SEA Electric Inc.

Consolidated Interim Financial Statements

Three and Six Months Ended December 31, 2023 and 2022

(Unaudited)

Contents

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SEA Electric Inc.

Consolidated Interim Balance Sheets
(Unaudited - in U.S. dollars)

	Dec 31, 2023	June 30, 2023
Assets		
Current Assets		
Cash	$ 2,371,999	$ 1,432,326
Trade receivables, net	1,776,918	1,854,196
Inventory	17,002,947	11,902,065
Prepaid expenses and other current assets	1,832,802	2,512,127
Total Current Assets	$ 22,984,666	$ 17,700,714
Non-Current Assets		
Property and equipment, net	974,227	1,143,005
Operating lease right-of-use assets, net	1,972,436	1,954,597
Total Non-Current Assets	2,946,663	3,097,602
Total Assets	$ 25,931,329	$ 20,798,316
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payables	$ 12,991,821	$ 8,003,440
Accrued liabilities and other current liabilities	11,187,983	8,216,140
Convertible notes	17,000,000	17,000,000
Current portion of lease liability	243,983	243,983
Contract liabilities	6,421,371	2,029,245
Total Current Liabilities	$ 47,845,158	$ 35,492,808
Non-Current Liabilities		
Loans payable	$ 30,104,109	$ 20,111,075
Lease liability, net of current portion	1,897,134	1,877,631
Warranty provision	844,448	869,096
Total Non-Current Liabilities	$ 32,845,691	$ 22,857,802
Total Liabilities	$ 80,690,849	$ 58,350,610
Stockholders' Equity		
Series A Preferred Shares ($0.01 par value, 1,500,000 shares authorized; 1,376,118 issued and outstanding)	$ 59,427,502	$ 59,427,502
Common shares ($0.01 par value, 12,500,000 shares authorized; 2,968,202 shares issued and outstanding)	28,741	28,741
Additional paid-in capital	13,245,230	13,245,230
Accumulated deficit	(126,637,883)	(108,044,423)
Accumulated other comprehensive loss	(823,110)	(2,209,344)
Total Stockholders' Equity	$ (54,759,520)	$ (37,552,294)
Total Liabilities and Stockholders' Equity	$ 25,931,329	$ 20,798,316

See accompanying notes to consolidated interim financial statements.

SEA Electric Inc.

Consolidated Interim Statements of Operations and Comprehensive Loss
(Unaudited - in U.S. dollars)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	**2022**	**2023**	**2022**
Revenue	$ 3,350,570	$ 6,299,811	$ 7,211,847	$ 12,029,850
Operating Expenses				
Cost of sales	(4,342,546)	(7,805,700)	(8,216,761)	(15,875,398)
Selling, general, and administrative	(7,092,574)	(7,558,302)	(14,040,335)	(15,730,721)
Research and development	(61,176)	(183,516)	(727,322)	(375,827)
Total Operating Expenses	(11,496,296)	(15,547,518)	(22,984,418)	(31,981,946)
Loss from Operations	(8,145,726)	(9,247,707)	(15,772,571)	(19,952,096)
Interest Expense	(1,406,136)	(462,217)	(2,820,889)	(824,434)
Loss before income taxes	(9,551,862)	(9,709,924)	(18,593,460)	(20,776,530)
Income Tax Provision	-	-	-	-
Net Loss	(9,551,862)	(9,709,924)	(18,593,460)	$ (20,776,530)
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments	1,698,506	(839,785)	1,386,234	(835,851)
Total Comprehensive Loss	$ (7,853,356)	$ (10,549,709)	$ (17,207,226)	$ (21,612,381)

See accompanying notes to consolidated interim financial statements.

SEA Electric Inc.

Consolidated Interim Statements of Stockholders' Equity
(Unaudited - in U.S. dollars)

Six months ended December 31, 2023

	Series A Preferred Shares		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance, June 30, 2023	1,376,118	$ 59,427,502	2,968,202	$ 28,741	$ 13,245,230	$(2,209,344)	$ (108,044,423)	$ (37,552,294)
Net loss		-	-	-	-	-	(18,593,460)	(18,593,460)
Foreign currency translation adjustment	-	-	-	-	-	1,386,234	-	1,386,234
Total Comprehensive Loss	-	-	-	-	-	1,386,234	(18,593,460)	(17,207,226)
Balance, December 31, 2023	1,376,118	$ 59,427,502	2,968,202	$ 28,741	$ 13,245,230	$ (823,110)	$ (126,637,883)	$ (54,759,520)

Six months ended December 31, 2022

	Series A Preferred Shares		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance, June 30, 2022	1,376,118	$ 59,427,502	2,968,202	$ 28,741	$ 13,245,230	$ (2,774,697)	$ (68,410,078)	$ 1,516,698
Net loss	-	-	-	-	-	-	(20,776,530)	(20,776,530)
Foreign currency translation adjustment	-	-	-	-	-	(835,851)	-	(835,851)
Total Comprehensive Loss	-	-	-	-	-	(835,851)	(20,776,530)	(21,612,381)
Balance, December 31, 2022	1,376,118	$ 59,427,502	2,968,202	$ 28,741	$ 13,245,230	$ (3,610,548)	$ (89,186,608)	$ (20,095,683)

See accompanying notes to consolidated interim financial statements.

SEA Electric Inc.

Consolidated Interim Statements of Cash Flows
(Unaudited - in U.S. dollars)

Six Months Ended December 31,	**2023**	**2022**
Cash Flows from Operating Activities:		
Net loss	$ (18,593,460)	$ (20,776,530)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation & amortization	171,180	242,754
Changes in operating assets and liabilities:		
Trade receivables, net	97,411	(2,495,646)
Inventory	(5,030,783)	(1,315,856)
Prepaid expenses	681,746	3,360,221
Accounts payable	7,899,176	1,874,818
Accrued liabilities	6,089,613	3,937,535
Warranty provision	(28,449)	(68,606)
Other assets and liabilities	(182)	(110,278)
Net Cash Used in Operating Activities	(8,713,748)	(15,351,588)
Cash Flows from Investing Activities:		
Additions to property and equipment	(66,609)	(150,723)
Net Cash Used in Investing Activities	(66,609)	(150,723)
Cash Flows from Financing Activities:		
Net borrowings/(repayments) of loans payable	(10,128)	(13,155)
Proceeds from promissory notes and convertible notes, net of issuance costs	10,000,000	6,971,824
Net Cash Provided by Financing Activities	9,989,872	6,958,669
Effect of Exchange Rate on Cash	(269,842)	(139,560)
Net Change in Cash	939,673	(8,683,202)
Cash, beginning of period	1,432,326	10,011,935
Cash, end of period	$ 2,371,999	$ 1,328,733

See accompanying notes to consolidated interim financial statements.

1. Description of Business and Summary

SEA Electric Inc. (the Company) is a corporation formed on May 31, 2022, under the laws of Delaware in the United States of America. The Company is the parent entity of a number of subsidiaries including the previous parent entity SEA Electric Holdings Pty Ltd. (Holdings). Holdings was founded in 2012 and is an Australian proprietary limited company incorporated in Australia under the Corporations Act 2001. Its registered office is located at 1/13 Advantage Dr, Dandenong South VIC 3175, Australia.

On May 31, 2022, Holdings executed its plan to re-domicile from Australia to the United States of America (the Re-domiciliation). Holdings implemented a plan whereby SEA Electric Inc., a newly formed incorporated company for the purpose of effecting the Re-domiciliation, acquired all the outstanding shares of Holdings. Holdings' shareholders received one SEA Electric Inc. share for every one share of Holdings in the Re-domiciliation. Option holders of Holdings also received new options in SEA Electric Inc. in the same proportion to their existing holdings. The term "Company" refers to (i), prior to the Re-domiciliation, Holdings (an Australian corporation) and its subsidiaries and (ii), following the Re-domiciliation, SEA Electric Inc. (a Delaware corporation) and its subsidiaries. The re-domicile was accounted for as an internal reorganization of entities under common control and did not result in a change in shareholders or their respective ownership percentages.

The Company is an automotive technology company that has created proprietary 100%-electric commercial vehicle drivetrain system technology (known as SEA-Drive) for the world's urban delivery and distribution fleets. The Company now has deployed product in five countries (United States, Austria, Thailand, New Zealand, and Australia).

The Company's fiscal year-end is June 30.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company prepares its consolidated interim financial statements in conformity with accounting principles generally accepted in the United States of America as determined by Financial Accounting Standards Board (FASB) within its Accounting Standards Codification (ASC). The following represents the more significant of those policies and practices.

These consolidated interim financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and results of operations.

Going Concern

The Company's consolidated interim financial statements are prepared in accordance with U.S. generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the six months ended December 31, 2023, and 2022, the Company reported a consolidated net loss of $18,593,460 and $20,776,530, respectively and cash flows used in operating activities of $8,713,748 and $15,351,588, respectively.

The Company does not have sufficient cash and cash equivalents on hand or available liquidity to meet its obligations as they become due 12 months from date of issuance of these consolidated interim financial statements. These conditions raise substantial doubt about the Company's ability to continue as a going concern. In response to these conditions, the Company is in the process of attempting to raise additional funding. There can be no assurance that the Company will be able to raise additional funding, including what the terms, restrictions, and covenants of any new funding will contain. These plans have not been finalized and are not within the Company's control, and therefore cannot be deemed probable. As a result, the Company has concluded that management's plans do not alleviate substantial doubt about the Company's ability to continue as a going concern. The consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Basis of Consolidation

The consolidated interim financial statements include the financial statements of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

These consolidated interim financial statements include the accounts of the following entities, wholly owned by the Company as of December 31, 2023:

Name of Entity	Place of Incorporation
SEA Electric Holdings Pty Ltd.	Melbourne, AUS
SEA Automotive Pty Ltd.	Melbourne, AUS
SEA Electric Pty Ltd.	Melbourne, AUS
SEA Electric Vans Latrobe Valley Pty Ltd.	Melbourne, AUS
SEA Electric Asia	Bangkok, TH
SEA Electric Ltd.	Auckland, NZ
SEA Electric LLC	Delaware, USA
SEA Electric Inc.	Delaware, USA
SEA Electric GMBH	Vienna, AT

The entities listed above have been formed or acquired to support the intended operations of the Company.

Use of Estimates and Significant Judgments

The preparation of the Company's consolidated interim financial statements require management to make estimates, assumptions, and judgments that affect the reported amounts of revenue, expenses, assets, liabilities, accompanying disclosures, and the disclosure of contingent liabilities. These estimates and judgments are subject to change based on experience and new information that could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affecting future periods. Estimates and judgments are assessed on an ongoing basis. Revisions to estimates are recognized prospectively.

Examples of key estimates in these consolidated interim financial statements include the allowance for credit losses on trade receivables, inventory valuation adjustments that contemplate the market value of, and demand for, inventory, estimated useful lives of property and equipment and intangible assets, valuation allowance on deferred income tax assets, determining the fair value of financial instruments, estimated variable consideration on contracts with customers, sales return estimates, and incremental borrowing rates and lease terms applicable to lease contracts.

Allowance for Credit Losses

The Company recognizes an allowance for credit losses for financial assets carried at amortized cost to present the net amount expected to be collected as of the balance sheet date. Such allowance is based on the credit losses expected to arise over the life of the asset (contractual term) which includes consideration of prepayments and based on our expectation as of the balance sheet date.

Assets are written off when the Company has determined that such financial assets are deemed uncollectible and are recognized as a deduction from the allowance for credit losses. Expected recoveries of amounts previously written off, not to exceed the aggregate of the amount previously written off, are included in determining the necessary reserve at the balance sheet date. The allowance for credit losses on accounts receivable was $175,925 and $350,424 at December 31, 2023 and June 30, 2023.

Research and Development Costs

The Company expenses research and development costs as they are incurred. Research and development costs consist primarily of personnel costs for engineering and research, prototyping costs, and contract and professional services.

Fair Value Measurements

FASB ASC Topic 820, Fair Value Measurement (ASC 820), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a transaction measurement date. The ASC 820 three-tier fair value hierarchy prioritizes the inputs used in the valuation methodologies, as follows:

Level 1 – This level consists of valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - This level consists of valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs observable or that can be corroborated by observable market data.

Level 3 - This level consists of valuations based on unobservable inputs reflecting the Company’s own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The Company evaluates its financial instruments to determine if those instruments or any embedded components of those instruments potentially qualify as derivatives required to be separately accounted for in accordance with FASB ASC Topic 815, Derivatives and Hedging (ASC 815).

The carrying value of the Company’s accounts receivable, accounts payable, accrued expenses, and other current liabilities approximates their fair value due to their short-term nature. The carrying value of long-term loans and convertible debt approximates fair value, as demonstrated by the debt refinancing that took place in January 2024 (see Note 17).

(Unaudited - in U.S. dollars)

New Accounting Pronouncements Adopted During Fiscal Year Ended June 30, 2024

In December 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of current expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Adoption of ASU 2016-13 will requires the Company to use forward-looking information to better formulate their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

On July 1, 2023, the Company adopted the guidance prospectively, and elected not to restate comparative information. The effect on the Company consolidated interim financial statements was immaterial.

3. Inventory

Inventory consists of the following:

	Dec 31, 2023	June 30, 2023
Raw materials	$ 13,858,573	$ 9,610,539
Work-in-process	3,144,374	2,291,526
Total Inventory	**$ 17,002,947**	$ 11,902,065

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are comprised of the following items:

	Dec 31, 2023	June 30, 2023
Prepaid expenses	$ 1,348,026	$ 2,180,117
Deposits and other	484,776	332,010
Total Prepaid Expenses and Other Current Assets	**$ 1,832,802**	$ 2,512,127

Deposits consist primarily of advance payments made to suppliers of batteries and other components.

(Unaudited - in U.S. dollars)

5. Property and Equipment, Net

Property and equipment, net is comprised of the following items:

	Dec 31, 2023	June 30, 2023
Leaseholds and equipment	$ 917,476	$ 909,264
Furniture and equipment	506,524	507,044
Motor vehicles	766,628	761,968
Computer equipment	357,471	292,213
Computer software	228,162	225,796
Total Property and Equipment	2,776,261	2,696,285
Less: accumulated depreciation and amortization	(1,802,034)	(1,553,280)
Property and Equipment, Net	$ 974,227	$ 1,143,005

For the six months ended December 31, 2023, and December 31, 2022, total depreciation and amortization on property and equipment was $171,180 and $242,754, respectively.

6. Leases

The Company maintains has operating leases in Australia, the United States, and New Zealand. One of the Company's leases is controlled by a related party at December 31, 2023 (see Note 16).

The table below presents certain information related to the Company's lease costs:

	Three months ended		Six months ended	
	Dec 31, 2023	Dec 31, 2022	Dec 31, 2023	Dec 31, 2022
Operating lease expense	$ 398,505	$ 285,754	$ 735,978	$ 669,965
Total Lease Expense	$ 398,505	$ 285,754	$ 735,978	$ 669,965

Right of Use (ROU) assets and lease liabilities for leases were recorded in the consolidated interim balance sheet as follows:

	Dec 31, 2023	June 30, 2023
Assets:		
ROU assets, net	$ 1,972,436	$ 1,954,597
Total Lease Assets	$ 1,972,436	$ 1,954,597
Liabilities:		
Current Liabilities		
Lease liabilities, current	$ 243,983	$ 243,983
Non-Current Liabilities		
Lease liabilities, net of current portion	1,897,134	1,877,631
Total Lease Liabilities	$ 2,141,117	$ 2,121,614

(Unaudited - in U.S. dollars)

7. Accrued Liabilities and Other Current Liabilities

Accrued liabilities and other current liabilities are comprised of the following items:

	Dec 31, 2023	June 30, 2023
Accruals	**$ 9,164,628**	$ 6,244,183
Taxes and social security payments	**1,512,352**	1,456,996
Annual and long-service leave payable	**511,003**	514,961
Total Accrued Liabilities and Other Current Liabilities	**$ 11,187,983**	$ 8,216,140

8. Convertible Notes

Convertible notes were $17,000,000 at December 31, 2023 and June 30, 2023.

On June 29, 2022, the Company offered and issued $10 million of convertible notes to four different noteholders. Upon the issuance of the notes, the Company also became obligated to pay a success fee to each noteholder equal to 10% of the principal amount of the notes. The fee shall be paid-in-kind and added to the principal amount of the notes. The notes accrue simple interest at a rate of 1% per month on the original face value of the notes, excluding the principal balance increase resulting from the addition of the fee. The fee will be amortized through interest expense through Nov 30, 2024, the date at which unpaid principal and interest was due and payable.

The notes also include conversion features. In the event the Company issues a new class of preferred stock to bona fide third-party investors on or before the maturity date in a transaction resulting in gross proceeds of at least $50 million, then 50% of the outstanding principal balance of the notes, plus any accrued but unpaid interest, shall automatically convert into shares of the new class of preferred shares at a conversion price equal to the per share price paid by investors for such equity securities without any further action by noteholders. The remaining 50% and any accrued but unpaid interest thereon may be converted into shares of the new class of preferred shares at the noteholders option. The total number of shares that a holder shall be entitled to receive upon conversion shall be equal to (x) the amount of principal and accrued but unpaid interest on such note called for conversion, divided by (y) the purchase price.

On July 27, 2022, the Company issued a convertible note to Meritor (a Series A investor) for $2 million with the same terms and conditions as the other convertible notes.

On November 10, 2022, the Company issued $5 million convertible note to 4 investors under the same terms and conditions as the original convertible notes for $10 million.

As discussed in Note 17, all of the convertible notes were refinanced in January 2024.

(Unaudited - in U.S. dollars)

9. Loans Payable/Promissory Notes

Loans payable/promissory notes consisted of the following:

	Dec 31, 2023	June 30, 2023
Long-term promissory notes	$ 30,000,000	$ 20,000,000
Miscellaneous loans	104,109	111,075
Total Loans Payable	**$ 30,104,109**	$ 20,111,075

On February 23, 2023, the company received a long-term promissory note from a Series A investor (Vestcor) for $20 million. As of June 30, 2023, $20 million had been provided to the Company. An additional promissory note for $10 million was approved on July 19, 2023. Total promissory notes as of December 31, 2023, were $30 million with and interest rate of 12% accruing to the principle and repayment due on February 28, 2025, for the first $20 million, and the additional $10 million is due if Company raises $50 million of equity or July 31, 2024. The notes can be paid off prior to this date at the Company's option.

As discussed in Note 17, the $30 million of promissory notes were refinanced in January 2024, and therefore, are presented as long-term on the consolidated interim balance sheet at December 31, 2023.

Miscellaneous loans payable at consisted primarily of a U.S. 30-year long-term bank loan at December 31, 2023 and June 30, 2023. The 30-year long-term bank loan was entered into during 2020, and matures in December 2050. The interest rate charged on the loan is 3.75% with minimum repayment amounts of $502 per month.

10. Warranty Provision

The Company provides warranties on its SEA-Drive, propriety electric power system, conversion chassis, components, and workmanship for three years or 100,000 kilometers, whichever occurs first. The Company accrues warranty related costs under standard warranty terms and for certain claims outside the contractual obligation period that it chooses to pay as accommodations to its customers.

Provisions for estimated assurance warranties are recorded at the time of sale and are periodically adjusted to reflect actual experience. The amount of warranty liability accrued reflects management's best estimate of the expected future cost of honoring Company obligations under the warranty plans. Historically, the cost of fulfilling the Company's warranty obligations has principally involved replacement parts, towing and transportation costs, labor, and sometimes travel for any field retrofit campaigns. Warranty expenses are classified as cost of sales.

(Unaudited - in U.S. dollars)

Six months ended December 31, 2023:

Balance, June 30, 2023	**$ 869,096**
Warranty expense / (claims)	**(24,648)**
Balance, December 31, 2023	**$ 844,448**

Six months ended December 31, 2022:

Balance, June 30, 2022	$ 269,450
Warranty expense / (claims)	(69,751)
Balance, December 31, 2022	$ 199,699

11. Stockholders' Equity

Common Shares

The Company's certificate of incorporation authorized the Company to issue 12,500,000 shares of common stock with a par value of $0.01. Holders of common stock are entitled to one vote in respect of each share held. All common shares rank equally as to dividend and liquidation rights.

During the year ended June 30, 2019, the Company signed an option deed with a consultant. The options were issued for $6,944 (AUD$10,000) consideration. The deed is effective from July 1, 2018, and provides three tranches of options, as follows: Tranche 1: 38,938 options effective July 1, 2018, Tranche 2: 38,938 options effective July 1, 2019, and Tranche 3: 38,937 options effective July 1, 2020. All options have a strike price of $11.81 (AUD$17.12) and expire on June 30, 2028. On March 6, 2019, the consultant exercised their rights and were issued 5,840 shares of common stock for total proceeds of $78,669 (AUD$99,989). In connection with the Re-domiciliation discussed in Note 1, the 110,973 options were exchanged for 94,063 common shares of the Company.

In February 2021, the Company engaged VIII Capital to support the efforts to close the Series A funding. Under the agreement with VIII Capital, a fee of 6% of the gross proceeds was to be settled 50% through issuing shares in the Company and 50% to be settled through cash. Any shares issued would be on the same terms and conditions of the Series A funding. In addition, the Company issued stock options equal to 6% of the number of securities issued during the Series A funding. Each option is exercisable into one share of the Company at a price of $40.20 (being the same price used in the Series A funding) and is valid for a period of six months following completion of a go-public transaction. In the event the market capitalization of the Company resulting from the go-public transaction exceeds $650.0 million, the Company shall have the right to accelerate the expiry date of the options by giving 30 days' notice. The options expire in December 2026. In December 2021,14,926 shares and 61,942 options were issued to VIII Capital. In connection with the Re-domiciliation discussed in Note 1, the options were exchanged for 61,942 options in the Company at the same exercise price of $40.20 with the same maturity date of December 2026.

Series A Preferred Shares

On July 9, 2021, the Company signed a Share Subscription Agreement to receive $4,999,980 from Meritor Electric Vehicles LLC (MEV), a wholly owned subsidiary of Meritor Inc., a leading global supplier of drivetrain, mobility, braking, aftermarket and electric powertrain solutions for commercial vehicle and industrial markets located in Troy, Michigan. The agreement provided for MEV, which owns 83,333 shares of Series A Preferred Shares valued at $60.00 per share, to have observer rights for the Company's board meetings. Invested funds were received in full on the date of signing the agreement.

On November 15, 2021, Robert Neitzke (owner of GATR) invested $5,000,000 into the Company and signed a Share Subscription Agreement dated November 29, 2021. The Company issued 62,500 Series A Preferred Shares at a price of $80.00 per share in respect of this agreement.

On February 17, 2022, the Company raised $10,200,000 through a Series A Funding round. The Company issued 127,500 Series A Preferred Shares at a price of $80.00 per share. The Series A Preferred Shares are treated as permanent equity under ASC 480, *Distinguishing Liabilities from Equity*.

Series A Preferred Shares entitle the holder to same rights and privileges as the ordinary shares of the Company except as follows:

- To the extent the Company declares or pays dividends on any of the ordinary shares, the Company will declare and pay at a minimum the same dividend on each of the Series A Preferred Shares on an "as-converted basis."
- The Company may also, but is not required to, declare and pay a dividend on the Series A Preferred Shares without declaring or paying the same or any dividend on ordinary shares.
- Each holder of a Series A Preferred share has one vote in a show of hands or in the instance of a poll, equal to the number of votes as ordinary shares on an "as-converted basis."
- Series A Preferred Shares holds a priority right in the case of a liquidation event.
- Each Series A Preferred Share may be converted into ordinary shares equal to the amount of divided by the Conversion price as at the conversion date. All Series A Preferred Shares will automatically convert into ordinary shares at the then-effective conversion rate, immediately before a "Realization Event." A Realization Event is defined as:
  - business sale.
  - a share sale of 75% or more of the issued shares of the Company.
  - an Initial Public Offering (IPO) of not less than $75 million.
  - any other realization, including a merger, consolidation, acquisition, or sale of the Company, as a result of which the shareholders of the Company immediately before completion of the transaction do not, immediately after completion, hold a majority of the shares of the Company or the acquiring entity or surviving corporation.

Series B Preferred Shares

The Company is also authorized to issue 2,500,000 shares of Class B Preferred Shares with a par value of $0.01. As of December 31, 2023 there were no shares of Class B Preferred Shares issued and outstanding.

12. Commitments and Contingencies

Legal Proceedings

In the normal course of business, the Company may become involved in legal disputes regarding various litigation matters. In the opinion of management, any potential liabilities resulting from such claims would not have a material effect on the consolidated interim financial statements.

(Unaudited - in U.S. dollars)

Lease Commitments

The Company leases various facilities and vehicles under non-cancelable leases, which expire at various dates through December 2028.

13. Revenue

Revenue Recognition

Revenue is measured as the amount of consideration the Company is expected to receive in exchange for transferring products or providing a service to customers and includes shipping and handling charges. All revenue is recognized when the Company satisfies the performance obligations under the contract. The Company recognizes revenue by transferring the promised products to the customer, with the majority of revenue recognized when the products are delivered to the customer. The majority of the Company's contracts have a single performance obligation and are short-term in nature.

Disaggregation of Revenue

Revenues related to the following types of business and geographic regions were as follows:

Six Months ended December 31,	**2023**	**2022**
Products/services:		
SEA-Drive	**$6,949,505**	$11,570,286
Aftersales products and services	**$262,342**	$459,564
Total Revenues	**$7,211,847**	$12,029,850

Six Months ended December 31,	**2023**	**2022**
Primary geographic markets:		
Australia	**$2,543,446**	$5,322,257
New Zealand	**$28,574**	$39,725
United States	**$4,639,827**	$6,667,868
Total Revenues	**$7,211,847**	$12,029,850

SEA-Drive – This consists of sales of SEA-Drive electric power systems. The Company recognizes revenue when delivered to the customer. The Company also installs the SEA-Drive electric power systems into customer-owned chassis. The Company does not have material contracts related to customer-owned chassis.

Aftersales Products and Services – These consist of add-on services and products occurring after the sale of the SEA-Drive electric power systems. The Company recognizes revenue after the service has been provided to the customer.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration from the customer. If a customer pays consideration before the Company transfers goods or services, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Company performs under the contract.

(Unaudited - in U.S. dollars)

Contract Liabilities:

Six months ended December 31, 2023:

Balance, June 30, 2023	**$ 2,029,245**
Deposits received	**4,755,574**
Recognized as revenue	**(363,448)**
Balance, December 31, 2023	**$ 6,421,371**

Six months ended December 31, 2022:

Balance, June 30, 2022	$ 746,744
Deposits received	609,134
Recognized as revenue	(105,250)
Balance, December 31, 2022	$ 1,250,628

14. Income Taxes

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in various states and foreign jurisdictions. For the three months ended December 31, 2023, and 2022, the Company had net losses and $0 of current or deferred income tax expense recorded. The Company has recorded a full valuation allowance on its deferred tax assets at December 31, 2023, and June 30, 2023.

At June 30, 2023 and 2022, the Company had a federal net operating loss carryforward of $56.2 million and $29.5 million, respectively, which has an indefinite carryforward period, and a state net operating loss carryforward of $29.8 million and $13.7 million, respectively, which will begin to expire in 2040. In addition, at December 31, 2023 and 2022, the Company has foreign net operating loss carryforwards of $22.9 million and $16.3 million, respectively, primarily related to Australia, which has an indefinite carryforward period. The Company believes that it is more likely than not that the benefit from the net operating loss carryforwards and other deferred tax assets will not be realized. In recognition of this risk, the Company has recorded a full valuation allowance as of December 31, 2023 and June 30, 2023.

The Company includes interest and penalties related to tax contingencies in the provision for income taxes in the consolidated statement of operations and comprehensive loss. No interest or penalties have been accrued on the consolidated balance sheet at December 31, 2023 or June 30, 2023.

15. Concentrations of Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. A small portion of cash is held on hand, from which management believes the risk of loss is remote. Receivables relate primarily to wholesale sales. The Company does not have significant credit risk with respect to customers. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments.

16. Related Party Transactions

On July 10, 2018, the Company entered into a ten-year lease agreement with the Bellstar Family Trust and Far Superannuation Fund (the lessors) for Unit 1, 13 Advantage Dr, Dandenong South VIC 3175, Australia. The Company pays to the lessors monthly rent of AUD$25,000, escalating annually by 3%. The Company's Chief Executive Officer and a founding shareholder are Trustees of the Bellstar Family Trust and Far Superannuation Fund, respectively. Total rent paid under this lease was approximately $74,000 and $64,000 for the three months ended December 31, 2023, and 2022, respectively, and $148,000 and $128,000 for the six months ended December 31, 2023 and 2022, respectively,

The Company makes monthly payments of AUD$25,000 to AST Global for engineering consultancy services provided by a shareholder of the Company. AST Global is wholly owned and controlled by a founding shareholder of the Company.

Consulting Fees with John Pratt
The Company entered into a consulting agreement with John Pratt, effective July 1, 2020 to May 31, 2021, to provide strategic and financial advice. During fiscal 2021, the Company incurred consulting costs under this arrangement of $838,250, all of which was accrued at December 31, 2023 and is included in accrued liabilities and other in the consolidated balance sheet. During 2022, John Pratt was appointed as a director of the Company.

17. Subsequent Events

Debt Refinancing:
In January 2024, the Company entered into a debt restructuring agreement with the holders of the Company's promissory notes and its convertible promissory notes. Pursuant to the terms of the debt restructuring agreement, the principal amount of all outstanding promissory notes and certain of the convertible promissory notes were consolidated into a series of senior secured promissory notes with a face amount of approximately $47.0 million. The senior secured promissory notes mature in 2027 and bear interest at 12.0% per year. As security for the senior secured promissory notes, the holders were granted a first priority security interest over any and all Company assets. The debt restructuring agreement, among other things, also extended the maturity date for the remaining portion of the Company's existing convertible promissory notes until December 2024. Pursuant to the terms of the debt restructuring agreement, the remaining portion of the convertible promissory notes convert into (i) shares of the Company's common stock, in the event of certain merger transactions or (ii) equity securities of the Company issued in certain qualified financing transactions. If the remaining balance of the convertible promissory notes has not converted pursuant to (i) or (ii) in the preceding sentence on or before December 31, 2024, then such remaining portion of the convertible promissory notes will be exchanged for senior secured promissory notes on the same terms as the new senior secured promissory notes issued in January 2024.

The notes also include conversion features. In the event the Company issues a new class of preferred stock to bona fide third-party investors on or before the maturity date in a transaction resulting in gross proceeds of at least $50 million, then 50% of the outstanding principal balance of the notes, plus any accrued but unpaid interest, shall automatically convert into shares of the new class of preferred shares at a conversion price equal to the per-share price paid by investors for such equity securities without any further action by noteholders. The remaining 50% and any accrued but unpaid interest thereon may be converted into shares of the new class of preferred shares at the noteholders option on or before June 30, 2024. The total number of shares that a holder shall be entitled to receive upon conversion shall be equal to (x) the amount of principal and accrued but unpaid interest on such note called for conversion, divided by (y) the purchase price.

Exro Merger Agreement:
On January 30, 2024, the Company entered into a merger agreement with EXRO Technologies, Inc., providing for the acquisition of the Company by Exro (the "Transaction"). Following completion of the Transaction, the combined company (the "Combined Company") will continue to operate under the name Exro Technologies Inc. and trade on the Toronto Stock Exchange (the "TSX") under the ticker symbol "EXRO".

Under the terms of the Merger Agreement, immediately following the closing of the Transaction, Exro shareholders will own an approximate 34.5% economic stake in the Combined Company and the Company's shareholders will own an approximate 65.5% economic stake in the Combined Company, on a fully diluted basis and prior to any impacts of the Offering (as defined below). Immediately following the closing of the Transaction, and prior to any conversion of Exro Convertible Shares into Exro Common Shares, current Exro shareholders will hold approximately 52.5% of the voting shares in the Combined Company and current SEA shareholders will hold approximately 47.5% of the voting shares in the Combined Company, on a fully diluted basis and prior to any impacts of the Offering. The Merger Agreement also contains customary representations, warranties and covenants, including non-solicitation covenants applicable to Exro and the Company.

The Merger Agreement may be terminated in certain specified circumstances, including: (i) if the Transaction is not consummated on or before June 30, 2024, (ii) the approval of the Exro shareholders is not obtained or (iii) if Exro's board of directors makes a change in recommendation or enters into an agreement in respect of a superior proposal. A termination fee of approximately US$11.4 million is payable by Exro to the Company if the Merger Agreement is terminated in certain circumstances, including if Exro enters into a superior proposal, and Exro is entitled to a reverse termination fee of approximately US$11.4 million from the Company if the Merger Agreement is terminated in certain circumstances.

No other matter or circumstance has arisen since December 31, 2023, that has significantly affected, or may significantly affect, the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future fiscal years.