

# AURA SYSTEMS INC

## FORM 10-Q (Quarterly Report)

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended May 31, 2025

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**AURA SYSTEMS, INC.**  
(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**95-4106894**

(I.R.S. Employer  
Identification No.)

**20431 North Sea Circle  
Lake Forest, CA 92630**

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **(310) 643-5300**

Former name, former address, and former fiscal year, if changed since last report:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
---------------------	-------------------	-------------------------------------------

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class	Outstanding July 3, 2025
Common Stock, par value \$0.0001 per share	122,691,600

# AURA SYSTEMS, INC.

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# PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

### AURA SYSTEMS, INC. CONDENSED BALANCE SHEETS

	May 31, 2025 (Unaudited)	February 28, 2025
<i>(amounts in thousands, except share data)</i>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 21	\$ 23
Inventories	5	38
Prepaid and other current assets	173	220
Total current assets	199	281
Property and equipment, net	574	618
Operating lease right-of-use asset	355	418
Security deposit	160	160
Total assets	<u>\$ 1,288</u>	<u>\$ 1,477</u>
<b>Liabilities and Shareholders' Deficit</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,512	\$ 2,544
Accrued interest	3,312	2,875
Customer advances	447	447
Convertible notes payable, current portion-past due	1,493	1,513
Convertible note payable-related party-including \$3,020 and \$3,020, respectively past due	12,279	12,279
Notes payable, current portion	230	212
Notes payable-related party, current portion - past due	733	733
Lease liabilities, current portion	290	279
Derivative liability	19,135	17,565
Total current liabilities	40,431	38,447
Notes payable, net of current portion	338	440
Lease liabilities, net of current portion	105	183
Total liabilities	<u>40,874</u>	<u>39,070</u>
Commitments and contingencies	-	-
<b>Shareholders' deficit</b>		
Common stock: \$0.0001 par value; 150,000,000 shares authorized; 121,711,600 and 118,296,448 issued and outstanding at May 31, 2025 and February 25, 2025, respectively.	12	12
Additional paid-in capital	463,371	462,523
Accumulated deficit	(502,969)	(500,128)
Total shareholders' deficit	(39,586)	(37,593)
<b>Total liabilities and shareholders' deficit</b>	<u>\$ 1,288</u>	<u>\$ 1,477</u>

See accompanying notes to these financial statements.

**AURA SYSTEMS, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>Three Months Ended May 31,</b>	
	<b>2025</b>	<b>2024</b>
<i>(amounts in thousands, except share and per share data)</i>		
Net revenue	\$ 185	\$ 47
Cost of goods sold	25	47
Gross profit	160	-
Operating expenses:		
Engineering, research and development	353	310
Selling, general and administration	484	374
Total operating expenses	837	684
Loss from operations	(677)	(684)
Other income (expense):		
Interest expense, net (including \$385 and \$271 to related parties, respectively)	(594)	(275)
Loss on debt extinguishment – related party	-	(19,324)
Change in fair value of derivative liability	(1,570)	5,023
Other income	-	2
Net loss	\$ (2,841)	\$ (15,258)
Basic and diluted loss per share	\$ (0.02)	\$ (0.14)
Basic and diluted weighted-average shares outstanding	119,994,325	106,140,039

See accompanying notes to these financial statements.

**AURA SYSTEMS, INC.**  
**CONDENSED STATEMENTS OF SHAREHOLDERS' DEFICIT**  
(Unaudited)

	Three Months Ended May 31, 2025				
<i>(amounts in thousands, except share data)</i>	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Deficit
<b>Balance, February 28, 2025</b>	118,296,448	\$ 12	\$ 462,523	\$ (500,128)	\$ (37,593)
Common shares issued for cash	3,415,152	-	848	-	848
Net loss	-	-	-	(2,841)	(2,841)
<b>Balance, May 31, 2025 (unaudited)</b>	<u>121,711,600</u>	<u>\$ 12</u>	<u>\$ 463,371</u>	<u>\$ (502,969)</u>	<u>\$ (39,586)</u>

	Three Months Ended May 31, 2024				
<i>(amounts in thousands, except share data)</i>	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Deficit
<b>Balance, February 29, 2024</b>	104,591,648	\$ 10	\$ 457,460	\$ (478,990)	\$ (21,520)
Common shares issued for cash	4,455,600	1	1,117	-	1,118
Fair value of modified warrants - related party	-	-	33	-	33
Net loss	-	-	-	(15,258)	(15,258)
<b>Balance, May 31, 2024 (unaudited)</b>	<u>109,047,248</u>	<u>11</u>	<u>458,610</u>	<u>(494,248)</u>	<u>(35,627)</u>

See accompanying notes to these unaudited financial statements.

**AURA SYSTEMS, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>Three Months Ended May 31,</b>	
	<b>2025</b>	<b>2024</b>
<i>(amounts in thousands)</i>		
Net loss	\$ (2,841)	\$ (15,258)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	44	25
Inventory write-down	-	20
Loss on debt extinguishment – related party	-	19,324
Change in fair value of derivative liability	1,570	(5,023)
Changes in operating assets and liabilities:		
Accounts receivable	-	(15)
Inventory	33	-
Prepaid and other current assets	47	35
Operating lease right-of-use asset	63	48
Accounts payable and accrued expenses	(32)	(218)
Accrued interest	437	335
Operating lease liability	(67)	(57)
Cash used in operating activities	<u>(746)</u>	<u>(784)</u>
Cash used in investing activities:		
Purchase of property and equipment	-	(36)
Cash used in investing activities	<u>-</u>	<u>(36)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	848	1,117
Principal payments of convertible notes payable	(20)	-
Principal payments of notes payable	(84)	(124)
Cash provided by financing activities	<u>744</u>	<u>993</u>
Net increase (decrease) in cash and cash equivalents	(2)	173
Cash and cash equivalents-beginning of period	23	124
Cash and cash equivalents-end of period	<u>\$ 21</u>	<u>\$ 297</u>
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
Supplemental schedule of non-cash transactions:		
Fair value of modified warrants - related party	\$ -	\$ 33
Notes payable issued for the purchase of property and equipment	\$ -	\$ 321
Fair value of convertible note payable	\$ -	\$ 9,261
Extinguishment of note payable – related party	-	\$ 12,164
Conversion feature of convertible note payable – related party accounted as derivative liability	\$ -	\$ 22,194

See accompanying notes to these unaudited financial statements.

**AURA SYSTEMS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED MAY 31, 2025 AND 2024**  
**(Unaudited)**  
**(Amounts in thousands, except share and per share amounts)**

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations***

Aura Systems, Inc., (“Aura”, “We” or the “Company”) a Delaware corporation, is engaged in the development, commercialization, and sale of products, systems, and components, using its patented and proprietary electromagnetic technology. Aura develops and sells AuraGen® axial flux mobile induction power systems to the industrial, commercial, and defense mobile power generation markets.

***Basis of Presentation***

The accompanying unaudited condensed financial statements as of and for the three months ended on May 31, 2025 and 2024, have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the applicable rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited condensed financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the periods presented. The Condensed Balance Sheet information as of February 28, 2025, was derived from the Company’s audited Financial Statements as of February 28, 2025, included in the Company’s Annual Report on Form 10-K filed with the SEC on June 13, 2025. These financial statements should be read in conjunction with that report. The results of operations for the period ended May 31, 2025, may not necessarily be indicative of the results of the full fiscal year ending February 28, 2026.

The Company’s fiscal year ends on the last calendar day of February. Accordingly, the current fiscal year will end on February 28, 2026, and is referred to as “Fiscal 2026”. Our prior fiscal years ended February 28, 2025, February 29, 2024, and February 28, 2023, and are referred to as “Fiscal 2025”, “Fiscal 2024” and “Fiscal 2023”, respectively.

***Going Concern***

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has not yet generated sufficient revenues to fund operations, has experienced recurring operating losses and relies on debt and equity offerings to generate working capital.

During the three month period ended May 31, 2025, the Company recognized a net loss of \$2,841 and used cash in operating activities of \$746. As of May 31, 2025, the Company also has a shareholder deficit of \$39,586 and notes payable totaling \$5,266 are also past due. These factors raise substantial doubt about the Company’s ability to continue as a going concern within one year of the date that the financial statements are issued. In addition, the Company’s independent registered public accounting firm, in its report on the Company’s February 28, 2025, financial statements, raised substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

In the event if the Company is unable to generate profits and is unable to obtain financing for its working capital requirements, it may have to curtail its business further or cease business altogether. Substantial additional capital resources will be required to fund continuing expenditures related to our research, development, manufacturing and business development activities. The Company’s continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to retain its current financing, to obtain additional financing, and ultimately to attain profitability.



### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Significant estimates include assumptions made for inventory valuation, impairment testing of long-lived assets, the valuation allowance for deferred tax assets, assumptions used in valuing notes payable, derivative liabilities, assumptions used in valuing share-based compensation, and accruals for potential liabilities. Amounts could materially change in the future. Actual results could differ from those estimates.

### **Concentration of Credit and Other Risks**

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and accounts receivable. Cash is deposited with a limited number of financial institutions. The balances held at any one financial institution at times may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits of up to \$250. We have not experienced any losses in such accounts and believe we are not exposed to any significant risk on cash and cash equivalents.

During the three months ended May 31, 2025, one customer accounted for 90% and one customer accounted for 10% of revenues. During the three months ended May 31, 2024, one customer accounted for 55% and one customer accounted for 12% of revenues. No other customer accounted for more than 10% of revenues.

As of May 31, 2025, four vendors accounted for 40%, 12%, 12% and 10% of accounts payable. As of February 28, 2025, four vendors accounted for 42%, 12%, 11% and 9% of accounts payable.

### ***Revenue Recognition***

The Company recognizes revenue in accordance with Financial Accounting Standard Board's ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*.

Our primary source of revenue is the manufacture and delivery of axial flux induction motors and generator sets used primarily in mobile power applications. Our principal sales channel is sales to domestic end users and distributors and agents internationally. In accordance with ASC 606, the Company recognizes revenue, net of discounts, for our generator sets at the time of product delivery and acceptance by the customer (i.e. point-in-time), which also corresponds to the passage of legal title to the customer and the satisfaction of our performance obligation to the customer.

### ***Share-Based Compensation***

The Company periodically issues stock options and warrants, and shares of common stock to employees and non-employees in non-capital raising transactions for services and for financing costs. Share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period. Recognition of compensation expense for non-employees is in the same period and manner as if the Company had paid cash for such services.

### **Derivative Financial Instruments**

The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

The Company uses Level 3 inputs for its valuation methodology for the derivative liabilities as their fair values were determined by using a Binomial pricing model. The Company's derivative liabilities are adjusted to reflect fair value at each reporting date, with any increase or decrease in the fair value being recorded in the statement of operations.

To determine the number of authorized but unissued shares available to satisfy outstanding convertible securities, the Company uses a sequencing method to prioritize its convertible securities as prescribed by ASC 815-40-35. At each reporting date, the Company reviews its convertible securities to determine their classification is appropriate.

### ***Fair Value of Financial Instruments***

The Company determines the fair values of its financial instruments based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. Under ASC 820, *Fair Value Measurement and Disclosures* ("ASC 820"), the fair value hierarchy prioritizes the inputs into three levels that may be used to measure fair value:

- Level 1 – Quoted prices (unadjusted) for identical assets and liabilities in active markets;
- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs.

The recorded amounts of inventory, other current assets, accounts payable, and accrued expenses approximate their fair value due to their short-term nature. The carrying amounts of notes payable and convertible notes payable approximate their respective fair values because of their current interest rates payable in relation to current market conditions.

The following table sets forth by level, within the fair value hierarchy, the Company's assets and liabilities at fair value as of May 31, 2025 and February 28, 2025:

		May 31, 2025			
		Level 1	Level 2	Level 3	Total
<i>(amounts in thousands)</i>					
<u>Liabilities</u>					
Derivative liability – convertible note conversion option	\$	-	\$	19,135	\$ 19,135
Total	\$	-	\$	19,135	\$ 19,135
		February 28, 2025			
		Level 1	Level 2	Level 3	Total
<u>Liabilities</u>					
Derivative liability – convertible note conversion option	\$	-	\$	17,565	\$ 17,565
Total	\$	-	\$	17,565	\$ 17,565

The Company estimated the fair value of the derivative liability using the Binomial Model.

The following table provides a roll-forward of the derivative liability measured at fair value on a recurring basis using unobservable level 3 inputs for the period ended May 31, 2025, as follows:

	Fair Value of Derivative Warrant Liability
<i>(amounts in thousands)</i>	
February 28, 2025	\$ 17,565
Change in fair value of derivative liability	1,570
May 31, 2025	\$ 19,135

### ***Loss per share***

The Company's loss per share amounts have been computed based on the weighted average number of shares of common stock outstanding for the period. Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares of common stock assuming all potential shares had been issued, and the additional shares of common stock were dilutive. Diluted earnings (loss) per share reflects the potential dilution, using the as-if-converted method for convertible debt, and the treasury stock method for options and warrants, which could occur if all potentially dilutive securities were exercised.

For the three months ended May 31, 2025 and 2024, the calculations of basic and diluted loss per share are the same because potentially dilutive securities would have had an anti-dilutive effect. The potentially dilutive securities consisted of the following:

	May 31, 2025	May 31, 2024
Warrants	6,451,664	6,521,664
Options	7,000,000	4,250,000
Convertible notes	98,588,399	46,756,007
Total	<u>112,040,063</u>	<u>57,527,671</u>

### ***Recent Accounting Pronouncements***

In November 2024, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* which includes amendments that require disclosure in the notes to financial statements of specified information about certain costs and expenses, including purchases of inventory; employee compensation; and depreciation, amortization and depletion expenses for each caption on the income statement where such expenses are included. The amendments are effective for the Company's annual periods beginning January 1, 2027, with early adoption permitted, and should be applied either prospectively or retrospectively. The Company is in the process of evaluating this ASU to determine its impact on the Company's disclosures.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosure*. These amendments expand a public entity's segment disclosures by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker, requiring other new disclosures, and requiring enhanced interim disclosures. ASU 2023-07 requires public entities with a single reportable segment to provide all the disclosures required by this standard and all existing segment disclosures in Topic 280 on an interim and annual basis. ASU 2023-07 is effective for annual periods beginning after December 15, 2023, and interim periods beginning after December 15, 2024, applied retrospectively with early adoption permitted. As of December 31, 2024, the Company has adopted ASU 2023-07. The adoption of this standard did not have a material impact on the Company's consolidated financial statements but has resulted in additional disclosures within the footnotes to our consolidated financial statements (See Note 12).

Other recent accounting pronouncements issued by the FASB, its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future financial statements.

## NOTE 2 – CONVERTIBLE NOTES PAYABLE

Convertible notes payable consisted of the following:

	May 31, 2025	February 29, 2024
<i>(amounts in thousands)</i>		
(a) Convertible notes payable 1 – past due	\$ 1,403	\$ 1,403
(b) Convertible notes payable 2 – past due	90	110
Net	<u>\$ 1,493</u>	<u>\$ 1,513</u>

- (a) In Fiscal 2013 and 2014, the Company issued six convertible notes payable in the aggregate of \$4,000. The notes are unsecured, bear interest at 5% per annum and are convertible into shares of common stock at a conversion price of \$1.40 per share, as adjusted. The notes were originally due in 2014 to 2017 and were all amended in 2018 to change the maturity date to January 11, 2023. As of May 31, 2025 and February 28, 2025, the outstanding balance of the convertible notes payable amounted to \$1,403 and are past due.
- (b) In Fiscal 2024 the Company issued convertible notes payable to unrelated individuals and entities totaling \$110 in exchange for cash. The notes are unsecured, bear interest at rate of 10% per annum, and matured in March 2024. The notes payable are convertible into shares of common stock at a conversion price of \$0.20 per share. As of May 31, 2025 and February 28, 2025, the outstanding balance of the convertible notes payable amounted to \$90 and \$110, respectively, and are past due.

At May 31, 2025, the total outstanding convertible notes payable of \$1,493 and accrued interest of \$526 are convertible into 1,887,215 shares of common stock at conversion rates ranging from \$0.20 to \$1.40 per share.

## NOTE 3 – CONVERTIBLE NOTE PAYABLE-RELATED PARTY

Convertible note payable – related party consisted of the following:

	May 31, 2025	February 28, 2025
<i>(amounts in thousands)</i>		
(a) Convertible note payable to former director – past due	\$ 3,000	\$ 3,000
(b) Convertible note payable to director – past due	20	20
(c) Convertible note payable – Kopple	9,259	9,259
Total	<u>\$ 12,279</u>	<u>\$ 12,279</u>

- (a) Convertible note payable-former Director

On January 24, 2017, the Company entered into a debt refinancing agreement with a former director and current shareholder of the Company. As part of the agreement, the Company issued a \$3,000 convertible note. The convertible note is unsecured, bears interest at 5% per annum, and was due February 2, 2023. The convertible note is convertible into shares of common stock at a conversion price of \$1.40 per share, as adjusted. As of May 31, 2025 and February 28, 2025, the outstanding balance of the convertible note amounted to \$3,000 and is past due.

- (b) Convertible note payable-Director

On October 4, 2023, the Company issued a convertible note payable of \$20 in exchange for cash to a member of the Company's Board of Directors. The convertible note is unsecured, bears interest at rate of 10% per annum and matured in March 2024. The convertible note payable is convertible to common stock at a conversion price of \$0.20 per share. As of May 31, 2025 and February 28, 2025, the outstanding balance of the convertible note amounted to \$20 and is past due.

(c) Convertible note payable-Kopple

In March 2022, the Company entered into a binding term sheet agreement (“note payable”) with Robert Kopple and associated entities (collectively “Kopple”) in the aggregate of \$10,000. Robert Kopple is the former Vice-Chairman of the Company’s Board of Directors and is a current shareholder in the Company. In March 2024, the Company and Kopple amended the note payable, which, among other things, added a conversion feature to the note payable. Accordingly, the amended note payable is reported as a convertible note payable-related party.

The convertible note payable to Kopple is secured by tangible and intangible assets of the Company, bears interest at a rate of 10% per annum (15% on default) and matures in June 2029. As of May 31, 2025 and February 28, 2025, the outstanding balance of the convertible note payable was \$9,259.

March 2024 amendment to the Kopple note payable

The amendment to the Kopple note payable (i) replaced a requirement to pay the \$3,850 past due principal balance with the requirement to pay \$2,000 on or before December 15, 2024 (see extension below); (ii) increased the stated interest rate to 10% (15% on default); (iii) added a fee of \$15 monthly until the Company makes a principal payment of \$2,000 by December 2024; (iv) effective August 30, 2024, the Company granted Kopple a 36 month right (but not any obligation) to convert the note payable into equity of the Company at a conversion price equal to the lower of \$1 per share or 50% of the 10 day volume weighted average price per share of the Company’s common stock; (v) requires the Company to pay 20% of all collected revenues within 10 days of the end of each fiscal quarter; (vi) requires the Company to pay Kopple 20% of any amount raised in new capital in the form of equity, debt or convertible debt above \$3,500; (vii) reduces the exercise price of the warrants granted to Kopple in March 2022 from \$0.85 per share to \$0.50 per share; and (viii) extends the warrant expiration date of the warrants granted to Kopple from March 8, 2029, to March 31, 2031.

On February 28, 2025, an installment payment of \$2,000, due in December 2024, was extended to March 31, 2025 in exchange for a cash payment of \$100,000, which was recorded as interest expense. On April 28, 2025, Kopple agreed to further extend the installment payment of \$2,000 due March 31, 2025, to June 30, 2025, in exchange for another cash payment of \$100,000.

Accounting for March 2024 amendment to the Kopple note payable as debt extinguishment

The Company accounted for the amended terms of the Kopple note payable as a debt extinguishment because the present value of the cash flows under the amended debt terms is greater by more than 10% compared to the present value of the remaining cash flows under the original existing debt terms. Furthermore, the amendment granted a conversion option to the note holder and is deemed substantially different from the existing note. The Company recorded a loss on debt extinguishment of \$19,324 as a result of this amendment, which is the difference between (i) the fair value of the amended convertible note payable of \$9,259, combined with the fair value of the conversion option upon issuance of \$22,194, and the change in the fair value of the amended warrants of \$33, and (ii) the net carrying amount of the former note payable of \$12,162.

Other

At February 28, 2025, Kopple alleged that the Company failed to comply with certain non-monetary terms including failing to hold a shareholders’ meeting by August 1, 2024, or otherwise secure additional shares needed to allow the exercise Kopple’s conversion rights, and failure to pay 20% of all collected revenues within 10 days of the end of each fiscal quarter. In addressing the alleged violation of terms, the Company has provided for interest at the rate of 15% per annum and reported the entire convertible note payable as current.

The Company is also subject to certain affirmative and negative covenants such as periodic submission of financial statements to Kopple and restrictions on future financing and investing activities, as defined in the agreement, including the covenant to not create any indebtedness that is senior in right of payment to the Kopple debt. Management believes such covenants are normal for this type of transaction and that management believes meeting these covenants will not affect the operations of the Company.

At May 31, 2025, the total outstanding convertible notes payable-related party of \$12,279 and accrued interest of \$2,749 are convertible into 96,701,184 shares of common stock at conversion rates ranging from \$0.20 to \$1.40 per share.

#### NOTE 4 – NOTES PAYABLE

Notes payable consisted of the following:

<i>(amounts in thousands)</i>	<b>May 31, 2025</b>	<b>February 28, 2025</b>
<u>Secured notes payable</u>		
(a) Note payable-EID loan	\$ 150	\$ 150
(b) Notes payable-vehicle and equipment	40	46
(c) Note payable - software license	171	208
(d) Notes payable – machinery and other equipment	197	238
<u>Unsecured notes payable</u>		
(e) Note payable-other	10	10
Total	\$ 568	\$ 652
Current	(230)	(212)
Non-current	\$ 338	\$ 440

##### (a) Note payable-EID loan

During Fiscal 2021, the Company received a \$150 loan under the United States Small Business Administration (“SBA”) Economic Injury Disaster Loan (“EID Loan”) program. The loan is due July 1, 2050, interest accrues at 3.75% per annum and is secured by the assets of the Company.

##### (b) Notes payable-vehicle and equipment

During Fiscal 2022, the Company issued two notes payable to purchase equipment and a vehicle for \$288. The notes are secured by the equipment and vehicle purchased. The first note with the original principal of \$210 was paid in full in October 2024. The second note with original principal of \$78 is due January 20, 2027, and requires 72 equal monthly payments of approximately \$1.5, including interest at 10.9% interest per annum.

##### (c) Note payable-software license

During Fiscal 2024, the Company obtained a loan of \$150 from a financing institution to finance the use of a third-party software license by the Company. The note payable is secured by tangible and intangible assets of the Company, bears interest at an average rate of 8% per annum and will mature in September 2026.

During Fiscal 2025, the Company obtained a loan of \$179 from a financing institution to finance the use of a third-party software license by the Company. The note payable is secured by tangible and intangible assets of the Company, bears interest at an average rate of 14.41% per annum and will mature in November 2025.

The aggregate total of the note payable-software licenses as of May 31, 2025, amounted to \$171.

##### (d) Notes payable – machinery and other equipment

During Fiscal 2025, the Company obtained a loan of \$274 from a financing institution to finance the purchase of a production machine. The note payable is secured by the production machine and will mature in April 2029. As of May 31, 2025, the outstanding balance of the note payable amounted to \$197.

(e) Note payable-other

As of May 31, 2025, and February 28, 2025, the Company has one note payable due to an individual issued in September 2015 that is payable on demand with an interest rate of 10% per annum.

**NOTE 5 – NOTES PAYABLE-RELATED PARTIES**

Notes payable-related parties consisted of the following:

<i>(amounts in thousands)</i>	<b>May 31, 2025</b>	<b>February 28, 2025</b>
(a) Note payable-Jiangsu Shengfeng – past due	\$ 733	\$ 733
Total	733	733
Non-current	-	-
Current	\$ 733	\$ 733

(a) Jiangsu Shengfeng Note

On November 20, 2019, the Company owned 49% of a Chinese joint venture named Jiangsu Shengfeng. The Joint venture advanced Aura \$700 in prior years for products that the Company failed to deliver to the joint venture. The Company reached an agreement with the joint venture regarding the return of \$700 that had been advanced to the Company in prior years provided the joint venture remains as an operating company. As a result, in November 2019, the Company issued a non-interest-bearing promissory note for \$700 to the joint venture to be paid over an 11-month period beginning March 15, 2020, through February 15, 2021. The joint venture stopped operations in 2020 as a result of COVID-19 and never resumed or restarted operations. In early fiscal 2024 the joint venture was dissolved and liquidated without filing any demands or claims for payments. As of May 31, 2025 and February 28, 2025, the outstanding balance of this note payable amounted to \$733.

**NOTE 6 – ACCRUED INTEREST**

Accrued interest consisted of the following:

<i>(amounts in thousands)</i>	<b>May 31, 2025</b>	<b>February 28, 2025</b>
Convertible notes payable (past due) (see Note 2)	\$ 529	\$ 509
Convertible notes payable - related party – Kopple (see Note 3)	1,709	1,329
Convertible notes payable - related party – others (see Note 3)	1,054	1,016
Notes payable (see Note 4)	20	21
Total	\$ 3,312	\$ 2,875

**NOTE 7 – LEASES**

In February 2021, the Company consolidated our administrative and production operations, including warehousing, within an approximately 18 square foot facility in Lake Forest, California. The Lake Forest facility lease is for 66-months effective February 2021 through August 31, 2026. The initial monthly base rental rate was approximately \$22 per month and escalates 3% each year to approximately \$26 per month in 2026. The lease liability was determined by discounting the future lease payments under the lease terms using a 10% per annum discount rate to determine the lease liability.

In April 2024, the Company entered into a 60-month financing lease for a forklift with a cost of \$47. The lease has an interest rate of 8%, including a bargain purchase option to acquire the forklift at the end of the lease term for a payment of one dollar.

Operating lease right-of-use (“ROU”) assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Generally, the implicit rate of interest in arrangements is not readily determinable and the Company utilizes its incremental borrowing rate in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives.

The components of lease expense and supplemental cash flow information related to leases for the period are as follows:

	<b>Three Months ended May 31, 2025</b>	<b>Three Months ended May 31, 2024</b>
<i>(amounts in thousands)</i>		
<u>Lease Cost</u>		
Operating lease cost (included in general and administration in the Company’s statement of operations)	\$ 63	\$ 69
<u>Other Information</u>		
Cash paid for amounts included in the measurement of lease liabilities for the years ended May 31, 2025 and 2024, respectively	\$ 78	\$ 72
Weighted average remaining lease term – operating leases (in years)	1.5	2.25
Average discount rate – operating leases	10.0%	10.0%

The supplemental balance sheet information related to leases for the period is as follows:

	<b>At May 31, 2025</b>
<u>Operating leases</u>	
Long-term right-of-use assets	\$ 355
Short-term operating lease liabilities	\$ 290
Long-term operating lease liabilities	105
Total operating lease liabilities	\$ 395

Maturities of the Company’s lease liability is as follows:

<b>Year Ending February 28:</b>	<b>Operating Lease</b>
2026 - Remaining	\$ 233
2027	166
2028	11
2029	11
2030	1
Total lease payments	422
Less: Imputed interest/present value discount	(27)
Present value of lease liabilities	\$ 395



## NOTE 8 – DERIVATIVE LIABILITY

In March 2024, pursuant to the amendment of the Kopple note payable (see Note 3), the Company granted Kopple the right to convert the amended note payable into equity of the Company at a conversion price equal to the lower of \$1.00 per share or 50% of the 10 day volume-weighted average price per share of the Company's common stock. The Company analyzed the conversion option for derivative accounting consideration under ASC 815, Derivatives and Hedging, and determined that the conversion option should be classified as a derivative liability since it does not have an explicit limit to the number of shares to be delivered upon settlement of the conversion option. The derivative liability is remeasured to fair value at each reporting period, and the change in the fair value is recognized in earnings in the accompanying statements of operations. The Company estimated the fair value of the conversion option derivative liability using a Black-Scholes option pricing model. The fair value of the derivative liability at May 31, 2025 and February 28, 2025 was \$19,135 and \$17,565, respectively.

The following tables summarize the derivative liability:

<i>(amounts in thousands, except share and per share data)</i>	<b>May 31, 2025</b>	<b>February 28, 2025</b>
Stock price	\$ 0.24	\$ 0.34
Risk free interest rate	2.76%	4.01%
Expected volatility	162%	173%
Expected life in years	2.25	4.33
Expected dividend yield	0%	0%
Number of common stock issuable	93,688,958	54,128,933
Fair value of derivative liability	\$ 19,135	\$ 17,565

## NOTE 9 – SHAREHOLDERS' DEFICIT

### Common Stock

On May 31, 2025 and February 28, 2025, the Company had 150,000,000 shares of \$0.0001 par value common stock authorized for issuance.

During the three months ended May 31, 2025, the Company issued 3,415,152 shares of common stock for approximately \$848 in cash.

During the three months ended May 31, 2024, the Company issued 4,455,600 shares of common stock for approximately \$1,117 in cash. As part of the offering, the Company also granted certain investors warrants to purchase 3,000,000 shares of common stock. The warrants are fully vested, exercisable at \$1.00 per share and will expire in 3 years.

On May 31, 2025, there were insufficient authorized and unissued shares for the Company to satisfy all of its commitments to deliver shares. The Company's sequencing policy resulted in the allocation of authorized and unissued shares in the following order at May 31, 2025 (i) Warrants, and (ii) Convertible Notes Payable and Convertible Notes Payable-Related Party (excluding the Convertible Note Payable-Kopple). The sequence is based upon reclassifying securities with the earliest maturity date first. This sequencing and the lack of sufficient authorized shares required the Company to classify the conversion option of the convertible note payable-Kopple as liabilities recorded at fair value at May 31, 2025 (see Note 8).

## Stock Options

In October 2011, the Company's shareholders approved the 2011 Director and Executive Officers Stock Option Plan (the "2011 Plan"). Under the 2011 Plan, the Company may grant options, or warrants, for up to 15% of the number of shares of Common Stock of the Company outstanding from time to time. Pursuant to this plan, the Board or a committee of the Board may grant an option to any person who is elected or appointed a director or executive officer of the Company. The exercise price of each option shall be at least equal to the fair market value of such shares on the date of grant, and the term of the options may not be greater than five years. A summary of the Company's stock option activity is as follows:

	Number of Shares	Exercise Price	Weighted Average Intrinsic Value
<i>(amounts in thousands, except share and per share data)</i>			
Total options, February 28, 2025	8,250,000	\$ 0.43	\$ -
Granted	-	-	-
Exercised	-	-	-
Expired	(1,250,000)	0.25	-
Total options, May 31, 2025	7,000,000	\$ 0.46	\$ -
Exercisable, May 31, 2025	7,000,000	\$ 0.46	\$ -

As of May 31, 2025, the intrinsic value as these stock options amounted to \$0. The exercise prices and information related to options under the 2011 Plan outstanding on May 31, 2025, are as follows:

Range of Exercise Price	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Options Outstanding	Weighted Average Exercise Price of Options Exercisable
\$ 0.25 to \$0.50	7,000,000	7,000,000	5.41	\$ 0.46	\$ 0.46

## Warrants

	Number of Warrants	Exercise Price
Outstanding, February 28, 2025	6,511,664	\$ 0.73
Granted	-	-
Exercised	-	-
Expired	(60,000)	0.50
Outstanding, May 31, 2025	6,451,664	\$ 0.73

There was no intrinsic value as of May 31, 2025, as the exercise prices of these warrants were greater than the market price of the Company's stock. The exercise prices and information related to the warrants as May 31, 2025, are as follows:

Range of Exercise Price	Stock Warrants Outstanding	Stock Warrants Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Warrants Outstanding	Weighted Average Exercise Price of Warrants Exercisable
\$ 0.50	3,451,664	3,451,664	5.72	\$ 0.50	\$ 0.50
\$ 1.00	3,000,000	3,000,000	1.94	\$ 1.00	\$ 1.00

## NOTE 10 – RELATED PARTY TRANSACTIONS

As of May 31, 2025 and February 29, 2024, Bettersea LLC ("Bettersea") was an 6.9% and 7.1%, respectively, shareholder in the Company. For the three months ended May 31, 2025 and 2024, the Company incurred total fees to Bettersea of \$42 and \$40, respectively, for consulting services. As of May 31, 2025 and February 28, 2025, a total of approximately \$247 and \$225, respectively, was due to Bettersea and included in accounts payable and accrued expenses.

As of May 31, 2025 and February 28, 2025, accrued expenses include accrued payroll due to officers and of \$292 and \$272, respectively.

## NOTE 11 – CONTINGENCIES

The Company is subject to legal proceedings and claims that have arisen in the ordinary course of business. Our management evaluates our exposure to these claims and proceedings individually and in the aggregate and evaluates potential losses on such litigation if the amount of the loss is estimable and the loss is probable. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. Although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company for amounts in excess of management's expectations, the Company's financial statements for that reporting period could be materially adversely affected.

On March 26, 2019, various stockholders of the Company controlling a combined total of more than 27.5 million shares delivered a signed written consent to the Company removing Ronald Buschur as a member of the Company's Board and electing Cipora Lavut as a director of the Company. On March 27, 2019, those same stockholders delivered a further signed written consent to the Company removing William Anderson and Si Ryong Yu as members of the Company's Board and electing Robert Lempert and David Mann as directors of the Company. These written consents represented a majority of the outstanding shares of the Company's common stock as of March 26, 2019, and March 27, 2019, respectively. Because of Aura's refusal to recognize the legal effectiveness of the consents, on April 8, 2019, the stockholders filed suit in the Court of Chancery of the State of Delaware pursuant to Section 225 of the Delaware General Corporations Law, seeking an order confirming the validity of the consents and declaring that Aura's Board consists of Ms. Lavut, Mr. Mann, Dr. Lempert, Mr. Douglas and Mr. Diaz-Versón, Jr. On July 8, 2019 the Court of Chancery entered final judgment in favor of the stockholder plaintiffs, confirming that (a) Ronald Buschur, Si Ryong Yu and William Anderson had been validly removed by the holders of a majority of the Company's outstanding stock acting by written consent (b) Ms. Lavut, Mr. Mann and Dr. Lempert had been validly elected by the holders of a majority of the Company's outstanding stock acting by written consent, and (c) the Company's Board of Directors validly consists of Cipora Lavut, David Mann, Robert Lempert, Gary Douglas and Salvador Diaz-Versón, Jr. As a result of prior management's unsuccessful opposition to this stockholders' action filed in the Court of Chancery, such stockholders may be potentially entitled to recoup their litigation costs from the Company under Delaware's corporate benefit doctrine and/or other legal provisions. To date, no final determination has been made as to the amount of recoupment, if any, to which such stockholders may be entitled.

## NOTE 12. SEGMENT INFORMATION

The Company operates and manages its business as one reportable and operating segment. The measure of segment assets is reported on the balance sheet as total consolidated assets. The Company derives revenue primarily in the United States of America and manages its business activities on a consolidated basis.

The Company's chief operating decision maker (CODM), its Chief Executive Officer, reviews financial information presented on a consolidated basis and decides how to allocate resources based on net loss. Consolidated net loss is used for evaluating financial performance. The monitoring of budgeted versus actual results is used in assessing performance of the Company and in establishing management's compensation.

Significant segment expenses include employee compensation, stock-based compensation, merchant fees, and consulting and outside provider costs. Other operating expenses include all remaining costs necessary to operate our business and primarily include advertising, corporate compliance, and overhead expenses. The following table presents the significant segment expenses and other segment items regularly reviewed by our CODM:

	Three Months Ended May 31, 2025	Three Months Ended May 31, 2024
<b>Net sales</b>	\$ 185	\$ 47
Cost of sales	25	47
<b>Gross profit</b>	160	-
Less:		
Employee compensation and benefits	385	384
Consulting and outside provider costs	84	153
Property lease and utility costs	91	114
Depreciation expense	48	23
Program software and licensing expense	57	54
Other operating expenses	172	(44)
Total operating expenses	837	684
Loss from operations	<u><u>\$ (677)</u></u>	<u><u>\$ (684)</u></u>

## NOTE 13 – SUBSEQUENT EVENTS

Subsequent to May 31, 2025, the Company issued 980 shares of common stock in exchange for cash proceeds of approximately \$245.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Amounts in thousands, except share and per share amounts)

### Forward Looking Statements

This Report contains forward-looking statements within the meaning of the federal securities laws. Statements other than statements of historical fact included in this Report, including the statements under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," regarding future events or prospects are forward-looking statements. The words "approximates," "believes," "forecasts," "expects," "anticipates," "estimates," "intends," "plans" "would," "could," "should," "seek," "may," or other similar expressions in this Report, as well as other statements regarding matters that are not historical fact, constitute forward-looking statements. We caution investors that any forward-looking statements presented in this Report are based on the beliefs of, assumptions made by, and information currently available to, us. Such statements are based on assumptions and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results may differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on forward-looking statements to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following:

- *Our ability to generate positive cash flow from operations;*
- *Our ability to obtain additional financing to fund our operations;*
- *The impact of economic, political and market conditions on us and our customers;*
- *The impact of unfavorable results of legal proceedings;*
- *Our exposure to potential liability arising from possible errors and omissions, breach of fiduciary duty, breach of duty of care, waste of corporate assets and/or similar claims that may be asserted against us;*
- *Our ability to compete effectively against competitors offering different technologies;*
- *Our business development and operating development;*
- *Our expectations of growth in demand for our products; and*
- *Other risks described under the heading "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q and those risks discussed in our other filings with the Securities and Exchange Commission, including those risks discussed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended February 29, 2024, issued on June 4, 2024 (as the same may be updated from time to time in subsequent quarterly reports), which discussion is incorporated herein by this reference.*

We do not intend to update or revise any forward-looking statements, whether because of new information, future events or otherwise except to the extent required by law. You should interpret all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf as being expressly qualified by the cautionary statements in this Report. As a result, you should not place undue reliance on these forward-looking statements.

## Overview

Our business is based on the exploitation of our Axial Flux Induction technology for both electric motors and generators. Our power generation solution based on axial flux induction is known as the AuraGen<sup>®</sup> for commercial and industrial applications and the VIPER for military applications. Aura's axial flux induction technology provide: (i) higher motor/generator efficiency, that directly translated to lower cost for operations (ii) lighter and smaller machines that lead to lower manufacturing cost, (iii) higher reliability that results in less down time and maintenance cost, (iv) the only raw materials used for construction are copper and steel without any rare earth or any other types of permanent magnets. This immediately results in global availability without market risks as well as geopolitical risks of dependence on single source, and (v) the use of approximately 60% less of copper than the equivalent radial flux induction machines, results in less needed mining to extract the needed copper with direct positive environmental impact.

Our business model consists of three major components: (i) sales and marketing, (ii) design and engineering and (iii) axial flux induction motors and generators manufacturing. Our sales and marketing approaches are composed of direct sales in North America and the use of agents and distributors in other areas. In addition, we are also exploring limited licensing of our technology to very large potential users as well as potential joint ventures with existing industrial motor/generator suppliers. The second component of our business model is focused on the design, engineer and commercialize of new commercial and industrial electric motors based on our axial flux induction for numerous applications such as pumps, compressors, and HVAC. We are also designing electric motors for both 2- and 4-wheel EV application, as well as, expanding the product line for electric power generation. The third component of our business model is to set up manufacturing of the axial flux induction products being engineered and design.

We recently completed a 250-kW electric motor prototype based on our axial flux induction for EV applications. This activity is in conjunction with a large European tier 1 automotive supplier interest and inputs. We also completed the design for a 250-kW generator based on our axial flux induction technology. We expect to build this new generator over the next few months. We have also in May 2024 completed the installation of our new smaller 10-kW mobile power generator on a Polaris type ATV platform for US military applications. We started working directly with Polaris to perfect the output from the new generator on their platform. We completed the designs for 5 horsepower axial flux induction motor for swimming pool pump applications, and we also completed the design for a 10 horsepower axial flux induction motor for irrigation pump applications. We are also currently in discussions for usage of our technology for numerous wind turbines applications. During fiscal 2025 we also applied for 3 new patents related to axial flux induction machines.

In fiscal 2024 and 2025 we have significantly increased our engineering capabilities with having hired experts' engineers in thermo dynamics (Ph.D.), electromagnetic motor design (Ph.D.) Power electronics & control (Ph.D.) and mechanical design (M.S.M.E). We have also acquired the latest in advance engineering tools such as Ansys Maxwell finite elements, MATLAB and 3-D solid work.

In Fiscal 2020 stockholders of the Company successfully removed Ronald Buschur, William Anderson and Si Ryong Yu from the Company's Board of Directors and elected Ms. Cipora Lavut, Mr. David Mann and Dr. Robert Lempert as directors of the Company in their stead. See Item 3, Legal Proceedings for more information. Also, in Fiscal 2020, Melvin Gagerman — Aura's CEO and CFO since 2006 — was replaced. In July 2019 Ms. Lavut succeeded Mr. Gagerman as President and Mr. Mann succeeded Mr. Gagerman as CFO. Dr. Lempert was appointed as Secretary of the Company by the Board of Directors also in July 2019.

## Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial conditions and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements requires management to make estimates and disclosures on the date of the financial statements. In preparing our financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements. We use authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. For these key estimates and assumptions, we made appropriate accounting estimates based on the facts and circumstances available as of the reporting date. To the extent that there are significant differences between these estimates and actual results, our financial statements may be materially affected. Significant estimates include assumptions made for inventory reserve, impairment testing of long-lived assets, the valuation allowance for deferred tax assets, assumptions used in valuing derivative liabilities, assumptions used in valuing share-based compensation, and accruals for potential liabilities. Amounts could materially change in the future. Actual results could differ from those estimates. There were no changes to our critical accounting policies described in the financial statements included in our Annual Report on Form 10-K for the fiscal year ended February 28, 2025, that impacted our condensed financial statements and related notes included herein.

### ***Revenue Recognition***

The Company recognizes revenue in accordance with Financial Accounting Standard Board's ("FASB") Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers. In accordance with ASC 606, we recognize revenue, net of discounts, for our generator sets at time of product delivery to the domestic distributor (i.e. point-in-time), which also corresponds to the passage of legal title to the customer and the satisfaction of our performance obligations to the customer.

### ***Inventories***

Inventories are valued at the lower of cost (first-in, first-out) or net realizable value, on an average cost basis. We review the components of inventory on a regular basis for excess or obsolete inventory based on estimated future usage and sales. When evidence exists that the net realizable value of inventory is lower than its cost, the difference is recognized as a loss in the period in which it occurs. Once inventory has been written down, it creates a new cost basis for inventory that may not be subsequently written up.

### ***Derivative Financial Instruments***

The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

### **Results of Operations**

#### **Three months ended May 31, 2025, compared to three months ended May 31, 2024**

##### *Revenues*

Net revenue was \$185 for the three-months ended May 31, 2025, compared to \$47 for the three-months ended May 31, 2024. Revenues continue to be negatively impacted due to a generally low level of resources on our legacy products as well as our shift to the development and production of the prototype for our new product line. We cannot project with confidence the timing or amount of revenue that we can expect until the prototype is completed, which should be in Fiscal 2026.

##### *Cost of Goods*

Cost of goods sold was \$25 in the three-months ended May 31, 2025, compared to \$47 for the three-months ended May 31, 2024.

##### *Engineering, Research and Development*

Engineering, research and development expenses were \$353 in the three-months ended May 31, 2025, compared to \$310 for the three-months ended May 31, 2024.

### *Selling, General and Administrative Expense*

Selling, general and administration (“SG&A”) expenses for the three months ending May 31, 2025, were \$484 as compared to \$374 for the three months ending May 31, 2024, an increased by \$110 or 29% in the three-month period ending May 31, 2025, compared to the three-months ended May 31, 2024.

### *Other Income (Expense) and Interest Expense*

Interest expense increased by \$319 to \$594 for the three months ended May 31, 2025, as compared to \$275 for the three months ended May 31, 2024. During the three months ended May 31, 2024, the Company recorded a loss on debt extinguishment of \$19,324, which did not occur in the current year period. The Company estimated the fair value of the conversion option derivative liability using a Black-Scholes option pricing model and recorded the change in fair value of the derivative liability of (\$1,570) and \$5,023 at May 31, 2025 and May 31, 2024, respectively.

### *Net Loss*

We recorded net losses of approximately \$2,841 and \$15,258 for the three months ended March 31, 2025 and 2024, respectively. The decrease in our net loss was due to several factors, as noted above, including the recording of a loss on debt extinguishment to a related party, and the change in fair value of our derivative liability.

### **Liquidity and Capital Resources**

For the three months ended May 31, 2025, we recorded a net loss of \$2,841, used cash in operations of \$746, and at May 31, 2025, had a stockholders’ deficit of \$39,586. In addition, at May 31, 2025, notes payable and related accrued interest with an aggregate balance of \$5,566 have reached maturity and are past due. These conditions raise substantial doubt regarding our ability to continue as a going concern for a period of at least one year from the date of issuance of these financial statements. In addition, the Company’s independent registered public accounting firm, in their report on the Company’s February 28, 2025, audited financial statements, raised substantial doubt about the Company’s ability to continue as a going concern.

Prior to Fiscal 2020, in order to maintain liquidity, we relied upon external sources of financing, principally equity financing and private indebtedness. We have no bank line of credit and will require additional debt or equity financing to fund ongoing operations. Based on a cash flow analysis performed by management, we estimate that we will need an additional \$6 million to maintain existing operations for Fiscal 2026 and increase the volume of shipments to customers. We cannot assure the reader that additional financing will be available nor that the commercial targets will be met in the amounts required to keep the business operating. The issuance of additional shares of equity in connection with such financing could dilute the interests of our existing stockholders, and such dilution could be substantial. If we cannot raise the funds needed, we will also be forced to make further substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and ultimately our viability as a company.

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company, we are not required to provide disclosure under this Item 3.

### **ITEM 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this Report. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. As of May 31, 2025, management’s assessment identified the following material weaknesses in the Company’s internal control over financial reporting:

We continue to have a material weakness in our internal control over financial reporting as disclosed in the February 28, 2025, Annual Report on Form 10-K, in that we have an insufficient number of full-time personnel with an appropriate level of U.S. GAAP knowledge and experience and ongoing training in the application of U.S. GAAP and SEC disclosure requirements commensurate with the Company’s financial reporting requirements.

Notwithstanding the identified material weaknesses, management has concluded that the Financial Statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, the Company’s financial position, results of operations and cash flows for the periods disclosed in conformity with U.S. GAAP.

#### **Changes in Internal Control over Financial Reporting**

There have been no other changes in our internal control over financial reporting during our fiscal quarter ended May 31, 2025, not previously identified in our Annual Report on Form 10-K, for the fiscal year ended February 28, 2025 and issued on June 13, 2025 which have materially affected or are reasonably likely to materially affect our internal control over financial reporting.



## PART II - OTHER INFORMATION

(Amounts in thousands, except share and per share amounts)

### ITEM 1. Legal Proceedings

We are subject to the legal proceedings and claims discussed below as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. Our management evaluates our exposure to these claims and proceedings individually and in the aggregate and evaluates potential losses on such litigation if the amount of the loss is estimable and the loss is probable. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. Although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company for amounts in excess of management's expectations, the Company's financial statements for that reporting period could be materially adversely affected. The Company settled certain matters subsequent to year end that did not individually or in the aggregate, have a material impact on the Company's financial condition or operating results.

Between July 2017 and March 2022, the Company was engaged in litigation with a former director, Robert Kopple, relating to more than \$13 million and the current equivalent of the approximately 23 million warrants, exercisable for seven years at a price of \$0.10 per share, which Mr. Kopple and his affiliated entities (collectively the "Kopple Parties") claimed should have been originally issued to them pursuant to various agreements with the Company entered to between 2013-2016. In March 2022, the Company reached a settlement with the Kopple Parties that resolved all claims asserted against the Company without any admission, concession or finding of any fault, liability or wrongdoing on the part of the Company. Under the terms of the settlement, the Company agreed to pay an aggregate amount of \$10 million over a period of seven years, including \$3 million initial payment to be paid in June 2022. \$150 was paid in June 2022, and the balance of the initial payment of \$2.85 million was extended to May 29, 2023. In exchange for the extension, the Company was required to pay \$165 in extension and forbearance fees in cash and \$430 in accrued forbearance fees. Beginning in January 2023, interest accrues on the unpaid balance at a rate of 6%, compounded annually. All amounts, including all accrued interest and deferred fees, are to be paid no later than eight years from the date of the initial payment. The Kopple Parties have also received seven-year warrants to purchase up to an aggregate of approximately 3.3 million shares of our common stock at a price of \$0.85 per share. The settlement also provides for standard mutual general release provisions and includes customary representations, warranties, and covenants, including certain increases in the amount payable to the Kopple Parties and the right of such parties to enter judgment against the Company if the Company remains in uncured default in its payment obligations under the settlement.

During the year ended February 29, 2024, the note was amended multiple times to extend the payment dates of the balance of the initial payment of \$2,850, originally due in June 2022, and the first installment payment of \$1,000, originally due in June 2023 (collectively, the "past due principal"). As a result of these amendments, the Company incurred additional extension and forbearance fees totaling \$450 and adjustment to principal balance of \$23 that was recorded as part of interest expense. As of February 29, 2024, outstanding principal balance amounted to \$10,938, including the \$3,850 past due principal (see below).

In March 2024, the Company and Kopple again amended the note payable. The amendment (i) replaced the requirement to pay the \$3,850 past due principal balance with the requirement to pay \$2,000 due December 15, 2024, effectively extending the payment of \$1,850 to future periods; (ii) increased the stated interest rate to 10%; (iii) added a fee of \$15 monthly until the Company makes a principal payment of \$2 million by December 2024; (iv) effective August 30, 2024, the Company will grant Kopple a conversion right that gives Kopple the option to be able to convert the note payable into equity of the Company at a conversion price of the lower of \$1.00 per share or 50% of the 10 day volume weighted average price of the Company's common stock; (v) during Fiscal 2025, will require the Company to pay 20% of all collected revenues within 10 days of the end of each fiscal quarter; toward the outstanding debt reduction (vi) will require the Company to pay Kopple 20% of any amount raised in new capital in the form of equity, debt or convertible debt above \$3.5 million toward the outstanding debt reduction; (vii) reduces the exercise price of the warrants granted to Kopple in March 2022 from \$0.85 per share to \$0.50 per share; and (viii) extends the warrant expiration date from March 8, 2029, to March 31, 2031. The principal payment of \$2 million was extended to March 31, 2025, for \$100,000. Subsequently the principal payment was extended to the end of June 2025 for an additional \$100,000 payment.

On March 26, 2019, various stockholders of the Company controlling a combined total of more than 27.5 million shares delivered a signed written consent to the Company removing Ronald Buschur as a member of the Company’s Board and electing Cipora Lavut as a director of the Company. On March 27, 2019, those same stockholders delivered a further signed written consent to the Company removing William Anderson and Si Ryong Yu as members of the Company’s Board and electing Robert Lempert and David Mann as directors of the Company. These written consents represented a majority of the outstanding shares of the Company’s common stock as of March 26, 2019, and March 27, 2019, respectively. Because of Aura’s refusal to recognize the legal effectiveness of the consents, on April 8, 2019, the stockholders filed suit in the Court of Chancery of the State of Delaware pursuant to Section 225 of the Delaware General Corporations Law, seeking an order confirming the validity of the consents and declaring that Aura’s Board consists of Ms. Lavut, Mr. Mann, Dr. Lempert, Mr. Douglas and Mr. Diaz-Versón, Jr. On July 8, 2019 the Court of Chancery entered final judgment in favor of the stockholder plaintiffs, confirming that (a) Ronald Buschur, Si Ryong Yu and William Anderson had been validly removed by the holders of a majority of the Company’s outstanding stock acting by written consent (b) Ms. Lavut, Mr. Mann and Dr. Lempert had been validly elected by the holders of a majority of the Company’s outstanding stock acting by written consent, and (c) the Company’s Board of Directors validly consists of Cipora Lavut, David Mann, Robert Lempert, Gary Douglas and Salvador Diaz-Versón, Jr. As a result of prior management’s unsuccessful opposition to this stockholders’ action filed in the Court of Chancery, such stockholders may be potentially entitled to recoup their litigation costs from the Company under Delaware’s corporate benefit doctrine and/or other legal provisions. To date, no final determination has been made as to the amount of recoupment, if any, to which such stockholders may be entitled.

## ITEM 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, “Risk Factors,” of the Company’s Fiscal 2024 Annual Report on Form 10-K issued on June 16, 2025.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended May 31, 2025, the Company issued 3,415,152 shares of common stock for approximately \$848 in net cash.

## ITEM 3. Defaults Upon Senior Securities.

None

## ITEM 4. Mine Safety Disclosures

Not applicable.

## ITEM 5. Other Information.

None.

## ITEM 6. Exhibits

31.1	<a href="#">Certification pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.</a>
31.2	<a href="#">Certification pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.</a>
32.1	<a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">Certification of Chief Financial Officer Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	Inline XBRL Instance 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).

## SIGNATURES

Pursuant to 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.

Date: July 21, 2025

AURA SYSTEMS, INC.

(Registrant)

By: /s/ Cipora Lavut

**Cipora Lavut**

President

**Certification of Chief Executive Officer**  
**Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934**

I, Cipora Lavut, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aura Systems, 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are 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. The registrant's other certifying officer(s) and I have disclosed, based on our 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: July 21, 2025

/s/ Cipora Lavut

Cipora Lavut  
Chief Executive Officer  
(Principal Executive Officer)

**Certification of Chief Financial Officer**  
**Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934**

I, Cipora Lavut and David Mann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aura Systems, 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are 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. The registrant's other certifying officer(s) and I have disclosed, based on our 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: July 21, 2025

/s/ Cipora Lavut

Cipora Lavut  
Principal Financial and Accounting Officer

Date: July 21, 2025

/s/ David Mann

David Mann  
CFO

**Certification of Chief Executive Officer**  
**Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code**

Pursuant to U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Aura Systems, Inc. (the “Company”) does hereby certify, to the best of such officer’s knowledge, that:

1. The Quarterly Report on Form 10-Q of the Company for the quarterly period ended May 31, 2025 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 21, 2025

/s/ Cipora Lavut

Cipora Lavut  
Chief Executive Officer  
(Principal Executive Officer)

The certifications set forth above are being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Aura Systems, Inc. and will be retained by Aura Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of Chief Financial Officer**  
**Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code**

Pursuant to U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Principal Financial Officer of Aura Systems, Inc. (the “Company”) does hereby certify, to the best of such officer’s knowledge, that:

1. The Quarterly Report on Form 10-Q of the Company for the quarterly period ended May 31, 2025 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 21, 2025

/s/ Cipora Lavut

Cipora Lavut  
 Chief Executive Officer  
 (Principal Financial and Accounting Officer)

Dated: July 21, 2025

/s/ David Mann

David Mann  
 CFO  
 (Chief Financial Officer)

The certifications set forth above are being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Aura Systems, Inc. and will be retained by Aura Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.