TRANSCRIPT

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Exro Technologies

Second Quarter Earnings

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PRESENTATION:

Operator^ Good day, everyone, and welcome to the Exro Technologies Q2 earnings call. At this time, all participants are in a listen-only mode. Later, you will have the opportunity to ask questions during the question-and-answer session. (Operator Instructions) It's now my pleasure to turn the conference over to Jeff O'Dowd. Please go ahead.

Jeffrey O'Dowd^ Good morning and thank you for joining us today. We will discuss our performance of the second quarter, followed by a Q&A session. Joining us this morning are Sue Ozdemir, our CEO; and Darrell Bishop, our CFO. During this call, we'll make forward-looking statements. Actual results could differ from those expressed or implied. We undertake no obligation to update or revise any of these statements. Relevant factors that could cause actual results to differ materially from those forward-looking statements are listed in our MD&A for the quarter that ended June 30, 2024, which can be found on SEDAR and on our website.

In addition, during the call, we may refer to specific non-IFRS measures. These measures are also defined in our MD&A for the quarter ended June 30, 2024. Our MD&A includes a reconciliation of non-IFRS measures to the most directly comparable IFRS measures. Management believes that these non IFRS measures provide useful information to investors regarding the corporation's financial condition and results of operations as they provide additional metrics of performance. These non-IFRS measures are not recognized under IFRS, do not have any standardized meaning prescribed under IFRS, and may differ from similarly named measures reported by other issuers. Accordingly, they may not be comparable. These measures should not be considered as a substitute for related financial information prepared under IFRS.

With that, I will now turn our call over to our CEO, Sue Ozdemir.

Sue Ozdemir^ Good morning, everybody, and thank you for joining us today. In April of this year, Exro completed the transformational merger with SEA Electric, accelerating our organization into the next stage of growth as we deliver electric propulsion systems to top blue chip OEMs and fast tracking the deployment of Exro's core disruptive motor and battery control technology. Today, we'll provide an update on our core strategy and progress on the key milestones of our first 90 days where we have increased revenue, path to profitability, and technology integrations.

Overall, we are excited and pleased with our significant progress post-merger. We delivered record revenue and propulsion systems produced, with more units produced than the cumulative total of SEA Electric pre-merger, while overcoming several operational and unexpected challenges. We also exceeded our merger integration efforts by implementing substantial cost reductions, continued expanding our technology with energy saving solutions to new customers, and achieved UL certification with our Cell Driver system.

Quite frankly, I am tremendously proud of our progress and accomplishments in such a short period of time since the merger. As this is our first earnings call, we wanted to spend a few minutes on key aspects of our strategy. Let's get started with a look over the past three months and how things have progressed since the merger. We're going to start by talking a little bit about the initial deal synergies. The merger marked the transformational next step for our core technology offerings, as we saw the opportunity to capture the key aspects of the merger through access to top OEM contracts that were at the inflection point of transitioning from successful pilots to full volume production.

A reminder of these initial deal synergies as they formed their core three key pillars over the last quarter: Accelerated revenue growth, this is with production contracts allowing us to quickly recognize material revenue growth through consistent week-over-week execution. Profitability, focusing only on programs that have a clear path to profitability and a lens to that profitability within 12 months post-close with top global OEMs. And finally, our technology solutions, progressing technology from IP on paper to volume production is a massive undertaking for any company. Doing so in the automotive space is incrementally harder. Our combined technology portfolio created the opportunity to accelerate our path with integrations into the full SEA-Drive propulsion system to capture market with our differentiated, patented, and lower-cost USMCA-built product.

We are differentiated from the incumbents where that was a key aspect to the deal rationale. Over the past three months, we have been heads down focused on execution. So today, I'll take a few minutes to talk to these pillars. Let's start with the technology disruption because this is what provides the foundation for us to develop and sustain a long-term profitable company. Our differentiation is Exro's patented technology. It is transformational to have the opportunity to not only expand our technology offerings with a new stream of revenue through the SEA-Drive propulsion systems, but also to integrate our proprietary Coil Driver motor technology, providing the much needed industry differentiation that allows that performance increase while enabling significant cost-out.

Once integrated, our USMCA-approved technology provides increased system efficiency, an ability to materially reduce system costs by removing the dependencies on mechanical components such as large oversized motors and batteries. This means that we are using a smaller motor and battery to achieve that performance and cost-out. The merger provided us the platforms to integrate the technology and enable Exro to provide three key technologies to the market. The first is our full electric propulsion system targeting a turnkey solution that is delivering now to the Class 5 through Class 7 commercial trucking OEMs. A standalone traction inverter drivetrain system, this is the motor control where Exro Coil Driver is paired with an industry-leading motor partner to deliver best-in-class performance.

And finally, our new UL 9540 certified stationary battery energy storage system for commercial and industrial applications. As we look to how we take this technology to market, our transformation includes a few key shifts in the strategy of the company that provide the foundation for a profitable future. In the short term, we have evaluated all of our partnerships and are now focused on top programs that deliver against our core pillars of incremental growth, profitability, and technology disruption. By providing best-in-class system efficiencies and tackling the real-world issues challenging the mobility sector, this includes but isn't limited to cost-out, allowing electric to transition and be at par with combustion, but also the driving of the performance.

What good is a commercial truck with a full load that can't climb a hill at full speed without draining the battery? Our recent pilot results in Brazil demonstrated this industry-leading performance and that OEMs don't need to settle for sub-par results by going electric. Electrification can include the performance we need and the profits. This result follows years of development. We are also continuing our innovation developments to support the future licensing strategy with the passenger vehicle market. I am most excited about our developments on using our Coil Driver to control motors that have no heavy rare earth metals in commercial and passenger vehicles. This is a hot topic with OEMs. It's a geopolitical issue that we should all be thinking about.

On our website, you can find a link to a paper that our CTO Eric presented in Munich, Germany in March of this year. This is just one example of how we are bringing to market the next generation of motor control. Our innovation pipeline of automotive passenger vehicle OEMs support the need for technology like ours, that provides material cost benefits across the vehicle system and delivers solutions for supply issues like heavy rare earth metals. Our global passenger vehicle program continues to progress and deliver as we had hoped when we started over a year ago. We have also progressed two other programs as we look to expand into hybrid propulsion and demonstrate our system efficiency gains.

While the development cycle is longer on passenger vehicles, the reward of multiple platforms combined with our technology being agnostic to electric propulsion type, this means that we can be utilized in hydrogen, hybrid or full battery electric. This provides large profitable revenue potential. Exro is positioned for success. In Q2, we achieved record revenue directly from technology. The merger has been extremely challenging and there have been lots of things to overcome as we've transitioned and transformed the company. The investments made into our core infrastructure over the past three years and the processes that we had implemented have been instrumental to our results so far.

Mergers are tough and this one has been no different. It's taken several weeks to position the supply chain, implement strategic sourcing, combine our teams, and focus on quality by design. While we are below the targets set, we are demonstrating the incremental growth needed to win and maintain new business. As we evaluated our performance against the market backdrop, we made the difficult decision to prioritize our efforts and profitability, so that we ensure the future is bright. It is an inflection point for Exro and each month, we drive down cost and increase output. We are managing our program development and balancing demand for our technology with that eye to profitability.

This means that not every program made the cut, but that all programs that we are currently using resources on have a path to profitability and an eye to week-over-week growth. It's important to note that from the Exro perspective, not a single one of our programs did not meet the technology milestones that were set. As we look to that profitability, we also ensure that we open up the door to future new OEM programs in both commercial trucks and passenger vehicles as we expand our core technology and scale into multiple partners.

Before turning it over to Darrell, we are poised to address the evolving needs of the EV market segment with differentiating, patented technology, consistent deliveries to blue chip OEM customers, a priority and focus on profitability. We are delivering now to the commercial truck sector where we look to build a strong foundation and we are developing now to scale into passenger vehicles sector in the years ahead.

And with that, let me turn it over to Darrell, our CFO, who will provide an overview on our financial results.

Darrell Bishop^ Thank you, Sue, and good morning everyone. As Sue highlighted, despite a challenging EV market backdrop and the heavy lift of integrating the merger of SEA Electric, in Q2, we achieved record revenue. Revenue for the quarter came in at USD5.3 million, directly from technology sales versus nil recorded a year ago in Q2 2023. This revenue was recognized predominantly against the delivery of 36 electric propulsion systems to our blue chip OEM partners in the quarter, exceeding SEA Electric's full-year 2023 deliveries and aligning to contracts that initiated production earlier this year.

Worth noting, we had completed units of USD6.7 million at quarter end, representing an additional 40 vehicle units awaiting invoice. The pace of deliveries were impacted by two one-time events in the quarter. Firstly, critical parts on hand upon close of the merger on April 5th and second, a software recall in June that did not stop production but prevented delivery of finished product. This software upgrade was a short setback and we returned to deliveries of completed units in July and converting these completed units into revenue.

Our cost of goods sold during the quarter came in at USD8.0 million. This is higher than our projected run rate COGS due to supply chain inefficiencies from pre-existing SEA relationships and pricing terms upon close, as well as logistical costs related to parts shortages on close that required expedited delivery to meet our customer's production demand.

Turning to expenses, our first quarter operating expenses were USD32.2 million, approximately 30% of this figure was composed of a non-cash depreciation expense on intangible assets acquired in the quarter. Payroll contributed USD8.7 million and SG&A USD5.2 million, both of which have been reduced pro forma the quarter following the elimination of redundancies post the merger of SEA Electric. These are reflected in an annualized cost savings of USD7.5 million which we've captured today, and I'll speak about in a moment.

Other items worth noting are accounts payable of USD33 million at quarter end. Approximately USD19.7 million of this was carried into the acquisition by SEA Electric and ties to inventory and higher than expected closing cost from SEA. Offsetting this accounts payable at quarter end was an inventory value of USD32.2 million, which includes raw materials and parts, things like batteries, motors, onboard chargers, et cetera, work in progress and production related parts that will be converted into revenue in the quarters ahead.

While we closed the quarter with cash on hand of CAD2.0 million, with Q2 results, we announced up to an additional USD7.7 million or CAD9.5 million approximately Canadian of a cash injection in conjunction with the restructuring of Exro's USD53 million senior secured convertible debenture that rolled in as part of the SEA Electric acquisition. This convertible debenture has been restructured into a promissory note at the same terms, while expanding the note up to USD60 million. This provides extra with additional capital to invest in the business, while removing the potential for future dilution with conversion of the convertible debenture into equity.

We are also in late-stage process for a non-dilutive working capital facility with a Canadian bank. While there could be no guarantees, this will come to fruition. We are working diligently towards having this facility in place by late Q3 or early Q4.

As Sue mentioned in the top of her presentation, we are laser focused on our cost-out efforts. So let's take a look at our three key initiatives. First is our bill of material. With the merger, we committed to shareholders to achieving a 5% reduction in the bill of materials in 2024 for our propulsion systems. We have implemented a lean, experienced and dedicated team to focus on these efforts, and we are happy to report that in the first 100 days since close, our team has already eclipsed this target and removed more than 10% from our bill of materials. In addition, the team has identified an additional 20% that we will work towards achieving through various initiatives over the next 12 months. Coil Driver's ability to provide savings is a significant contributor to these targets as we integrate the current propulsion systems with our OEM partners.

Second is cross-business cost-outs. In the first 100 days, we have achieved USD7.5 million in annualized savings against a 2024 target of USD10 million. These cost cuts were focused on headcount reductions, facilities closures, and operational efficiencies. While these annualized savings aren't visible in our short-term financials, they will be foundational to how Exro is run.

Third and excitingly is our design evolution. The work we are doing under NDA involves some of the top automotive OEMs, motor manufacturers, and tier-one suppliers. These collaborations have pushed us to further develop our Coil Driver technology architecture, reducing the mechanical footprint and quantity of silicone, which drives down the cost without limiting the current design performance of the Coil Driver.

Before turning it back to the operator and opening it up for questions, I will say that I echo Sue's sentiment towards our outlook. In the first 100 days post-close of a transformational merger, we have overcome many challenges and observed many successes that lay a stronger foundation for growth. Overall, our core focus is on profitability. Above all other metrics, this is the one focus area across the business that we are striving to exceed our goals and deliver value for you, our shareholders.

And with that, I'll turn it back to the operator to open it up for questions.

QUESTION & ANSWER:

Operator^ (Operator Instructions) We'll take our first question from Yuri Lynk with Canaccord Genuity. Please go ahead.

Yuri Lynk^ Hi, good morning.

Darrell Bishop^ Good morning, Yuri.

Sue Ozdemir^ Good morning, Yuri.

Yuri Lynk^ I don't know who wants to take this one, but just with regards to the 40 units in inventory, and kind of tying that to the 250 units that I thought you could deliver, I think, by the end of Q3, just how do we think about deliveries in the second quarter? Is there going to be some catch up there and do we see a ramp up from the 36 units delivered in the second quarter?

Sue Ozdemir^ Thank you, Yuri. So I'll start with the end part of your question. So, we do see a ramp up from the 36 units in the first quarter. If we think back to the initial business model, when we were pre-merger, we thought about a Q1 first 90 days post-close, which for us was our Q2 and we wanted to deliver on 75 units. And that was really the start of our ramp. And so, when you combine what we released, what was delivered with the inventory on hand, we actually met that target.

Now, as we go into the second quarter, we still have some challenges that we're facing. We're still working towards that consistent week-over-week growth. We're definitely still aiming for that target, but we do see that that is a little bit hard to catch up on right on the front end. So, we're going to -- right now, we're not giving guidance today, but what I would say is we're still aiming for that target, but we do see some risk in that as it's not just a recoverable target as you go from quarter to quarter when you do that ramp.

Yuri Lynk^ And what are the main issues -- are still sourcing raw materials?

Sue Ozdemir^ Yes, definitely. So they're -- the good side of it is, they're all things that you recover with just a little bit of time and good process. The hard part is that recovery piece in the meantime. Partnerships are strong. Demand is there and supply chain is starting to come into place, but there's still some work there to kind of get that supply chain production link going where you're consistently delivering week-over-week.

Yuri Lynk^ Okay. And then the second track of question I have is on the integration of your Coil Driver into the SEA-Drive propulsion system. You press released earlier this week some progress on that. Two questions. One, when do you anticipate being able to integrate that and deliver a fully integrated propulsion system? And secondly, do you see any risk in customers delaying their SEA-Drive purchases until the Coil Driver is available as the inverter?

Sue Ozdemir^ So no, we don't see any risk in that. We continue to work with the existing supply chain, technology that's proven and working in the market. From a timing perspective, our initial goal was that we would be in production with the Coil Driver integrated into the SEA-Drive system by the second half of 2025. The announcement on Tuesday of this week is the first step towards that. Our customers are asking us for the Coil Driver, so there's no risk there. They see the benefit of being able to take that cost-out and to maintain the performance.

The timing is really, again, it's that difficult part of business and communicating to the market that balance of timing a program, so that you stay profitable, so that you're not burning up with multiple teams working on programs. In this case, we're just timing our resources with where we are. It's launched, it's going, there's no acceptance on the other side that prevents it or barriers it from getting into the program. It's just a matter of time, getting it in, and then it's in production in 2025. For sure, by the second half, if we can pull it up, we will, for sure by the second half.

Darrell Bishop^ Okay. Sounds encouraging. Okay, I'll hand it over there. Thanks.

Sue Ozdemir^ Thank you.

Operator^ We'll take our next question from Stephen Gengaro with Stifel. Please go ahead.

Stephen Gengaro^ Thanks and good morning everybody. The -- without sort of, I guess digging into sort of specific guidance numbers, can you just talk a little bit about how on the commercial side, we should think about sort of the ramp in sales volumes over -- and maybe even over sort of the 2025, 2026 timeframe and sort of your capacity to do that?

Sue Ozdemir^ From a ramping perspective, we are on track for our ramping plans. That's part of making the more difficult decisions to really focus on that profitability and make sure that you're set up to ramp for volume correctly. And so, I think as we get through the next quarter, that really establishes the foundation we need to ramp into the next two years to three years. There's not a lot of change for us to make as we continue that ramp. And again, that goes back to what isn't always visible to the market, but we internally had invested most of our money into those infrastructures that allow our company to scale.

And so, definitely, integrating them was a little more difficult than we wanted, but they're there. I think from a commercial trucking perspective, the demand is there. The education for electric is what we really need to do, in the industry. We need to get better at kind of making it possible to go electric, but we still see the demand. We're still able to see that 2025, 2026 revenue and we are backed by two really great blue chip OEMs and then several other smaller OEMs that help us to build that path.

Darrell Bishop^ And I think just to layer onto that, Stephen as well, when you look at the business model that we have in place, we are not the ones manufacturing the vehicles at the end of the day. Recall, Exro is a technology provider. So we are going into the OEM's infrastructure and the OEM's contract manufacturers, and as they are taking on the burden of building vehicles, things that these companies have done for decades, and the ramp that you see is a relatively small ramp for these major OEMs.

So for us, it's leveraging their network of manufacturing and contract manufacturing, and being there with our supply chain to drop in that propulsion system as the vehicles are being assembled.

Stephen Gengaro^ Great, thank you. And then the other question for me was on the passenger side, and are you -- what would be sort of the structure on the passenger side? Would it be licensing your technology to auto OEMs and then just having them integrate them into their vehicles? Or would you be sort of involved deeper than that on the passenger front?

Sue Ozdemir^ Great question. Thank you for that. So it's an interesting model because we call it licensing plus, so it would definitely be a licensing driven program where we're really providing just a small module that's the guts of the Coil Driver. So, just that comes into the vision from the company over the past few years, what we can build, the small boards, they would do the rest of it -- the kind of heavy lift on the software, the heavy lift on the build around, because these OEMs are really sophisticated with the designs that they're coming out with now. So we didn't want to try to be involved in all of those separate designs. So, it's the same core technology that we use within our commercial truck and our high-voltage drive. Put into a passenger vehicle, those same guts, and it would be licensing, that little piece of hardware would come with it, but it's essentially a licensing model.

Stephen Gengaro^ Okay, great. Thank you for the details.

Sue Ozdemir^ Thank you.

Operator^ And we will move next with Mike Shlisky with D.A. Davidson. Please go ahead.

Michael Shlisky^ Good morning, and thanks for taking my questions. I want to follow-up on the auto comment. Can you maybe share a little bit, maybe a bit on the sizing of the pipeline right now of the various auto opportunities? I guess I'm trying to figure out, one, maybe the number of OEM models your products could end up on. And then secondly, the sort of kind of unit size that you think you might be able to get once some of these programs are up and running. Is it going to just massively overtake the truck business, or do you think it'll be more of a balance?

Sue Ozdemir^ So, what I'll talk to is kind of the pipeline first. So with the pipeline, we've put in just a press release just a few months ago about the three programs that we have right now. And what's really important about those programs is that we took our lessons learned over the past 3.5 years. We took lessons learned of what we see happening in the sector around us, and we really focused on companies that had that financial strength, that were leaders in the space, that were top OEMs, even if it meant that it was going to take a little longer. So our first one is that global passenger vehicle that's under NDA, we've been working and pushing and successfully progressing through that partnership.

The second one is what I would call a mid-stage negotiation and our goal was to find a passenger vehicle program that would take us into the hybrid market. And what I can share today is that our first set of technical evaluations with the customer, we run through several months -- in this case, it's been over six months of technology review, of looking how it goes. It was the first time we had used the Coil Driver in simulations against a hybrid, and we actually received better results than we did when we did it with battery electric. So very exciting next step for us, it's what made us want to continue with that particular program. So it's another major OEM, so platform would be large. And then the last one is a late-stage, negotiation --sorry, I just mixed that up. That was the late stage -- that one was the mid-stage.

Then we're in a late-stage negotiation with another automotive OEM, this one is based around reducing complexity of the system, so using that charging feature that we patented over 1.5 years ago against the Coil Driver to take down the complexity of the electronics. So when we look to those programs, we were looking at programs that showed the differentiation of the tech and what we could do. We didn't chase the same type of program three times over. And so absolutely, what we would see is that in the years to come, we would be able to then expand past that.

Michael Shlisky^ Okay. So from a TAM perspective of the three, if you were to win all three and it all would've come to the market, would it effectively make Exro more of an [oil] supplier than a truck supplier as far as the size of the business, once you're up and running?

Sue Ozdemir^ Yes, what I would say is that we are a technology supplier and it is the difference between combustion and electrification. When we synch to electrification, that's what has made it so hard for these OEMs to be profitable, is what's inside those vehicles is what really matters. And so, I would say that we could be, right now, in the commercial trucking, Dana TM4 would be the top supplier. We could be the next Dana in parallel to being a large passenger vehicle, so like a tier-one automotive of the future.

Michael Shlisky^ Got it. Thanks for the information. I appreciate it.

Sue Ozdemir^ You're welcome.

Operator^ Our next question comes from Jeff Grampp with Alliance Global Partners. Please go ahead.

Jeff Grampp^ Morning, wanted to touch on some of the additional cost savings that, if I heard right, you guys talked about, I think an incremental 20% cost savings identified. What does that timeline look like to potentially prove that out and potentially get that into the supply chain?

Sue Ozdemir^ Right, so the timeline for that is the second quarter -- end of second quarter of next year. That ties to our target profitability within the second half of next year. How we've looked at that is it's not just -- it's very identified. It just takes a little bit of time when -- especially when you're partnered with OEMs, there's processes that you have to go through from a quality perspective to make sure that the new offering that you're bringing in meets all of that. And so we're going through audits, we're going through deviations, we're going through all of the process that you need to get us there.

The second piece of that is just really good sourcing abilities. And so again, in one hand, it's been one of our challenges as we reach out and try to get better at that. At the other hand, in just 100 days, they manage to achieve some pretty great savings that we're recognizing on now. So, I would say kind of into the end of June of next year is when we'd be completed with that target.

Jeff Grampp^ Okay, great. Thanks, Sue. And for my follow-up, I'm curious, just obviously, you mentioned some of the challenges of integrating the merger as a lot of companies have. Where -- what inning do you think we're in here in terms of the merger process? Would you consider the two companies kind of integrated at this point? Is there some additional work to be done? Like where are we at in that journey?

Sue Ozdemir^ Yes, I would -- that's a great question. Jeff, you guys are asking some great questions this morning, so I'm thinking about -- that's new for me. So I would call it the third innings. I think where we've had some big successes is I came from a company GE, where I led a pretty large acquisition merger. And I can tell you that the work that our team has done, our small -- our team in comparison and as far as IT integration, the actual kind of structure of the business, team culture, even some of the kind of sales and operations side of it, has been phenomenal. Really, really well run. We stayed on track, really good dedication from the team, really great integration of the two teams, especially from a leadership perspective.

Where we kind of needed to put some more work in is from an Exro perspective, our philosophy around quality and process had been there since day one. And again, it's hard for the market to recognize that, but those kind of under-the-cover things are how you build a big business. And so, we knew that that was the right thing to do. And so, what we underestimated and what was the biggest challenge for us was, we are a smaller size team. We had -- we were running a business and trying to do that integration, but also putting those processes into something that's essentially been established. They were a private organization that had been out delivering winning commercial trucks, contracts, and now, we were trying to put in this process. And so, that took a little bit longer than we thought and made it a little bit harder. And that's where our climb continues.

Jeff Grampp^ Understood. I appreciate those details. Thanks for the time.

Sue Ozdemir^ You're welcome. Thank you.

Operator^ We will move next with Rupert Merer with National Bank. Please go ahead.

Rupert Merer^ Hi, good morning everyone. One of two (multiple speakers) a little more on the customers for your product, so you delivered the 36 units in Q2, another 40 in inventory, it sounds like they've been delivered now. Can you break down who the customers were for those products and which markets they're in?

Sue Ozdemir^ I can break down the markets for you, but we are not breaking down the customers. We've made a decision that we're going to put out the one number and we're going to protect our customer contracts as a priority. So what I will tell you is that they were all in the commercial trucking sector, Class 5 through Class 7.

Rupert Merer^ Okay, great. And it sounds like you've had some challenges ramping with your supply chain and some production issues, but you are highlighting that the demand is there. I'm wondering if you can give us a little color on your sales backlog, how that's evolving and if that supports the ramp up that you had originally forecasted for sales.

Sue Ozdemir^ So, I'm going to start by saying again, especially as a company focused on electrification, it's one of the lessons learned is that those two things go hand in hand. So your ability to meet demand comes from your ability to scale. Nobody wants to be waiting for a vehicle that they're excited about for 10 months, six months, or even three months. And so, we really viewed that as the first thing, focusing on that consistent week-over-week growth. So, we're not quite there with what I would call consistent, but we're getting there. We're getting a couple weeks and then maybe a setback a couple weeks and then a setback. We're definitely delivering every single week, which is nice.

From a demand perspective, we can't defy the industry, so I'm not going to sit on the call today and say demand is overwhelming, right? Transition is hard right now, what I would say is demand is strong. So we haven't seen a lack of increase in demand. We've seen demand tied to, I want it, but I want to know that it's going to arrive and it's going to arrive on time, and I'm going to have the support. So we've built out our team that is our ambassadors, whether that's an aftermarket that's out supporting our propulsion systems in the market, or a pre-sales where they're out supporting the sales network in collaboration with our OEM partners.

In May of this year, we were at the ACT show. It was the first time Exro was at the show where we did not have our own booth. We were in our partner's booth with our product on display. And so that's really key. Electrification doesn't happen alone, and it doesn't happen with just startups trying to do their own thing, or just the incumbents trying to do their own thing. We need partnerships between the two to be able to take that expertise. Partners like the ones we have, have a phenomenal supply chain organization, phenomenal quality and production organization that can pull organizations like us to where we need to be.

And we have the flip side, we push the limits on differentiation. We don't take no. If that truck isn't going to climb, we're going to find a way to make it climb.

Rupert Merer^ Right. So, it doesn't sound like demand is going to be a limitation in the near term anyway.

Sue Ozdemir^ Agreed.

Rupert Merer^ Maybe if I could ask about liquidity. So, you're working on a credit line, you've got a little more capacity in some of your financings. And can you remind us how the prepayments can work on your deliveries for the propulsion systems?

Darrell Bishop^ Yes, thanks, Rupert. So as I highlighted, we had cash and cash equivalent at June 30 of about USD2 million. Subsequent to the quarter, we restructured our senior secured convertible to debenture, which then we extended to provide additional liquidity of about CAD9 million -- up to about CAD9.5 million. Additionally, we would've started to receive revenue from those 40 units of USD6.7 million through July. And so, and as I also highlighted, we're working on a facility -- working capital facility with a Canadian bank that will certainly step in and help with the inventory management as we go into Q4 and the end of this year.

Rupert Merer^ And will you see further prepayments to support your working capital as you ramp up deliveries?

Darrell Bishop^ Yes, thanks. As part of our agreement with one of our OEMs, there is a prepayment in place on some of the key components like motors and batteries, some of the larger ticket items. And what -- how that structure works is we are ordering and paying for those materials, and when we take receipt of those on American soil, prior to the production, we actually get a bailment on those items. That really helps from a working capital and an inventory management. I think what it also does is it really speaks to the quality of our partners and the dedication to electrification with Exro.

We are kind of all in it together. We've got some really fantastic partners on the other side of our contracts. We're not -- we don't feel like we're just a supplier, like we feel like we are in this as partners together in the electrification. And I think it's important to highlight as well that these contracts just initiated start of series production at the beginning of 2024. So, these vehicles are just getting into the field, getting into ultimately end customer hands. And the feedback on the technology and on those vehicles has been really positively received.

So, I think as more of these vehicles are in the market, we anticipate with our customers that even the strong demand that Sue highlighted that we have already will continue to garner market share for those end -- our end OEMs.

Rupert Merer^ Great. Thank you. I'll leave it there.

Darrell Bishop^ Thank you.

Operator^ Our next question comes from Chris Murray with ATB Markets. Please go ahead.

Chris Murray^ Yes, thanks folks. Good morning.

Sue Ozdemir^ Good morning, Chris.

Chris Murray^ Good morning. Sue, you made the comment about the fact that you're having to kind of make decisions on what to do development for on a go-forward basis. And look, this has been a pretty dynamic environment. That would be the understatement I think. There's some of your partners that you previously called out that probably have changed their own business plans or having changes to be made. But, you talked a little bit about, kind of the three projects you've got on automotive -- certainly, there's the Linamar program, and a couple other ones.

But, I guess the other question is, is there anything that you've started to think about not doing? I mean, the Cell Driver seemed to get certification and that seems to be having some progress, but just trying to think about how your thought process is around high grading the opportunity set over the next couple of years.

Sue Ozdemir^ Yes, we definitely have had those conversations, both at an executive level, at a team level, and an executive board level. I think that there's kind of three categories that we would look in. So from a commercial trucking perspective, it's definitely our short term and our long term. But again, where we're delivering now beyond the two OEMs we have today, we continue to develop new partnerships. We're in, what I would call, late stage with our third OEM, that would come into our revenue profiles into kind of late 2025, early 2026, once we get through the whole program. But, we're kind of through all the simulations and working together and making sure we prove the tech in their pieces.

The passenger vehicle, we've already spoke about. What we took a step back from was two sectors. The first one was from a kind of two-wheel and the smaller sector. And again, it's important to note that this wasn't a technology-driven decision. Technology worked just as we wanted, but as the market slows down and now you have low volume and low profit, if profit at all, we decided that that wasn't a good use of our time. And so, we made cuts around those programs.

The second area, we had programs around kind of two core categories, those were motor OEMs and off-road applications. So, we had a partnership with a large off-road. Again, we proved through that partnership that we could turn a large diesel generator in an off-highway, do it efficiently, do it well, but their electrification programs were pushed out by two years to three years and still development [throughout]. So, we decided that that gate move wasn't worth the test. Doesn't mean that that isn't still there in the future, but for our short-term strategy, we've taken a step aside and put that on the shelf. And so I think that was a big one.

On the motor partnerships, what we learned over the last three years is, well, it's agnostic to all the motors, so we can work with all of the motors of the past and of what comes in the future. It takes a little bit of time. So, it ties up our dyno testing facilities, it ties up our software engineers, it takes a little bit of time. So, we decided that we have three large motor partners that we're working with right now, two of them being public, with TSA and Wolong, and one of them being under NDA today. And with those three, we knew that we had the ability to globalize, to fit into the SEA-Drive as we looked at the merger.

So, I can confirm that we have on order right now, our first motors that will go into some of our SEA-Drive partnerships. So, that's been a really great and accelerated part of the merger because we didn't need to start from scratch and work our way through six months. So, I would say we won't expand past that, but those three partners will stay key to our core focus.

But two-wheel, it would take a big volume and a pretty aggressive OEM to take that technology off the shelf for us right now. Our move with HB4 earlier this year should signal that to the market. Well, we know it was a disappointment for some of our shareholders to see that we weren't manufacturing them at our headquarters in Calgary, it was a move towards that profitability target. And the customer has been a really supportive first development customer for us, with a great user on the other side in the commercial truck space with Casalini. So stayed within our core philosophy and allowed us to then move to a profitable position versus a non-profitable position by moving it to licensing.

It also allowed us to kind of work out the kinks in a very low-volume position on how we license. What does it mean? It's not a traditional licensing program, you're not just doing software. The hardware is really fundamental to how we license our things. And so, that allowed us to do that. So, I hope I answered your question there.

Chris Murray^ Yes, no, that's helpful. Thank you. My other question, similar to maybe some of the earlier questions about SEA. One of the things about Exro I think, as you guys have been growing it up, you've been pretty disciplined about kind of the technology readiness and building the infrastructure around getting ready to go kind of longer term. I guess in listening to this, when I hear about things like supply chain and some of the other issues that are there, are there things that you've learned from how you were doing development at Exro that maybe are applicable to maybe what you're seeing with SEA right now?

And are there things that you could maybe accelerate? You talked about getting cost-out, some of that's working well, but it feels like you've kind of bottlenecked on supply chain. And just trying to understand maybe that the -- call it even the direct cost and the operating costs and how those evolve over time, from the SEA business as you guys continue to ramp.

Sue Ozdemir^ Most definitely there's been a lot that we could implement again. What we underestimated was how hard that implementation was going to be. And so, I would say that the core kind of thing is how you forecast. And so, SEA was moving from less than 30 vehicles in an entire year to hundreds of vehicles in an entire year -- thousands. And so, that -- they had underestimated that industrialization, that scaling is really, really hard. And sometimes it's just, the software systems that are backing it, your core tooling, your infrastructure.

I think where we still have to be careful in one of the challenges, and again, sometimes they're difficult decisions. We're definitely expediting deliveries and doing things we need right now to make sure our customers get their deliveries, but we're balancing that with some choices around we might be able to do something slightly quicker, but it's going to really be at the cost of our profits.

And so, we're trying to balance, customer-first always, making sure that we are doing everything we can as best as we can to scale with the customers and thankfully, they're holding our hand and pulling us up with them. And then secondly, we're trying to implement these core structures. Something we were really strong with that I do think has really, really helped is our focus on quality. And I think the work done by the quality teams over the past 90 days has been really instrumental in what will allow us to get that longer-term ramp and we'll show those processes.

Chris Murray^ Okay. That's interesting. Just a final question for me, just -- again, back to kind of liquidity and cash flows. You talked -- I think Darrell, you mentioned the -- you probably drew down, call it, the CAD9.5 million, the USD7 million on the convert. Just wondering, other sources of capital, while you're trying to get the -- while you're trying to get pre-delivery payments or working capital bridge in place, what else is out there available to you, just thinking about the option book or anything else that may be out there, and any change in your expectations for burn rate over the next few quarters?

Darrell Bishop^ Yes, thanks, Chris. I think when we look at the options that are out there, one thing that is really beneficial with the SEA Electric acquisition is we now have revenue and when it comes to revenue, that opens a much larger toolkit in terms of the options that will be out there, creative structures, things that are around the non-dilutive side of the balance sheet. And so we're exploring all of those pretty in depth. We've got ongoing discussions there, no guarantees, but we've got ongoing discussions, especially when you look at the quality of the revenue on the other side and who that revenue is associated with. So, it's a significant de-risking for anyone on the lending side. And so, yes, we're optimistic that we'll have those structures in place.

We're looking at all things across the balance sheet to continue to fund the business and make our deliveries ultimately to customers, and grow into a profitable position in 2025. From a cost-out perspective, we've got -- I would say -- I wouldn't provide guidance on what the cost-out will be, but we made some pretty significant cuts already through the first 90 days or 100 days now, I guess, including July post the quarter, where we're focused on -- we've realized USD7.5 million in annualized savings. You'll start to see that come in over the coming quarters here with headcount reductions, facilities closures and things of that nature.

So, we are driving down those costs and that is something that we are pushing through the business and the leadership of the business on a daily basis and look forward to delivering on that and a stronger bottom line in 2025.

Chris Murray^ Okay, thanks. I'll leave it there.

Darrell Bishop^ Thanks, Chris.

Operator^ We'll move next with Brittney Fidelia with Maxim Group. Please go ahead.

Brittney Fidelia^ Hi, good morning. I was just wondering if you can comment on the next steps within your Linamar deal.

Sue Ozdemir^ Right. Our previous milestone was being at the ACT show in the Linamar booth, which we did in May. And right now, we are working with them on a co-marketing program that allows us to go out to customers and to be able to market the differentiation in the Coil Driver. So, it is slightly delayed right now. Again, just from -- obviously, we're coming to the end of the summer, but the program itself is on track for what we anticipated and what ties into our financials.

Brittney Fidelia^ Okay, got it. Thank you. That's all.

Sue Ozdemir^ Thank you.

Operator^ And that will conclude our Q&A session. I will now turn the call over to Jeff O'Dowd for closing remarks.

Jeffrey O'Dowd^ Thank you all for joining today's call. A full transcript will be available shortly. Should you have any additional questions, please feel free to email me at jodowd@exro.com, and have a great day.