues cutting costs associated with its old business model.

Total revenues fell by 92% as the Company transitions from a seller of accessories to a pure-play automotive parts-only marketplace.

Gross Profit

We had gross profit of \$268,611 for the nine months ended October 31, 2023, compared to gross profit of \$792,491 for the nine months ended October 31, 2022. Gross profit decreased by \$523,880 as a result of the decreased revenues explained above. Gross profit % was 79% in 2023 compared to 19% in 2022. The reason for the increase in gross profit % was that the Company has no associated costs with the marketplace revenues, and also was able to realize higher margins on sales of inventory written down in January 31, 2023

Operating Expenses

The following table shows our operating expenses for the nine months ended October 31, 2023, and 2022:

	2023	2022	Change	
			\$	%
Operating expenses				
Depreciation	\$ 30,310	\$ 38,587	\$ (8,277)	(21%)
Postage, Shipping and Freight	29,190	146,962	(117,772)	(80%)
Marketing and Advertising	135,986	671,348	(535,362)	(80%)
E Commerce Services, Commissions and Fees	360,318	1,076,787	(716,469)	(67%)
Operating lease cost	54,502	90,177	(35,675)	(40%)
Personnel Costs	134,730	505,253	(370,523)	(73%)
General and Administrative	596,638	2,849,042	(2,252,404)	(79%)
Total Operating Expenses	<u>\$ 1,341,674</u>	<u>\$ 5,378,156</u>	<u>\$ (4,036,482)</u>	<u>(75%)</u>

- Depreciation decreased by \$8,277 due to vehicle disposals in 2023.
- Postage shipping and freight decreased by \$117,772 due to lower sales.
- Marketing and advertising decreased by \$535,362 due to cost cutting and limiting spend on new marketplace.
- E Commerce Services, Commissions and Fees decreased by \$716,469 due to lower sales and shift to new marketplace.
- Operating lease cost decreased by \$35,675 due to two fewer leases.
- Personnel Costs decreased by \$370,523 due to staff reductions as a result of lower demand ,shift to new marketplace which requires fewer employees and CEO not taking a salary in 2023.
- General and Administrative decreased by \$2,252,404 due to a decreases of the following: \$1,998,000 in stock based compensation for warrants issued to former CEO in prior year, \$17,525 in office expense, \$165,437 lower sub-contractors due to less outside work being needed for new marketplace compared to websites, \$39,557 decreases in insurance costs due to lower health plan costs on fewer employees, with the remaining decrease to other office and general expenses.

Other Income (Expense)

The following table shows our other income and expenses for the nine months ended October 31, 2023, and 2022:

	2023	2022	Change	
			\$	%
Other Income (Expense)				
Gain (Loss) on Sale of Property and Equipment	\$ 9,468	\$ —	\$ 9,468	—
Gain (Loss) on Derivatives	(2,178,051)	(841,772)	(1,336,279)	(159%)
Gain on Settlement of Debt	37,382	19,539	17,843	91%
Amortization of Debt Discount	(1,422,910)	(4,309,329)	2,886,419	(67%)
Interest Expense	(2,546,696)	(2,511,548)	(35,148)	1%
Total Other Income (Expense)	<u>\$ (6,100,807)</u>	<u>\$ (7,643,110)</u>	<u>\$ 1,542,303</u>	<u>(20%)</u>

The changes above can be explained by the increase in convertible debt that started at the end of last fiscal year and continued for the nine months ended October 31, 2022. The decrease in amortization in debt discount is a result of maturing debt in the prior year's reporting period. The higher loss on derivatives in 2023 is a function of the market factors in the valuation of the derivative liability described in Note 10 of the included financial statements as well as the derivative discounts acquired with the new debt.

We had a net loss of \$7,173,870 for the nine months ended October 31, 2023, compared to net loss of \$12,228,775 for the nine months ended October 31, 2022. The decrease in net loss was mainly due to the decrease in other expenses, large decrease in operating expenses partly offset by the lower gross profit.

Results of Operations for the Three Months Ended October 31, 2023, Compared to the Three Months Ended October 31, 2022

The following table shows our results of operations for the three months ended October 31, 2023, and 2022. The historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	2023	2022	Change	
			\$	%
Total Revenues	\$ 143,696	\$ 1,017,986	\$ (874,290)	(86%)
Gross Profit	106,058	171,088	(65,030)	(38%)
Total Operating Expenses	360,277	1,009,907	(649,630)	(64%)
Total Other Income (Expense)	(1,098,843)	(3,292,872)	2,194,029	(67%)
Net Loss	<u>\$ (1,353,062)</u>	<u>\$ (4,131,691)</u>	<u>\$ 2,778,629</u>	<u>(67%)</u>

Revenue

The following table shows revenue split between proprietary and third-party website revenue for the three months ended October 31, 2023 and 2022:

	2023	2022	Change	
			\$	%
Proprietary website revenue	\$ 41,710	\$ 611,799	\$ (570,089)	(93%)
Third party website revenue	101,986	406,187	(304,201)	(75%)
Total Revenue	<u>\$ 143,696</u>	<u>\$ 1,017,986</u>	<u>\$ (874,290)</u>	<u>(86%)</u>

We had total revenue of \$143,696 for the three months ended October 31, 2023, compared to \$1,017,986 for the three months ended October 31, 2022. Sales decreased by \$874,390. For the three months ended October 31, 2023, the Company began selling off its inventory and transitioning its business to the newly developed autoparts4less.com marketplace. For the three months ended October 31, 2023, marketplace revenues were \$5,326 (\$2022 - \$0). There are no associated cost of sales with these revenues as they represent fees earned on sales. However, sales fell dramatically since the Company is only concentrating on the new marketplace which is its future and continues cutting costs associated with its old business model.

Gross Profit

We had gross profit of \$106,058 for the three months ended October 31, 2023, compared to gross profit of \$171,088 for the three months ended October 31, 2022. Gross profit decreased by \$65,029 as a result of the decreased revenues explained above. Gross profit % was 74% in 2023 compared to 17% in 2022. The reason for the increase in gross profit % was that the Company has no associated costs with the marketplace revenues, and also was able to realize higher margins on sales of inventory written down in January 31, 2023.

Operating Expenses

The following table shows our operating expenses for the three months ended October 31, 2023 and 2022:

	2023	2022	Change	
			\$	%
Operating expenses				
Depreciation	\$ 8,852	\$ 12,743	\$ (3,891)	(31%)
Postage, Shipping and Freight	15,639	32,013	(16,374)	(51%)
Marketing and Advertising	32,469	156,522	(124,053)	(79%)
E Commerce Services, Commissions and Fees	92,313	396,065	(303,752)	(77%)
Operating lease cost	7,500	29,219	(21,719)	(74%)
Personnel Costs	22,965	131,937	(108,972)	(83%)
General and Administrative	180,540	251,408	(70,868)	(28%)
Total Operating Expenses	<u>\$ 360,277</u>	<u>\$ 1,009,907</u>	<u>\$ (649,630)</u>	<u>(64%)</u>

- Depreciation increased by \$3,892 due to vehicle disposals.
- Postage shipping and freight decreased by \$16,374 due to lower sales.
- Marketing and advertising decreased by \$124,052 due to cost cutting and limiting spend on new marketplace.
- E Commerce Services, Commissions and Fees decreased by \$303,752 due to lower sales.
- Operating lease cost decreased by \$21,719 due to two fewer leases.
- Personnel Costs decreased by \$108,972 due to staff reductions as a result of lower demand and CEO not taking a salary in 2023.
- General and Administrative decreased by \$70,868 due to the Company reducing its expenses as a result of the new marketplace and general cost cutting measures.

Other Income (Expense)

The following table shows our other income and expenses for the three months ended October 31, 2023, and 2022:

	2023	2022	Change	
			\$	%
Other Income (Expense)				
Gain (Loss) on Derivatives	\$ (38,261)	\$ (184,146)	\$ 145,885	(79%)
Gain (Loss) on Disposal of Fixed Assets	6,411	—	6,411	—
Gain on Settlement of Debt	—	10,128	(10,128)	(100%)
Amortization of Debt Discount	(335,672)	(1,932,722)	1,597,050	(83%)
Interest Expense	(731,321)	(1,186,132)	454,811	(38%)
Total Other Income (Expense)	<u>\$ (1,098,843)</u>	<u>\$ (3,292,872)</u>	<u>\$ 2,194,029</u>	<u>(67%)</u>

The changes above can be explained by the lower amortization of debt discount this quarter ended October 31, 2023 as many convertible notes matured and were fully amortized in the prior year's corresponding quarter. Interest in the quarter ended October 31, 2022 was higher due to penalty interest. The loss on derivatives is a function of the market factors in the valuation of the derivative liability described in Note 10 as well as the increase in derivative discount resulting from the new debt issuances.

We had a net loss of \$1,353,062 for three months ended October 31, 2023, compared to a net loss of \$4,131,691 for three months ended October 31, 2022. The decrease in net loss was mainly due to the large decrease in other expenses and operating expenses.

Liquidity and Capital Resources

Management believes that we will continue to incur losses for the immediate future. Therefore, we will need additional equity or debt financing until we can achieve profitability and positive cash flows from operating activities, if ever. These conditions raise substantial doubt about our ability to continue as a going concern. Our unaudited consolidated financial statements do not include any adjustments relating to the recovery of assets or the classification of liabilities that may be necessary should we be unable to continue as a going concern.

As of October 31, 2023, we had a cash balance of \$12,490, net inventory of \$33,337 and \$27,110,778 in current liabilities. At the current cash consumption rate, we will need to consider additional funding sources going forward. We are taking proactive measures to reduce operating expenses and drive growth in revenue.

The successful outcome of future activities cannot be determined at this time and there is no assurance that, if achieved, we will have sufficient funds to execute our intended business plan or generate positive operating results.

Capital Resources

The following table summarizes total current assets, liabilities and working capital (deficit) for the periods indicated:

	October 31, 2023	January 31, 2023
Current assets	\$ 88,731	\$ 97,745
Current liabilities	27,199,509	20,768,832
Working capital (deficits)	<u>\$ (27,110,778)</u>	<u>\$ (20,671,087)</u>

Net cash used in operations for the nine months ended October 31, 2023 was \$1,040,209 as compared to net cash used in operations of \$3,398,045 for the nine months ended October 31, 2022. Net cash provided by investing activities for the nine months ended October 31, 2023 was \$11,500 as compared to cash flows used in investing activities of \$1,142 for the same period in 2022. Net cash provided by financing activities for the nine months ended October 31, 2023 was \$1,036,462 as compared to \$3,367,715 for the nine months ended October 31, 2022.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk.

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), we are not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

ITEM 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Principal Financial Officer, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"), has concluded that as of the Evaluation Date, our disclosure controls and procedures were not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Moving forward, we hope that our Chief Executive Officer and Principal Financial Officer will be able to devote the additional time and effort required so that our disclosure controls and procedures can become effective. Notwithstanding the assessment that our internal controls and procedures were not effective, we believe that our financial statements contained in this Quarterly Report for the quarter ended October 31, 2023 fairly present our financial position, results of operations and cash flows for the years and months covered thereby in all material respects.

(b) Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting during our most recent fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Convertible Promissory Notes

On May 5, 2023, we issued a promissory note in the principal amount of \$176,000 to Cove Funding LP.

On June 13, 2023, we issued a promissory note in the principal amount of \$127,500 to Cove Funding LP.

On June 13, 2023, we issued a senior secured promissory note in the principal amount of \$64,625 to Auctus Fund, LLC.

On July 17, 2023, we issued a promissory note in the principal amount of \$127,500 to Cove Funding LP.

On September 7, 2023, we issued a promissory note in the principal amount of \$127,500 to Cove Funding LP.

Common Stock

On June 7, 2023, pursuant to an amendment to a convertible promissory note issued on July 5, 2022, we issued 100,000 shares of Common Stock to the lender.

On July 10, 2023, pursuant to the promissory note of May 5, 2023 issued to Cove Funding LP, we issued 130,000 shares of Common Stock to the lender, with another 222,000 shares to be issued.

Pursuant to the promissory note of June 13, 2023 issued to Cove Funding LP, there were 255,000 shares of Common Stock to be issued to the lender.

Pursuant to the promissory note of July 17, 2023 issued to Cove Funding LP, there were 255,000 shares of Common Stock to be issued to the lender.

Warrants

On June 1, 2023, pursuant to an amendment to a convertible promissory note issued on July 5, 2022, we issued warrants to purchase 1,000,000 shares of Common Stock to the lender.

On June 13, 2023, pursuant to the senior secured promissory note issued to Auctus Fund, LLC, we issued warrants to purchase 427,750 shares of Common Stock to the lender.

The sales of the securities above were made in reliance on Section 4(a)(2) under the Securities Act and were made without general solicitation or advertising. The securities offered have not been registered under the Securities Act, and may not be offered or sold in the United States without registration or an applicable exemption from the registration requirements of the Securities Act. There were no sales commissions paid in connection with the sales of these securities.

Item 6. Exhibits

See the [Exhibit Index](#) immediately following the signature page of this Report on Form 10-Q.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Auto Parts 4Less Group, Inc.

By: /s/ Christopher Davenport

Christopher Davenport

Chief Executive Officer and Chief Financial Officer

(Principal Executive Officer and Principal Financial and Accounting Officer)

Date: February 14, 2024

EXHIBIT INDEX

Exhibit Number	Exhibit Description
31.1	Rule 13a-14(a) Certification of Principal Executive Officer and Principal Financial/Accounting Officer *
32.1	Section 1350 Certification of Principal Executive Officer and Principal Financial/Accounting Officer *
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document. **
101.SCH	Inline XBRL Taxonomy Extension Schema Document **
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document **
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document **
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document **
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document **
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) **

* Filed herewith.

** In accordance with Regulation S-T, the Interactive Data Files in Exhibit 101 to the Quarterly Report on Form 10-Q shall be deemed “furnished” and not “filed.”

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher Davenport, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Auto Parts 4Less Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2024

By: /s/ Christopher Davenport

Christopher Davenport

Chief Executive Officer and Chief Financial Officer

(Principal Executive Officer and Principal Financial/Accounting Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher Davenport, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Auto Parts 4Less Group, Inc. on Form 10-Q for the period ended October 31, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of The 4Less Group, Inc.

Date: February 14, 2024

By: /s/ Christopher Davenport

Christopher Davenport

Chief Executive Officer and Chief Financial Officer

(Principal Executive Officer and Principal Financial/Accounting Officer)
