MANAGEMENT DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Financial Condition and Results of Operations for Periods Ending June 30, 2023, 2022 and 2021

*The following discussion and analysis of financial condition and results of operations ("**MD&A**") of SEA Electric Inc., (together with our affiliates, "**SEA**", "**SEA Electric**", "**we**", "**our**", "**us**", or the "**Company**") should be read in conjunction with the Company's audited financial statements for the fiscal years ended June 30, 2023, 2022 and 2021 and related notes appearing elsewhere in this Circular. Our actual results may not be indicative of future performance. This discussion and analysis contain forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those discussed in the sections of this Circular titled "Appendix B Information Concerning SEA – Cautionary Statement Regarding Forward-Looking Information" and "Appendix B Information Concerning SEA – Risk Factors". Actual results may differ materially from those contained in any forward-looking statements. Certain monetary amounts, percentages and other figures included in this report have been subjected to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated, may not be the arithmetic aggregation of the percentages that precede them. All financial detail is expressed in U.S. dollars unless otherwise indicated. This MD&A has been prepared as of the date of this Circular.*

Executive Overview

SEA Electric is the leading provider of zero emission power-systems for use in commercial vehicles (Class 3 through Class 8). We commenced operations in 2012 and have developed a power-system that we believe meets the needs of the commercial segment in performance, reliability and cost. SEA Electric's focus during the development of the SEA-Drive® power system was to design, test and provide software that would control all of the key electrical components in a vehicle and manage the use of power from the battery to better ensure that key range requirements are met. SEA Electric does not manufacture the components that make up the SEA-Drive® power system but has worked with key suppliers to design components to meet the efficiency and reliability requirements of our customers. SEA Electric oversees and in certain cases performs the assembly of its power-systems into customers' vehicles.

SEA Electric sells or licenses its power-systems to OEMs, to operators of specialty vehicles (school buses, airplane refueling trucks and vehicles used in mining), to Hino dealers in the U.S. and Australia using Hino vehicles badged as SEA and to certain fleet customers. Currently, our two OEM customers are Hino in the U.S. and Australia (a division of Toyota) and Mack in the U.S. At the present time our major markets are the U.S. and Australia, although we are leveraging our existing OEM relationship to extend into the ASEAN countries (through Hino in Thailand) and potentially into the Middle East and North Africa, as well as Europe.

The Company's vision is to help companies reduce global pollution by offering a cost effective and proven electric power-system known as SEA-Drive®.

Impacts of COVID-19 and Impact on Our Business

SEA Electric began commercialization in Australia in 2018 and entered the U.S. in 2019. COVID-19 commenced to spread in early 2020 and was declared a global pandemic with far reaching impact on global commerce. The pandemic triggered a significant downturn in global commerce with manufacturing, freight and most business activities severely impacted through 2020 and into 2021. While it is difficult to measure the impact of COVID-19 on a start-up business, management of SEA Electric is convinced that there was a significant impact on its ability to launch driven by supply chain constraints, labor shortages and a significant deferral of purchase decisions for electric vehicles due to the global business issues.

As a result of the pandemic, component costs increased in 2021 and 2022, freight costs increased significantly and several complete shutdowns in China (during 2022) delayed the re-opening of some key manufacturers in Shanghai and other regions. All these issues put significant stress on SEA Electric's ability to sell power-systems, margins and on cash.

While we see no immediate threat, a re-emergence of the pandemic in key regions could disrupt our business.

Factors Affecting Our Revenues

Revenues are the result of a number of factors:

1. Customer expectations with respect to the relationship between the price of a zero-emission vehicle ("**ZEV**") and a vehicle equipped with a traditional internal combustion engine ("**ICE**");
2. The ability of the SEA Electric team and the dealers that we work with through OEMs or directly to provide customers with a good understanding of the TCO advantage of a ZEV versus an ICE vehicle;
3. Availability of Federal, State, Provincial and Local grants or subsidies that are used to promote the adoption of ZEV's and assist in achievement of various clean air targets;
4. Ability of businesses to find affordable solutions for charging their ZEVs;
5. The strength and training of our distribution networks (principally the dealer networks of Hino and Mack);
6. ZEV adoption strategies of countries, and large businesses such as major fleets, mining, school bus and operators of specialist vehicles (e.g., airplane refueling trucks); and
7. Changes in the Cost of Goods Sold due to raw materials, labor costs, infrastructure costs (e.g., the escalation of freight costs during COVID-19), regulatory actions such as the imposition of higher tariffs on goods imported from China and other factors are all reasons for management to review and adjust prices.

Factors Affecting Our Expenses and Other Items

Our expenses and other line items in our Consolidated Statements of Operations are principally driven by the following factors:

1. Cost of goods sold consist of material costs (principally powertrain components such as batteries and motors, and wiring due to changes in copper prices, steel and other commodities), freight costs, labor expenses, and overhead and duties applied to imports. Our cost of goods sold may vary from period to period due to changes in sales volume, efforts by certain suppliers to pass through the economics associated with key commodities, fluctuations in freight costs, design changes with respect to specific components, design changes with respect to specific vehicles, wage increases for plant labor, productivity of plant labor, delays in receiving materials and other logistical challenges, inflation, changes in duty rates applied to imported components and the impact of overhead items such as utilities.
2. Selling, general and administrative ("**SG&A**") expenses include costs associated with our selling and marketing efforts, engineering, centralized finance, human resources, purchasing, and information technology services, along with other administrative matters and functions. In most instances, marketing programs, the principal component of these costs is salary expense, professional service charges and rent. Changes from period to period are typically driven by employment factors.
3. Interest expense relates to costs associated with our debt instruments and reflects both the amount of indebtedness and the interest rate that we are required to pay on our debt.

4. Estimates of the amounts to recognize for income taxes in each tax jurisdiction in which we operate are included. In addition, provisions are established for certain withholding taxes and for uncertain tax positions taken.
5. Other income and expense items are largely gains or losses on foreign currency, if any. Other amounts not associated with operating expenses may also be included in this balance.

Our Segments

We continue to manage our business as a single segment covering the sale of our SEA-Drive® power system. Financial information is reported on the basis that it is used internally by the chief operating decision maker ("**CODM**") in evaluating performance. The Chief Executive Officer of the Company has been identified as the CODM. If the Company is to adopt segment reporting in the future, it will most likely be on a geographical basis, however, given the fact that our business is still maturing in most markets, we believe that a segment-based reporting decision is premature at the present time.

Consolidated Statement of Operations and Comprehensive Loss
(in U.S. Dollars)

Year ended June 30,		**2023**		**2022**
Revenue	$	$17,085,346	$	6,881,324
Operating Expenses				
Cost of sales		(22,076,648)		(13,920,668)
Selling, general, and administrative		(32,564,314)		(25,250,478)
Research and development		(1,134,062)		(1,266,886)
Total Operating Expenses		(55,775,024)		(40,438,032)
(Loss) from Operations		(38,689,678)		(33,556,708)
Other Income		1,554,202		102,962
Interest Expense		(2,498,868)		(2,725)
(Loss), before income taxes		(39,634,345)		(33,456,471)
Income Tax Provision		-		-
Net (Loss)	$	(39,634,345)	$	(33,456,471)
Per-Share		$(9.12)		$(7.70)
Diluted Per-Share		$(7.81)		$(7.34)
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments		565,353		(1,063,692)
Total Comprehensive (Loss)	$	(39,068,992)	$	(34,520,163)
Per-Share		$(8.99)		$(7.95)
Diluted Per-Share		$(7.70)		$(7.58)

Year ended June 30,	**2023**	**2022**
Total Assets	$20,798,316	$31,789,276
Total Non-Current Financial Liabilities	$22,857,802	$2,653,620

The following provides a breakdown of revenue for the U.S., Australia and New Zealand:

Year ended June 30,		**2023**		**2022**
Primary geographic markets:				
Australia	$	6,934,521	$	4,614,945
New Zealand		128,999		198,431
United States		10,021,826		2,067,948
Total Revenues	$	17,085,346	$	6,881,324

The following provides a summary of quarterly results for each of the eight most recently completed quarters:

Quarter Ended	**Revenue**		**Net Loss**		**Issued**		**Fully Diluted**	
June 30, 2023	$	1,527,250	$	(8,693,850)	$	(2.00)	$	(1.71)
March 31, 2023	$	3,528,245	$	(8,762,761)	$	(2.02)	$	(1.73)
December 31, 2022	$	6,299,811	$	(10,549,509)	$	(2.43)	$	(2.13)
September 30, 2022	$	5,730,040	$	(11,062,872)	$	(2.55)	$	(2.27)
June 30, 2022	$	3,232,820	$	(16,244,361)	$	(3.74)	$	(3.57)
March 31, 2022	$	516,854	$	(7,379,482)	$	(1.80)	$	(1.73)
December 31, 2021	$	1,211,605	$	(4,984,175)	$	(1.22)	$	(1.17)
September 30, 2021	$	1,919,722	$	(4,848,453)	$	(1.20)	$	(1.15)

Net sales were $17.1 million for fiscal 2023, an increase of $10.2 million, or 148.3%, compared to $6.9 million for fiscal 2022. The increase in net sales is primarily due to unit bookings in fiscal 2023 of 128 units, up from 44 units in fiscal 2022, product and mix changes, as well as pricing actions taken by management in response to increased inventory purchase costs.

In Australia and New Zealand, sales increased $2.3 million, or 46.7%, reflecting an increase in units booked to 42 units in fiscal 2023, up from 29 units in fiscal 2022 and a 3.8% increase in average sales price per unit. The increase in average sales price per unit reflects pricing actions taken by management as well as product and customer mix changes.

Sales in the U.S. increased $8.0 million, or 484.6%, for fiscal 2023 compared to fiscal 2022, reflecting an increase in units booked to 86 units in fiscal 2023, up from 15 units in fiscal 2022; average price/unit in fiscal year 2023 was down about 13.3% due to a higher mix of fleet units.

Total cost of sales was $22.1 million for fiscal 2023, an increase of $8.2 million, or 59.0%, compared to $13.9 million for fiscal 2022. The increase in cost of goods sold was due to the increase in volume, partially offset by cost reductions.

Operating loss was $38.7 million for fiscal 2023, an increase of $5.1 million, or 15.2%, compared to $33.6 million of operating loss for fiscal 2022. The increase in operating losses was due to an increase of $7.2 million in SG&A expenses and R&D expenses to support the expansion in the U.S. market. Higher costs were incurred in personnel costs ($4.7 million), professional services and legal fees, ($1.0 million in each), and in rent and other overhead ($0.5 million). A reduction in negative gross margin of $1.9 million, as outlined in the revenue and cost of goods sold discussions above, was a partial offset to higher expenses.

Interest expense was $2.5 million for fiscal 2023, compared to $0.0 million for fiscal 2022. The increase was primarily attributable to SEA Electric raising cash through the issuance of a series of convertible notes with a principal amount of $17.0 million and the issuance of a series of promissory notes totalling a principal amount of $20 million.

Other income, net, was $1.6 million for fiscal 2023, an improvement of $1.5 million, compared to $0.1 million of other income, net, in fiscal 2022 due to an R&D credit in the Australian operation.

Income tax expense was $0.0 million for fiscal 2023, unchanged from FY 2022.

Consolidated Results of Operations for the fiscal years ended June 30, 2022, and June 30, 2021:

Consolidated Statement of Operations and Comprehensive Loss
(in U.S. Dollars)

Year ended June 30,		2022		2021
Revenue	$	6,881,324	$	1,545,028
Operating Expenses				
Cost of sales		(13,920,668)		(3,342,548)
Selling, general, and administrative		(25,250,478)		(11,514,982)
Research and development		(1,266,886)		(2,047,264)
Total Operating Expenses	$	(40,438,032)		(16,904,794)
(Loss) from Operations		(33,556,708)		(15,359,766)
Other Income		102,962		(811,250)
Interest Expense		(2,725)		(629,534)
(Loss), before income taxes		(33,456,471)		(16,800,550)
Income Tax Provision		-		-
Net (Loss)	$	(33,456,471)	$	(16,800,550)
Per-Share		$(7.70)		$(4.25)
Diluted Per-Share		$(7.34)		$(4.08)
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments		(1,063,692)		(359,130)
Total Comprehensive (Loss)	$	(34,520,163)	$	(17,159,680)
Per-Share		$(7.95)		$(4.34)
Diluted Per-Share		$(7.58)		$(4.16)

Year ended June 30,	**2022**	**2021**
Total Assets	$31,789,276	$25,154,379
Total Non-Current Financial Liabilities	$2,653,620	$2,674,118

The following provides the breakdown of revenue for the U.S., Australia and New Zealand:

Year ended June 30,		**2022**		**2021**
Primary geographic markets:				
Australia	$	4,624,945	$	989,218
New Zealand		198,431		315,673
United States		2,067,948		240,137
Total Revenues	$	6,881,324	$	1,545,028

Net sales were $6.9 million for fiscal 2022, an increase of $5.3 million, or 353.0%, compared to $1.5 million for the fiscal year ended June 30, 2021 ("**fiscal 2021**" or "**FY 2021**"). The increase in net sales is primarily due to unit bookings in fiscal 2022 of 44 units, up from 14 units in fiscal 2021 and product and mix changes. The increase in unit sales was due primarily to a more favorable business environment in 2022.

In Australia and New Zealand, sales increased $3.5 million, or 270.6%, reflecting an increase in units booked to 29 units in fiscal 2022, up from 9 units in fiscal 2021 and a 45.9% increase in average sales price per unit. The increase in average sales price per unit reflects pricing actions taken by management as well as product and customer mix changes.

Sales in the U.S. increased $1.8 million, from $0.2 million in fiscal 2021 to $2.1 million fiscal 2022, reflecting an increase in units booked to 15 units in fiscal 2022, compared to only 5 units in fiscal 2021.

Total cost of goods sold was $13.9 million for fiscal 2022, an increase of $10.6 million, or 321.2%, compared to $3.3 million for fiscal 2021. As a percentage of net sales, total cost of goods sold was 202.3% in FY 2022 compared to 216.3% in FY 2021 reflecting higher cost prototype parts for low volume production and labor inefficiencies.

Operating loss was $33.6 million for fiscal 2022, an increase of $18.2 million, or 118.2%, compared to $15.4 million of operating loss for fiscal 2021. Profitability was primarily impacted by higher losses on a gross margin basis of $5.2 million and increases in SG&A of about $13.8 million, principally the cost of expanding the U.S. operation.

Higher SG&A expenses were largely due to personnel cost ($8.0 million), legal expenses ($1.8 million), consulting ($1.2 million), events and marketing ($1.2 million) and other overhead costs.

Interest expense was $0.0 million for fiscal 2022, compared to $0.6 million for fiscal 2021. The reduction was due to the company fully paying off interest bearing agreements during 2021.

Other income, net, was $0.1 million for fiscal 2022, an improvement of $0.9 million, compared to $(0.8) million of other income, net, in fiscal 2021.

Income tax expense was $0.0 million for fiscal 2022, unchanged from FY 2021.

Liquidity and Capital Resources

The Company's primary sources of liquidity are cash generated from sales by operations, available cash, borrowings and sales of shares. Principal uses of cash are working capital and operating expense (including lease payments (see schedule below). SEA has very limited capital investment requirements. We currently forecast SEA will achieve positive Free Cash Flow in calendar year 2025 based on the present plan and until that time, will rely on equity and debt to meet working capital requirements. On June 30, 2023, the Company had $1.4 million of available cash and cash equivalents. On July 19, 2023, the Company received $10 million in gross proceeds from the issuance of additional promissory notes.

Year ending June 30,

	Operating Leases	
	2023	**2022**
2023	$ -	$ 597,065
2024	626,997	610,433
2025	599,902	574,939
2026	510,041	475,231
2027	327,889	261,416
2028	324,835	-
	2,389,664	2,519,084
Loss:		
Imputed interest	(129,057)	(256,949)
Foreign currency adjustment	(40,133)	(45,979)
Present Value of Future Minimum Lease Payments	$ 2,220,474	$ 2,216,156

Short-Term and Long-Term Liquidity Requirements

Our ability to make principal and interest payments on borrowings under our outstanding promissory notes and convertible promissory notes and our ability to fund planned capital expenditures will depend on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, regulatory and other conditions.

Cash Flows

The following table sets forth general information derived from our statement of cash flows for the fiscal years presented:

Consolidated Statement of Cash Flows
(in U.S. Dollars)

Year Ended June 30	**2023**	**2022**
Cash at Beginning of Year	$ 10,011,935	$ 8,678,861
Net Cash Provided by (Used in) Operating Activities	$ (35,783,563)	(26,621,252)
Net Flows from Investing Activities	(437,653)	(533,416)
Net Cash Provided by (Used in) Financing Activities	$ 26,981,533	$ 29,332,914
Exchange Rate Impact	660,074	(845,172)
Change in Cash During the Year	$ (8,579,609)	$ 1,333,074
Cash at End of Year	$ 1,432,326	$ 10,011,935

Cash flows used in operating activities totaled $(35.8) million for fiscal 2023 and $(26.6) million for fiscal 2022. The primary drivers of the use of cash in 2023 were net loss of $(39.6) million, partially offset by changes in operating assets and liabilities of $3.1 million. In fiscal 2022 cash used in operating activities was the result of a net loss of $(33.5) million, partially offset by changes in operating assets and liabilities of $6.4 million. The operating assets and liabilities category was a net contributor to cash in FY 2023 due to additional accrued liabilities, prepayments and adjustment for non-cash charges worth $7.3 million, partially offset by net working capital of $(4.2) million. In 2022, operating assets and liabilities was a net contributor of cash of $6.4 million, due primarily to favorable net working capital.

Cash flows used in investing activities totaled $(0.4) million and $(0.5) million for fiscal 2023 and fiscal 2022, respectively.

Cash provided by financing activities totaled $27.0 million for fiscal 2023 and was mainly from Convertible Notes issued on November 10, 2022 and July 27, 2022, for a net amount of $6.8 million and Promissory Notes issued on February 23, 2023, with gross proceeds of $20 million. In fiscal 2022, cash from financing activities was due to Convertible Notes in total gross proceeds of $9.9 million that were issued on June 29, 2022, and cash from issue on July 9 and November 15 of 2021 and February 17, 2022 of 273,224 shares of Series A Preferred Stock worth $19.7 million. These shares of Series A Preferred Stock are treated as permanent equity under ASC 480, *Distinguishing Liabilities from Equity*.

On June 29, 2022, the Company issued $10 million in a series of convertible notes. Upon the issuance of these convertible 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 and additional costs incurred to obtain the debt will also be amortized through interest expense under the effective interest method.

On November 10, 2022, the Company issued another $5 million convertible note under the same terms and conditions as the June 2022 convertible notes. Also, on July 27, 2022, the Company issued another convertible note to another investor for $2 million in gross proceeds.

On February 23, 2023, the Company issued a long-term promissory note to another investor for gross proceeds totalling $20 million. An additional promissory note for $10 million in total gross proceeds was issued on July 19, 2023. The aggregate principal amount of promissory notes outstanding as of July 31, 2023 were $30 million with an interest rate of 12% accruing to the principal and repayment due on February 28, 2025, for the first $20 million, and the additional $10 million is due when the Company raises $50 million.

Loans payable for fiscal year 2023 consisted primarily of a U.S. 30-year long-term bank loan. The 30-year long-term bank loan was entered into on June 30, 2020 and matures in June 2050. The interest rate charged on the loan is 3.75% with minimum repayment amounts of $502 per month. The balance on the U.S. long-term bank loan was $103,000 and $108,900 at June 30, 2023 and 2022, respectively.

The U.S. government issued Paycheck Protection Program ("**PPP**") loans in response to the COVID-19 pandemic. All loans are guaranteed by the U.S. Small Business Administration, have a maturity of five years, and require no collateral or personal guarantees. The Company signed the loan agreement in April 2020. The PPP loan of approximately $103,000 was forgiven in full in October 2021.

Consolidated Statement of Cash Flows
(in U.S. Dollars)

Year Ended June 30		2022		2021
Cash at Beginning of Year	$	8,678,861	$	466,208
Net Cash Provided by (Used in) Operating Activities	$	(26,621,252)		(24,787,162)
Net Flows from Investing Activities		(533,416)		(1,003,852)
Net Cash Provided by (Used in) Financing Activities	$	29,332,914	$	33,637,220
Exchange Rate Impact		(845,172)		366,551
Change in Cash During the Year	$	1,333,074	$	7,846,102
Cash at End of Year	$	10,011,935	$	8,678,861

Cash flows provided by (used in) operating activities totaled $(26.6) million for fiscal 2022 and $(24.8) million for fiscal 2021 The primary drivers of the use of cash in 2022 were net loss of $(33.5) million, partially offset by changes in operating assets and liabilities of $6.4 million. In fiscal 2021 cash used in operating activities was the result of a net loss of $(16.8) million and changes in operating assets and liabilities of $(8.0) million. In fiscal 2022, operating assets and liabilities was a net contributor of cash of $6.4 million, due primarily to favorable net working capital. In fiscal 2021, operating assets and liabilities was a net user of cash of $(8.0) million, due primarily to prepayments to suppliers of $(5.7) million and net working capital of $(4.1) million, partially offset by higher accrued liabilities and adjustment for non-cash charges.

Cash flows used in investing activities totaled $(0.5) million and $(1.0) million for fiscal 2022 and fiscal 2022, respectively.

Cash provided by financing activities totaled $29.3 million for fiscal 2022 and $33.6 million for fiscal 2021. Fiscal 2022 financing activities are discussed above. Financing activities in fiscal 2021 were primarily the result of sale of 1.1 million shares of Series A Preferred Stock for proceeds of $39.1 million partially offset by repayment of debt totalling $(5.5) million.

Critical Accounting Policies and Estimates

Basis of Presentation

The Company prepares its consolidated 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.

Going Concern

The Company’s consolidated 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 fiscal years ended June 30, 2023, and 2022, the Company reported a consolidated net loss of $39,634,345 and $33,456,471, respectively, and had cash flows used in operating activities of $35,980,556 and $26,621,252, 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 the date of issuance of its consolidated financial statements. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. 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 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.

The Company's consolidated 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.

Basis of Consolidation

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

The Company's consolidated financial statements include the accounts of the following entities, wholly owned by the Company as of June 30, 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 Ltd.	Bangkok, TH
SEA Electric Ltd.	Auckland, NZ
SEA Electric LLC	Delaware, USA
SEA Electric GMBH	Vienna, AT

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

New Accounting Pronouncements Recently Adopted

In August 2020, the FASB issued Accounting Standards Update (ASU) 2020-06, Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging Contracts in Entity's Own Equity (Subtopic 815-40), changes that simplified the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The Company adopted the standard on July 1, 2021. There was no impact upon adoption.

New Accounting Pronouncements Not Yet Adopted

Please see notes to financial statements (Note 2) include elsewhere in this Circular.

Off-Balance Sheet Arrangements. The Company does not have any off-balance sheet arrangements for the year ended June 30, 2023 or for the six months ended December 31, 2023.

Transactions Between Related Parties. On July 10, 2018, the Company entered into a ten-year lease agreement with the Bellstar Family Trust and Farr 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 lessors are both stockholders of SEA Electric. Total rent paid under this lease was approximately $250,000 and $241,000 for the years ended June 30, 2023 and 2022, respectively.

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

Consulting Fees Payable to 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 June 30, 2022 and is included in accrued liabilities and other in the consolidated balance sheets. During 2022, John Pratt was appointed as a director of the Company. In 2024, the Company and Mr. Pratt amended his consulting agreement to provide for payment of $400,000 in cash and 8,650 restricted stock units to pay in full the amounts owed to Mr. Pratt.

Use of Estimates and Significant Judgments

The preparation of the Company's consolidated financial statements requires 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 the Company's consolidated financial statements include the allowance for doubtful accounts receivable and 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.

Financial statement areas that require significant judgments are as follows:

Leases – The Company applies judgment in determining whether a contract contains a lease and if a lease is classified as an operating lease or a finance lease. The Company determines the lease term as the non-cancelable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The Company has several lease contracts that include extension and termination options. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Company also applies judgment in allocating the consideration in a contract between lease and non-lease components. It considers whether the Company can benefit from the right-of-use ("**ROU**") asset either on its own or together with other resources and whether the asset is highly dependent on or highly interrelated with another ROU asset.

Foreign Currency

The Company's consolidated financial statements are presented in United States dollars ("**USD**"), which is the Company's reporting currency. The functional currency of all of the Company's foreign subsidiaries, as determined by management, is the local currency of each entity. All assets and liabilities of the foreign subsidiaries are translated to USD at the rates in effect at the consolidated balance sheet date. All amounts in the consolidated statements of operations and comprehensive loss are translated using the average exchange rates in effect during the year. Resulting translation adjustments are reflected in the accumulated other comprehensive loss component of stockholders' equity. Settlement of receivables and payables in a foreign currency that is not in the functional currency results in foreign currency gains and losses. Foreign currency transaction gains and losses are included in other income in the consolidated statement of operations and comprehensive loss.

Cash and Cash Equivalents

Cash includes cash on hand, deposits with banks, and cash equivalents that are highly liquid investments that are readily convertible to cash. A cash equivalent is a highly liquid investment that at the time of acquisition has a maturity of three months or less. The Company did not have any cash equivalents on June 30, 2023 or 2022. On June 30, 2023 and 2022, the Company held cash balances in excess of insured limits of $1,182,326 and $9,761,935, respectively.

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, and the carrying value of long-term loans and convertible debt approximates fair value as they bear a market rate of interest.

Product Warranty Costs

The Company generally offers warranty coverage for its products. 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. The Company's estimates are based on historical experience.

Income Taxes

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

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in various states and foreign jurisdictions. The Company is generally subject to examination by taxing authorities for years ended June 30, 2020 and onwards.

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 June 30, 2023 or 2022.