Consolidated Financial Statements
As at and for the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

Independent auditor's report

To the Shareholders of Exro Technologies Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Exro Technologies Inc. and its subsidiaries (together, the Company) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment *Refer to note 2 – Basis of preparation, note 3 – Material accounting policies and note 6 – Investment to the consolidated financial statements.* In 2021, the Company invested US$5,000,000 in SEA Electric Holdings Pty Ltd (SEA Electric) by subscribing for 124,380 Series A Preferred Shares. The investment is classified as fair value through profit or loss. Where the fair values of financial assets cannot be derived from transactions in active markets, they are determined using appropriate valuation techniques for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. On January 30, 2024, the Company announced a Plan of Arrangement and Merger with SEA Electric with an implied value of US$248 million. As at December 31, 2023, the fair value of the Company's investment in SEA Electric was estimated by management to be $8,357,423, based on an implied share price. The implied share price was determined based on the agreed upon valuation of SEA Electric shares as at January 29, 2024. Management applied significant judgment in determining that the fair value of SEA Electric did not significantly change between December 31, 2023 and January 29, 2024 based on entity-specific factors and market conditions.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the fair value of the investment in SEA Electric, which included the following: – Read the Plan of Arrangement and Merger with SEA Electric. – Evaluated the appropriateness of management's calculation of the fair value and tested the mathematical accuracy thereof. – Tested the underlying data used by management in calculating the implied share price. – Assessed management's judgment that the fair value of SEA Electric did not change significantly between December 31, 2023 and January 29, 2024 by considering relevant industry information, changes in relevant electric vehicle indices and any entity-specific factors available to a market participant. – Tested the disclosures made in the consolidated financial statements with regard to the investment in SEA Electric.

Key audit matter	How our audit addressed the key audit matter
We considered this a key audit matter due to the significance of the investment, management's judgment in determining the fair value of the investment in SEA Electric and the auditor judgment, effort and subjectivity involved in performing procedures in evaluating management's judgment that the fair value of the investment in SEA Electric did not significantly change between December 31, 2023 and January 29, 2024.	

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Reynold Tetzlaff.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
April 1, 2024

Exro Technologies Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at	Note	December 31, 2023	December 31, 2022
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$ 6,241,176	$ 17,443,971
Accounts receivable	15	4,233,672	965,084
Prepaid expense		1,348,321	887,885
Inventory	8	6,665,963	2,174,892
		18,489,132	21,471,832
Investment	6	8,357,423	10,800,960
Property, plant, and equipment	7	32,079,698	26,216,425
Derivative asset	10	1,217,346	2,389,562
TOTAL ASSETS		**$ 60,143,599**	**$ 60,878,779**
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		$ 8,629,951	$ 5,507,335
Unearned revenue	5	—	1,111,091
Lease liability – current portion	9	1,555,270	1,345,296
		10,185,221	7,963,722
Long-term debt		50,000	50,000
Lease liability – long-term portion	9	5,248,178	5,945,741
Convertible debentures	10	12,089,076	11,502,206
TOTAL LIABILITIES		**27,572,475**	**25,461,669**
SHAREHOLDERS' EQUITY			
Share capital	11	154,354,940	109,544,685
Contributed surplus		28,768,802	26,278,530
Equity component of convertible debentures	10	991,295	994,610
Deficit		(151,464,762)	(100,841,592)
Accumulated other comprehensive loss		(79,151)	(559,123)
TOTAL SHAREHOLDERS' EQUITY		32,571,124	35,417,110
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 60,143,599**	**$ 60,878,779**

Going concern (note 1)

Subsequent events (note 18)

These consolidated financial statements were authorized for issue by the Board of Directors on April 1, 2024. They are signed on the Company's behalf by:

"Rod Copes"
Director

"Frank Simpkins"
Director

See accompanying notes to the consolidated financial statements

Exro Technologies Inc.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

	Note		For the years ended December 31, 2023		2022
Revenue	5		5,736,140		2,185,448
Cost of Sales			3,203,735		1,900,688
GROSS PROFIT		**$**	**2,532,405**	**$**	**284,760**
EXPENSES					
Payroll and consulting			16,669,923		13,786,604
Research and development	16		12,836,892		8,765,501
Selling, general and administration			9,776,036		11,119,270
Share-based payments	11		3,916,464		2,605,472
Depreciation expense	7		3,125,501		2,245,124
Interest expense	10		2,464,977		862,529
Loss on disposal of assets	7		106,617		66,268
TOTAL EXPENSES		**$**	**(48,896,410)**	**$**	**(39,450,768)**
Loss on investment	6		(2,200,747)		(2,700,221)
Change in fair value of derivative asset	10		(1,172,216)		—
Foreign exchange gain (loss)			(972,028)		1,776,303
Other income			85,826		65,014
NET LOSS		**$**	**(50,623,170)**	**$**	**(40,024,912)**
Items that may be subsequently reclassified to earnings:					
Gain on translation of foreign currency			479,972		529,007
COMPREHENSIVE LOSS		**$**	**(50,143,198)**	**$**	**(39,495,905)**
Loss per share - basic and diluted	11	$	(0.31)	$	(0.29)
Weighted average number of common shares outstanding			161,707,518		137,685,067

See accompanying notes to the consolidated financial statements

Exro Technologies Inc.
Consolidated Statements of Shareholders' Equity
(Expressed in Canadian dollars)

	Note	Number of outstanding shares	Share capital	Contributed surplus	Equity component of convertible debentures	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, December 31, 2021		**120,905,274**	**$ 82,845,028**	**$ 15,775,637**	**$ —**	**$ (60,816,680)**	**$ (30,116)**	**$ 37,773,869**
Financing, net of issuance cost	11	22,046,206	23,449,861	4,099,877	—	—	—	**27,549,738**
Issuance of convertible debentures	10	—	—	3,477,569	994,610			**4,472,179**
Shares issued on exercise of options	11	1,786,500	911,954	(394,799)	—	—	—	**517,155**
Shares issued on exercise of warrants	11	2,096,250	2,337,842	(78,354)	—	—	—	**2,259,488**
Share-based payments	11	—	—	3,398,600	—	—	—	**3,398,600**
Net Loss		—	—	—	—	(40,024,912)	—	**(40,024,912)**
Other comprehensive loss		—	—	—	—	—	(529,007)	**(529,007)**
Balance, December 31, 2022		**146,834,230**	**$ 109,544,685**	**$ 26,278,530**	**$ 994,610**	**$ (100,841,592)**	**$ (559,123)**	**$ 35,417,110**
Financing, net of issuance cost	11	15,525,000	32,469,732	—	—	—	—	**32,469,732**
Shares issued for interest	10	1,102,077	1,796,993	—	—	—	—	**1,796,993**
Shares issued on conversion of debentures	10	20,833	43,213	—	(3,315)	—	—	**39,898**
Shares issued on exercise of options	11	973,790	1,247,179	(541,331)	—	—	—	**705,848**
Shares issued on exercise of warrants	11	5,448,436	9,004,140	(1,302,600)	—	—	—	**7,701,540**
Shares issued on exercise of RSUs	11	117,452	248,998	(248,998)	—	—	—	**—**
Share-based payments	11	—	—	4,583,201	—	—	—	**4,583,201**
Net loss		—	—	—	—	(50,623,170)	—	**(50,623,170)**
Other comprehensive income		—	—	—	—	—	479,972	**479,972**
Balance, December 31, 2023		**170,021,818**	**$ 154,354,940**	**$ 28,768,802**	**$ 991,295**	**$ (151,464,762)**	**$ (79,151)**	**$ 32,571,124**

See accompanying notes to the consolidated financial statements

Exro Technologies Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

		For the years ended December 31,	
	Note	2023	2022
OPERATING ACTIVITIES			
Net loss for the year		$ (50,623,170)	$ (40,024,912)
Items not involving cash:			
Depreciation	7	3,262,638	2,239,301
Share-based payments	11	4,583,201	3,398,600
Non-cash interest		2,423,761	2,413
Loss on disposal of assets	7	106,617	66,268
Unrealized loss on investment	6	2,200,747	2,700,221
Unrealized foreign exchange (gain) loss		242,790	(839,763)
Change in fair value of derivative asset	10	1,172,216	—
Changes in non-cash working capital items:			
Accounts receivable		(3,339,339)	(803,569)
Prepaid expenses		(466,255)	1,294,126
Accounts payable and accrued liabilities		3,437,652	1,554,429
Inventory	8	(4,501,762)	(1,928,656)
Unearned revenue	5	(1,105,462)	1,005,037
Cash used in operating activities		**(42,606,366)**	**(31,336,505)**
INVESTING ACTIVITIES			
Purchase of equipment	7	(8,835,456)	(10,237,764)
Change in non-cash working capital		(223,308)	728,183
Cash used in investing activities		**(9,058,764)**	**(9,509,581)**
FINANCING ACTIVITIES			
Proceeds from financings	11	34,931,251	30,145,865
Share issue costs	11	(2,461,519)	(2,596,127)
Proceeds from convertible debentures, net of issuance costs		—	13,584,823
Proceeds from exercise of options	11	705,848	517,155
Proceeds from exercise of warrants	11	7,701,540	2,259,488
Principal repayment of lease liability	9	(986,723)	(437,152)
Change in non-cash working capital		(59,564)	189,896
Cash provided by financing activities		**39,830,833**	**43,663,948**
Impact of foreign currency translation		631,502	(723,103)
Increase (decrease) in cash and cash equivalents		(11,202,795)	2,094,759
Cash and cash equivalents, beginning of the year		17,443,971	15,349,212
Cash and cash equivalents, end of the year		**$ 6,241,176**	**$ 17,443,971**

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS

Exro Technologies Inc. (“Exro” or the “Company”) is incorporated under the British Columbia Business Company Act. The Company’s shares are listed on the TSX Exchange (“TSX”) and trades under the symbol “EXRO”. The Company’s head office is located at 12–21 Highfield Circle S.E., Calgary, Alberta, T2G 5N6. The Company is working towards commercialization and series production of its patented Coil Driver™ technology and proprietary system architecture for power electronics, as well as its Cell Driver™ technology for stationary energy storage.

Going Concern Assumption

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The Company has not generated substantial revenues and has incurred substantial losses to date. The ability for the Company to continue as a going concern is dependent on the Company’s ability raise capital for research and development activities and to achieve product commercialization and series production.

The Company plans to fill the production capacity at its Calgary, Alberta automotive manufacturing facility by building on the non-binding purchase orders entered into to date for its proprietary Coil Driver™. In addition the Company has entered into a number of distribution agreements for its Cell Driver™, and expects to continue generating revenue from its services division.

The Company is largely dependent upon external financings to fund its activities. In order to carry out planned development and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed through, but not limited to, accessing capital markets, lease financing and debt agreements. There is no guarantee these plans will be successful.

On January 30, 2024 the Company announced a plan of arrangement and merger with SEA Electric Inc., an automotive technology company, and concurrent capital raise of $30,020,000 through the issuance of 31,600,000 subscription receipts. The financing was closed on February 16, 2024, with funds held in escrow to be released on closing of the proposed transaction, further described in note 18.

As a result of the factors noted above, there are material uncertainties that may cast significant doubt on the ability of the Company to continue as a going concern. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

The consolidated financial statements of the Company for the year ended December 31, 2023 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 1, 2024.

(b) Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value.

(c) Functional currency and presentation

These consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Company and its Canadian based subsidiaries.

(d) Basis of consolidation

The Company controls an investee if the Company has power over the entity; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns. The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in loss and comprehensive loss from the date that the Company gains control until the date that the Company ceases to control the subsidiary.

Subsidiaries	Location of Operations	Percent Ownership	Functional Currency
DPM Technologies	Vancouver, Canada	100%	Canadian Dollar
Exro Technologies USA, Inc.	Arizona, USA	100%	US Dollar
Exro Vehicle Systems Inc.	Michigan, USA	100%	US Dollar

(e) Significant accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company reviews its estimates and underlying assumptions on an ongoing basis.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

a. Management is required to assess the functional currency of the Company and its subsidiaries. In concluding that the Canadian dollar is the functional currency of the Company, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company operates.

b. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as current working capital balance and future commitments of the Company.

c. Where the fair value of financial assets and liabilities recorded on the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. Where the fair value cannot be derived from transactions in active markets, they are determined using appropriate valuation techniques for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

d. Convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and equity components. The debentures consist of a financial liability which represents the obligation to pay coupon interest on the convertible debentures in the future, a freestanding equity classified share purchase warrant, and an equity component related to the ability to convert the debenture to common shares at the option of the holder.

   The identification of the components of convertible notes is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability and equity components may also be based on various assumptions including contractual future cash flows, discount rates, volatility, credit spread, and the presence of any derivative financial instruments.

   Management applied judgment in assessing the accounting treatment for the individual components of the senior secured convertible debentures and whether the warrants and conversion option qualify as an equity instrument, including whether the terms meet the fixed for fixed requirement.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the current and next fiscal financial years:

a. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

   Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. The Company has not recorded any deferred tax assets.

b. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

c. Property, plant and equipment is carried at cost less any accumulated depreciation and accumulated impairment losses. Depreciation is calculated using management’s best estimate on the useful life of the assets. Determination of impairment loss is subject to management’s assessment if there is any indication of a possible write-down; and if so, the determination of recoverable value based on discounted future cash flows.

3. MATERIAL ACCOUNTING POLICIES

The material accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the applicable years presented.

(a) Foreign currency translation

The financial statements for each of the Company's subsidiaries are prepared using their functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation and functional currency of the parent company is Canadian dollars. Assets and liabilities of foreign operations are translated into Canadian dollars at the balance sheet date. Operating results are translated at the average rates for the period. Exchange differences arising on the consolidation of the net assets of foreign operations are recorded in accumulated other comprehensive income.

Foreign currency transactions are translated into the functional currency using exchange rates at the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of profit & loss.

(b) Share-based payments

Share-based compensation to employees and others providing similar services are measured at the estimated fair value of the instruments issued on the grant date and expensed over the vesting periods. Share-based compensation to non-employees is measured at the fair value of the goods or services received or the fair value of the equity instruments issued if the fair value of the goods or services cannot be reliably measured and is recorded at the date the goods or services are received. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. Share-based payments are credited to contributed surplus.

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Any previously recorded share-based payment included as contributed surplus is transferred to share capital on exercise of options. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from issuance of units are allocated between common shares and warrants based on the residual method. Under this method, the proceeds are allocated first to share capital based on the fair value as determined by the quoted bid price of the common shares and any residual value is allocated to contributed surplus. Consideration received for the exercise of warrants is recorded in share capital, and any related amount recorded in contributed surplus is transferred to share capital. Charges for options or warrants that are cancelled or expire are reclassified from contributed surplus to deficit.

(c) Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation, and less any recognized impairment losses. The cost of additions, including costs to bring the asset to its location and condition necessary to operate in the manner intended, are capitalized. Each part of a component of property, plant and equipment with a cost that is significant in relation to the total cost of the component is depreciated separately. When the cost of replacing a portion of a component of property and equipment, the carrying amount of the replaced component is derecognized.

Depreciation of assets under construction commences when the assets are ready and being utilized for their intended use. The assets' residual values and useful lives are reviewed, and adjusted as appropriate, at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by adjusting the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Property, plant and equipment is recorded at cost and depreciated over its estimated useful life which has been determined as follows:

i. Machinery and equipment.. 3-20 years
ii. Furniture and office equipment.. 3-10 years
iii. Right of use assets.. Lease term

(d) Impairment

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.The Company's assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use ("VIU") and its fair value less costs to sell ("FVLCS").

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

(e) Income taxes

Deferred and current income tax is recognized using the liability method on temporary differences arising between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years. Deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect either accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates that have been enacted or substantively enacted as of the balance sheet date. Deferred income tax assets are recognized only to the extent that it is probable that future profit will be available against which such assets can be utilized.

(f) Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method whereby all in the money options and warrants are assumed to have been exercised at the beginning of the year and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period. In periods of loss basic and diluted loss per share are the same, as the effect of the exercise of outstanding options and warrants is anti-dilutive.

(g) Financial instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification of the Company's financial instruments under IFRS 9:

Financial assets/liabilities	Classification
Cash and cash equivalents	Amortized cost
Amounts receivable	Amortized cost
Investment	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Long term debt	Amortized cost
Convertible debentures	Amortized cost

Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss in the period in which they arise.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk of the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are recognized in the consolidated statements of loss.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments, such as guaranteed investment certificates with original maturities of three months or less. Guaranteed investment certificates are investments with Canadian banks that are the equivalent of a certificate of deposit.

(i) Convertible debentures

The debentures are a non-derivative financial instrument that creates a financial liability of the entity and grants an option to the holder of the instrument to convert it into common shares of the Company. The liability component is recorded at the fair value of a similar liability that does not have a conversion option. The debt was issued with a detachable warrant, therefore the Company considered the aggregate of the debt and warrants issued at fair value, and allocated the equity amounts between warrants and the conversion feature.

Total transaction costs directly attributable to the offerings are allocated proportionately to the liability and equity components of the debentures.

Subsequent to initial recognition, the liability component of the debentures is measured at amortized cost using the effective interest method and is accreted each period, such that the carrying value will equal the principal amount outstanding at maturity. The equity components are not re-measured. The carrying amounts of the liability and conversion feature of the debentures are reclassified to share capital on conversion to common shares. The carrying amount of the share purchase warrants, plus cash received upon exercise, is allocated to share capital on exercise of the share purchase warrants.

The debt contains an embedded prepayment feature, which is not closely related. The amount has been separated and accounted fro in a manner similar to a standalone interest rate derivative.

(j) Intangible assets

Internally-Generated Intangible Assets: Research and Development Expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

i. The technical feasibility of completing the intangible asset so that it will be available for use or sale;

ii. The intention to complete the intangible asset and use or sell it;

iii. The ability to use or sell the intangible asset;

iv. How the intangible asset will generate probable future economic benefits;

v. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

vi. The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally- generated intangible asset can be recognized, development expenditure is recognized in loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

As at December 31, 2023 and 2022, the Company has not recognized any internally-generated intangible assets.

(k) Leases

IFRS 16 Leases, introduced a single, on-balance sheet accounting model for leases, as a result, the Company, as a lessee, has recognized right of use assets representing its rights to use the underlying assets, and lease liabilities representing its obligation to make lease payments.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of use asset has been reduced to zero.

The Company presents right-of-use assets in 'Property, plant and equipment' and lease liabilities in 'Lease liability' in the statement of financial position.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of properties, equipment and vehicles that have a lease term of twelve months or less. The Company has elected not to recognize right-of-use assets and lease liabilities for low value leases that have initial values of less than $5,000. The Company recognizes the lease payments associated with these leases as an operating expense on a straight-line basis over the lease.

(l) Government assistance

Government assistance is recognized when there is reasonable assurance that the assistance will be received, and all related conditions are complied with. Government assistance received in respect of expenditures are credited to income, netted against the expense to which they relate. Government assistance in respect of long-term debt is credited to the carrying amount of the related liabilities and carried at amortized cost using the effective interest rate method.

(m) Inventory

Inventories are valued at the lower of cost and net realizable value. Costs are allocated to inventory using the weighted average cost method. The cost of work in progress inventory comprises of raw materials, direct labor, other direct costs and related overhead, allocated on the basis of normal operating capacity.

Net realizable value is based on the selling price of the finished product (in the ordinary course of business), less the estimated costs of completion and estimated costs to make a sale. A write-down is recognized if the carrying amount exceeds the net realizable value and may be reversed if the circumstances that caused it no longer exist.

(n) Revenue

The Company recognizes revenue in accordance with IFRS 15 when following criteria are met:

- Contract is identified. Contracts, and the approval of contracts, may be written, oral or implied by the Company's customary business practices.
- Performance obligation(s) are met. A performance obligation is a promise to a customer to transfer one of the following:
    - a good or service (or a bundle of goods or services) that is distinct
    - a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer
- Transaction price can be determined. The transaction price is the amount of consideration that the company expects to be entitled to in exchange for the promised goods or services to a customer.
- Allocation of the transaction price to each performance obligation. To allocate the transaction price to each performance obligation, the Company determines the stand-alone selling price at contract inception of each distinct good or service and allocates the transaction price proportionately. The stand-

alone selling price is the price at which the Company would sell a promised good or service separately to a customer.

- Recognize revenue when each obligation is satisfied through the transfer of control of promised goods or services to the Company's customers. Control transfers once a customer has the ability to direct the use of, and obtain substantially all of the benefits from the product. This includes physical possession, and customer acceptance. This may occur over time or at a single point in time.

Revenue from engineering services are recognized upon completion and delivery of promised goods and/or services and acceptance of said goods and services by a customer. In certain arrangements, the Company receives payment before the customer receives the promised good. These payments are initially recorded as unearned revenue, and recognized as revenue in the period when performance obligations are fully performed. The Company has chosen to take the practical expedient approach on disclosing remaining performance obligation on revenue contracts with outstanding performance obligations less than twelve months.

Revenue from the sale of products is measured based on the consideration specified in contracts with customers. The Company recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer.

The Company evaluates its arrangements with third parties to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by Exro having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Exro acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

Cost of sales include the cost of engineering labor hours including salaries, benefits and other expenses. Costs are accumulated as inventory and recognized against revenue once revenue is recognized.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New interpretations and amended standards adopted by the Company

The Company adopted the following IAS 12 - Income Taxes (“IAS 12”) related amendments during the period in accordance with applicable transitional provisions:

- The amendment related to recognition of deferred tax on particular transactions that, on inital recognition, give rise to equal amounts of taxable and deductible temporary differences, did not have a material impact on the Company’s consolidated financial statements. The amendment is effective for periods beginning on or after January 1, 2023; and
- On May 23, 2023, the International Accounting Standards Board published International Tax Reform - Pillar Two Model Rules, in response to the rules published by the Organization for Economic Co-operation and Development and introduced targeted disclosure requirements for affected entities. this amendment provides a temporary exception from the requirement to recognize and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two Model. This amendment was effective immediately; however, the Company does not currently operate in jurisdictions where related legislation is enacted or substantially enacted. As and when the legislation becomes enacted in applicable jurisdictions, the Company will utilize this exception.

Accounting standards issued but not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the current period and have not been early adopted as follows. The Company is reviewing the new standards but does not expect their future adoption to have a material impact on Exro in the current or future reporting periods.

(Expressed in Canadian dollars)

IAS 1 – Presentation of Financial Statements, has been amended to clarify how to classify debt and other liabilities as either current or non-current and how the entity has the right to defer settlement of a liability arising from a loan arrangement for at least twelve months after reporting period. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2024.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

	December 31, 2023	December 31, 2022
Engineering services revenue	5,736,140	2,185,448
Balance end of period	5,736,140	2,185,448

The Engineering services revenue during the period ended December 31, 2023 is driven by engineering consulting expertise provided on contracts with customers.

Unearned revenue

	December 31, 2023	December 31, 2022
Beginning of period	1,111,091	31,809
Recognized revenue during the period	(5,736,140)	(2,185,448)
Additional billed amounts during the period	4,625,049	3,264,730
Balance end of period	—	1,111,091

6. INVESTMENT

On February 9, 2021, the Company announced a collaboration agreement with SEA Electric Holdings Pty Ltd. ("SEA Electric"). As part of the agreement, Exro invested US$5,000,000 in SEA Electric by subscribing for 124,380 Series A Preferred Shares at a price of US$40.1995 per share. The shares are convertible into common shares of SEA at the option of Exro and automatically convert to common shares under certain conditions, including SEA completing a going public transaction.

As at December 31, 2023, the fair value of the Company's investments in SEA Electric was estimated to be $8,357,423 (US$6,301,091) compared to $10,800,960 at December 31, 2022 (US$7,960,320). On January 30, 2024 the Company announced a Plan of Arrangement and Merger with SEA Electric with an implied value of US$248 million (note 18). The fair value of the investment has been revalued based on the implied share price of US$50.66 per share, resulting in a loss on the investment of $2,200,747 (US$1,659,229) for the year ended December 31, 2023. The implied share price of US$50.66 was determined based on the agreed upon valuation of SEA shares as of January 29, 2024, which was used to calculate the exchange ratio from the 10-day VWAP for the 10 days prior to signing of the agreement. Significant judgement was used to determine that the value of SEA did not significantly change between December 31, 2023 and January 29, 2024 based on entity specific factors and market conditions, and therefore determined the merger value to approximate the share price at December 31, 2023.

Material uncertainty exists with respect to the fair value of the investment in SEA Electric and there is no guarantee the Company will realize the fair value associated with the investment.

(Expressed in Canadian dollars)

7. PROPERTY PLANT AND EQUIPMENT

	Right-of-use asset	Machinery and equipment	Furniture and office equipment	Assets under construction	Total
Cost					
Balance, December 31, 2021	$ 5,201,571	$ 1,015,669	$ 2,284,305	$ 7,895,265	$ 16,396,810
Additions	2,618,305	649,172	3,152,308	6,626,886	13,046,671
Transfers	—	1,757,149	—	(1,757,149)	—
Dispositions	—	(76,777)	(22,638)	—	(99,415)
Balance, December 31, 2022	$ 7,819,876	$ 3,345,213	$ 5,413,975	$ 12,765,002	$ 29,344,066
Additions	111,052	1,867,326	908,692	6,504,443	9,391,513
Transfers	—	10,815,365	2,918,563	(13,733,928)	—
Dispositions	—	—	(284,590)	(9,773)	(294,363)
Impact of foreign exchange	(72,099)	(51,621)	(53,096)	(30,074)	(206,890)
Balance, December 31, 2023	**$ 7,858,829**	**$ 15,976,283**	**$ 8,903,544**	**$ 5,495,670**	**$ 38,234,326**
Accumulated Depreciation					
Balance, December 31, 2021	$ 421,685	$ 202,883	$ 267,361	$ —	891,929
Depreciation	898,679	513,101	857,078	—	2,268,858
Dispositions	—	(17,533)	(15,613)	—	(33,146)
Balance, December 31, 2022	$ 1,320,364	$ 698,451	$ 1,108,826	$ —	$ 3,127,641
Depreciation	1,129,979	944,932	1,187,727	—	$ 3,262,638
Dispositions	—	—	(187,746)	—	$ (187,746)
Impact of foreign exchange	(20,575)	(15,345)	(11,985)	—	$ (47,905)
Balance, December 31, 2023	$ 2,429,768	$ 1,628,038	$ 2,096,822	$ —	$ 6,154,628
Carrying amounts					
At December 31, 2022	$ 6,499,512	$ 2,646,762	$ 4,305,149	$ 12,765,002	$ 26,216,425
At December 31, 2023	**$ 5,429,061**	**$ 14,348,245**	**$ 6,806,722**	**$ 5,495,670**	**$ 32,079,698**

The Company acquired leased assets, recorded under machinery and equipment, of $639,875 in the year. Depreciation of $106,646 was recorded against the leased assets.

8. INVENTORY

The components of inventory are as follows:

	December 31, 2023	December 31, 2022
Raw materials	6,665,963	1,509,809
Work in progress	—	665,083
Balance December 31, 2023	6,665,963	2,174,892

(Expressed in Canadian dollars)

Inventory is held at the lower of cost and net realizable value. The Company assesses its inventory valuation each period. For the year-ended December 31, 2023 the Company wrote-down inventory of $308,180 related to raw materials based on the estimated sales values, and recorded in other loss. Inventories recognized as an expense and included in 'cost of sales' in the consolidated statements of comprehensive loss during the years December 31, 2023 and December 31, 2022 amounted to $3,203,735 and $1,900,688.

9. LEASE LIABILITY

		December 31, 2023		December 31, 2022
Balance, beginning of period	$	7,291,037	$	5,136,743
Additions		556,057		2,526,084
Lease payments		(1,591,523)		(729,832)
Interest		604,800		358,042
Impact of foreign exchange		(56,923)		—
Balance, end of period	**$**	**6,803,448**	**$**	**7,291,037**
Consists of:				
Current lease liability	$	1,555,270	$	1,345,296
Non-current lease liability		5,248,178		5,945,741
Balance, end of period	**$**	**6,803,448**	**$**	**7,291,037**

The Company's lease liabilities relate primarily to leased facilities in which the Company conducts its business, including facilities for research and development activities, product manufacturing, and office space.

10. CONVERTIBLE DEBENTURES

On December 30 2022, the Company issued $15,000,000 principal amount of senior secured convertible debentures at a price of $1,000 per debenture ("the Unit"). Each Unit will consist of $1,000 principal amount senior secured convertible debenture and 416 common share purchase warrants of the Company. The debentures will mature and be repayable on December 31, 2027 and will accrue interest at the rate of 12% per annum payable semi annually in arrears on June 30 and December 31 of each year. Subject to applicable regulatory approvals and provided no Event of Default has occurred and is continuing, at the Company's option, the Interest may be paid in common shares of the Company at a price equal to the volume weighted average price of the Company's common shares on the Toronto Stock Exchange for the 5 days prior to the date such Interest is due.

At the holders' option, the debentures may be converted into common shares of the Company at any time and from time to time, up to the earlier of the maturity date and the date fixed for redemption of the debentures, at a conversion price of $2.40 per common share, subject to adjustment in certain circumstances.

The Company is entitled to redeem the debentures at 105% of the principal amount ("redemption price") thereof plus accrued and unpaid Interest at any time following December 31, 2024. At the option of the Company, the redemption price may be paid in cash or through the issuance of the Company's common shares at a price calculated based on the VWAP of the Company's common shares for the preceding five trading days.

(Expressed in Canadian dollars)

The convertible debenture represents a compound financial instrument. The table below highlights the allocation for each component of the convertible debenture as at December 31, 2022, and the changes in balances through to December 31, 2023:

	Number of convertible debentures	Liability component	Equity component	Equity warrant	Derivative asset
Balance at December 31, 2021	**—**	**$ —**	**$ —**	**$ —**	**$ —**
Issuance of convertible debentures	15,000	12,451,501	1,098,222	3,839,839	(2,389,562)
Issue costs		(949,295)	(103,612)	(362,270)	—
Balance at December 31, 2022	**15,000**	**$ 11,502,206**	**$ 994,610**	**$ 3,477,569**	**$ (2,389,562)**
Accretion		626,768	—	—	—
Change in fair value of derivative asset		—	—	—	1,172,216
Exercise	(50)	(39,898)	(3,315)	—	—
Balance at December 31, 2023	**14,950**	**12,089,076**	**991,295**	**3,477,569**	**(1,217,346)**

Liability Component

The liability component of the debentures was initially recognized at the fair value of a similar liability which does not contain and equity conversion option, based on an estimated market interest rate and a credit spread of 13.01%.

The fair value of the convertible debenture was calculated using a binomial lattice model with the following assumptions: annualized volatility of 73.00% based average equity volatility of comparable companies discounted for the impact on convertible debentures, and a credit spread of 13.01%.

Equity Warrant

The fair value of the equity classified warrants is calculated using a Monte Carlo simulation, using the assumptions described in note 11. The amount recorded is based on the proportional share of the face value of the instrument compared to the fair value of the convertible debenture.

Equity Component

The difference between the fair value of the financial liability, the equity classified warrant, and the face value of the instrument is allocated to the equity component of the convertible debentures.

Derivative asset

The amount has been separated and accounted for in a manner similar to a standalone interest rate derivative.

Total transaction costs directly attributable to the offerings were allocated proportionately to the liability and equity components of the debentures.

The Company settled interest owing at June 30, 2023 and December 31, 2023 through the issuance of 1,102,077 common shares at weighted average price of $1.63, for a total of $1,796,993.

During the year ended December 31, 2023, 50 debenture units were converted into 20,833 common shares.

11. SHARE CAPITAL

(a) Authorized common shares

There are an unlimited number of common shares without par value authorized for issue.

(b) Preferred shares

There are an unlimited number of preferred shares authorized for issue.

(c) Issued and outstanding

At December 31, 2023, the Company had 170,021,818 common shares issued and outstanding.

During the year ended December 31, 2023, the Company:

- On May 30, 2023 the Company issued 15,525,000 common shares at a price of $2.25 per common share for aggregate gross proceeds to the Company of $34,931,251.
- Issued 5,448,436 shares on the exercise of warrants for total proceeds of $7,701,540.
- Issued 973,790 shares on the exercise of options for total proceeds of $705,848.
- Issued 117,452 shares on the exercise of RSUs for nil proceeds.
- Issued 1,102,077 shares for the settlement of $1,796,993 of interest payments in connection with the Company's outstanding convertible debentures (note 10).
- Issued 20,833 shares on the conversion of convertible debentures.
- Issuance costs of $2,461,519 were incurred and offset against share capital.

During the year ended December 31, 2022, the Company:

- On September 1, 2022 the Company issued 7,920,000 units at a price of $1.05 for aggregate gross proceeds of $8,316,000 through public offering and issued an additional 1,403,756 units at a price of $1.05 per unit for aggregate gross proceeds of $1,473,944 through private offering on September 20, 2022. Each Unit consists of one common share of the Company (a "Share") and one share purchase warrant (a "Warrant"), with each Warrant exercisable to acquire one Share at a price of $1.36 per share for a period of 48 months following the issuance date of the Warrant (the "Closing Date"). If at any time after the Closing Date the closing price of the Shares on the Toronto Stock Exchange (the "TSX"), or such other stock exchange where the majority of the trading volume occurs, exceeds or is equal to $2.72 per Share (on a volume-weighted adjusted basis) for a period of twenty (20) consecutive trading days, the Company may, at its sole discretion, elect to accelerate the expiry date of the Warrants to the date that is 30 calendar days after the Company issues a press release announcing that it has exercised such acceleration right.
- On February 4, 2022 issued 12,722,450 units (the "units") at a price of $1.60 per unit (the "issue price") for aggregate gross proceeds of $20,355,920. The total number of Units sold in the offering includes 1,659,450 units issued pursuant to the exercise of an over allotment option granted to the Underwriters, which was fully exercised by the Underwriters. Each Unit consists of one common share in the capital of the Company, and one half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant is exercisable for one common share at a price of $2.00 per common share until February 4, 2025. In connection with the offering the underwriters were issued 750,847 broker warrants with an exercise price of $1.60 per unit, each entitling their holder to acquire one common share of the Company at the issue price for a period of 36 months following the closing of the offering.
- Issued 2,096,250 shares on exercise of warrants for total proceeds of $2,259,488.

(Expressed in Canadian dollars)

- Issued 1,786,500 shares on exercise of options for total proceeds of $517,155.

The Company's long-term incentive plan provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the TSX requirements, grant to directors, officers, employees and consultants of the Company, Restricted Share Units ("RSU"), Performance Share Units ("PSU"), Director Share Units ("DSU"), or Stock Options. The long-term incentive plan is a 10% rolling plan.

Under the long-term incentive plan, the maximum number of common shares that may be granted in favor of any single individual will not exceed 10% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be granted in favor of directors and senior officers under the long-term incentive is 10% of the issued and outstanding common shares at the date of grant.

During the periods ended December 31, 2023 and 2022 the Company recorded share-based payments of $4,583,201 and $3,398,600, respectively. For the period ended December 31, 2023, $666,737 of share-based payment expense was allocated to research and development (2022 - $793,128).

(d) Stock options

The fair values of share options granted were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	December 31, 2023	December 31, 2022
Risk-free interest rate	3.46%	2.84%
Estimated annualized volatility	94.43%	104.14%
Expected life	5 years	5 years
Expected dividend yield	0%	0%
Exercise price	$2.18	$1.35
Share price	$2.18	$1.35
Fair value	$1.60	$1.04

The vesting terms for the stock options granted during the period ended December 31, 2023 were as follows:

- 399,500 options vest 33% six months after grant, 33% twelve months after grant and the remaining eighteen months after grant.
- 1,600,000 options vest 33% one month after grant, 33% seven months after grant and the remaining thirteen months after grant.
- 119,500 options vested 20% on grant date, and 20% annually thereafter.
- 700,000 options vested immediately on grant.

Stock option transactions and the number of stock options outstanding are summarized below:

	Number	Weighted Average Exercise Price
Balance, December 31, 2022	9,629,531	$2.06
Granted	2,819,000	$2.18
Exercised	(973,790)	$0.72
Forfeited	(931,134)	$2.87
Balance, December 31, 2023	**10,543,607**	**$2.14**

(Expressed in Canadian dollars)

The weighted average share price (at the date of exercise) of options exercised during the period ended December 31, 2023 was $2.38.The following table summarizes information about the Company's share options outstanding as at December 31, 2023:

Date of Expiry	Exercise Price		Number of Options Outstanding	Number of Options Exercisable
February 14, 2024	$	0.41	100,000	100,000
September 13, 2024	$	0.25	1,900,000	1,900,000
March 9, 2025	$	0.38	201,667	201,667
August 31, 2025	$	1.00	941,050	941,050
October 13, 2025	$	3.15	1,500,000	1,500,000
January 13, 2026	$	3.93	326,500	326,500
April 6, 2026	$	4.77	1,010,000	1,010,000
June 28, 2026	$	3.93	320,000	320,000
September 20, 2026	$	2.96	505,000	505,000
November 22, 2026	$	3.75	50,000	50,000
April 12, 2027	$	1.47	592,100	592,100
September 2, 2027	$	1.05	190,550	122,380
November 17, 2027	$	1.44	200,000	200,000
March 10, 2028	$	2.51	383,490	127,215
May 31, 2028	$	2.12	1,508,750	497,889
July 4, 2028	$	2.15	814,500	722,900
Total			**10,543,607**	**9,116,701**

(e) Warrants

The fair value of broker and compensation warrants granted during the year-ended December 31, 2023 and December 31, 2022 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	December 31, 2023	December 31, 2022
Risk-free interest rate	n/a	3.17%
Estimated annualized volatility based on comparable companies	n/a	100.06%
Expected life	n/a	5 years
Expected dividend yield	n/a	0%
Exercise price	n/a	$2.31
Fair value	n/a	$1.49

On February 4, 2022 the Company issued 6,361,225 publicly traded warrants in connection with the closing of the bought deal financing. The fair value of the warrants was calculated using the trading price at the date of inception, and included in contributed surplus.

On September 1, 2022 the Company issued 7,920,000 warrants in connection with the closing of the public offering agreement and issued 1,403,757 warrants on September 20, 2022 in connection with the closing of the private offering agreement. The fair value of the warrants were calculated using the residual method on the day of close, and included in contributed surplus.

(Expressed in Canadian dollars)

On December 30, 2022 the Company issued 6,240,000 warrants in connection with the closing of its senior secured convertible debentures. The fair value of the warrants was determined using a Monte Carlo simulation assuming an annualized volatility of 73.00%.

Warrant transactions and the number of warrants outstanding are summarized below:

	Number	Weighted Average Exercise Price
Balance, December 31, 2022	21,803,719	$1.85
Exercised	(5,448,436)	$1.41
Balance, December 31, 2023	**16,355,283**	**$2.00**

The following table summarizes information about the Company's warrants outstanding as at December 31, 2023 and December 31, 2022:

Date of Expiry	Exercise Price	December 31, 2023	December 31, 2022
February 4, 2025	$2.00	6,191,225	6,361,225
February 4, 2025	$1.60	90,911	750,847
September 1, 2026	$1.36	3,029,390	7,047,890
September 20, 2026	$1.36	803,757	1,403,757
December 30, 2027	$2.40	6,240,000	6,240,000
Total		**16,355,283**	**21,803,719**

(f) Performance share units

PSU transactions and the number of units outstanding are summarized below:

	Number of Units
Balance, December 31, 2022	—
Granted	**800,000**
Forfeited	**(45,625)**
Balance, December 31, 2023	**754,375**

The Company issued 800,000 PSU's on May 31, 2023. The units vest subject to the Company meeting certain revenue targets. The Company, at its discretion, may settle the award value of vested PSU's in common shares or cash.

The following table summarizes information about the Company's PSU's outstanding as at December 31, 2023:

Date of Expiry	Number of Units Outstanding	Number of Units Exercisable
December 31, 2024	301,750	—
December 31, 2026	452,625	—
Total	754,375	—

(Expressed in Canadian dollars)

(g) Restricted share units

RSU transactions and the number of units outstanding are summarized below.

	Number of Units
Balance, December 31, 2022	—
Granted	362,262
Exercised	(117,452)
Balance, December 31, 2023	**244,810**

The Company issued 212,262 to it's directors on May 31, 2023 in accordance with its long-term incentive plan. On October 17, 2023 the Company issued 150,000 RSU's to its directors in accordance with its long-term incentive plan. RSU's were valued at their intrinsic value on the date of grant. The Company, at is discretion, may settle the award value of vested RSU's in common shares or cash.

The vesting terms for the RSU's granted during the period ended December 31, 2023 were as follows:

- 141,508 units vest 33% one month after grant, 33% seven months after grant and the remaining thirteen months after grant.
- 70,754 units vest 33% one month after grant, and the remainder vested on August 1, 2023.
- 150,000 units vest 33% six months after grant, 33% twelve months after grant, and the remaining eighteen months after grant.

Grant Date	Number of Units Outstanding	Number of Units Exercisable
May 31, 2023	94,810	—
October 17, 2023	150,000	—

(h) Loss per share

For the period ended December 31, 2023, 9,116,701 options, 16,355,283 warrants, and nil RSU's were exercisable and excluded from the calculation of diluted loss per share as the impact was anti-dilutive (December 31, 2022 - 7,588,441 options and 21,803,719 warrants were exercisable and excluded from the calculation). An additional 6,229,217 of shares issuable on the conversion of the debentures were excluded from the calculation of diluted loss per share for the period ended December 31, 2023.

Semi-annual interest payments on the convertible debentures (note 10) may be settled through the issuance of common shares at the Company's option. Such share issuance that may occur in future periods have been excluded from the calculation of diluted loss as the impact was anti-dilutive.

12. FINANCIAL INSTRUMENTS

(a) Fair value

At December 31, 2023 and December 31, 2022, the carrying values of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of those financial instruments. The Company measures its investment at fair value.

The Company uses a fair value hierarchy to reflect the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs that are not based on observable market data.

The fair value of the investments in private companies represents a level 3 instrument based on the change in observable inputs available as at December 31, 2023 (note 6).

(b) Financial risk management

The Company's activities potentially expose it to a variety of financial risks, including credit risk, liquidity risk, and market risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at December 31, 2023, the Company's exposure to credit risk is the carrying value of cash and balances on trades receivable. The maximum amount of the Company's credit risk exposure is the carrying amounts of cash and cash equivalents, accounts receivable and long-term investments. The Company attempts to mitigate such exposure to its cash by investing only in financial institutions with investment grade credit ratings or secured investments.

The Company's credit risk from its outstanding trade receivables is mitigated by dealing with credit-worthy counterparties in accordance with established credit approval practices. The carrying amount of the Company's receivables represents the maximum counterparty credit exposure.

The Company applies the simplified approach under IFRS 9 and has calculated expected credit losses ("ECLs") based on lifetime expected credit losses, taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has a limited number of counterparties in the period, as such no credit loss provision has been recorded.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments, including risks associated with reaching commercialization and achieving revenue. To secure the additional capital necessary to pursue its plans, the Company intends to raise additional funds through equity or debt financing (note 1).

As at December 31, 2023, the Company had cash of $6,241,176 and accounts payable and accrued liabilities of $8,629,951. As at December 31, 2023, the Company had $211,998 in accounts payable and accrued liabilities over 90 days.

The Company holds debentures, with a face value of $14,950,000 due on December 31, 2027. The debentures carry a coupon rate of 12% annually, resulting in interest payments due of $897,000 payable semi-annually. The Company has the option to settle the interest payments through share issuances in-lieu of cash.

Market risk

Market risk consists of currency risk, interest rate risk and other price risk. These are discussed further below.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate due to changes in foreign exchange rates. The Company has financial assets and financial liabilities denoted in US dollars, and Euros and is therefore exposed to exchange rate fluctuations. At December 31, 2023, the Company had the equivalent of $9,188,300 of net financial assets denominated in US dollars, $1,225,310 of net financial liabilities denominated in Euros, and $55,127 of net financial liabilities denominated in Great Britain Pounds.

Interest rate risk

Interest rate risk consists of two components:

i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

ii) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or currency risk.

The Company has exposure to other price risk through its investment in SEA Electric. Changes in the expected share price will impact the fair value of the investment in the Company. A US$1.00 change in the share price would result in a gain/loss of US$124,380.

13. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to ensure its ability to continue as a going concern in order to pursue the acquisition and development technology. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is largely dependent upon external financings to fund activities. In order to carry out planned development and pay for administrative costs, the Company will spend its existing working and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes to the Company's approach to capital management during the year ended December 31, 2023. The Company is not subject to externally imposed capital restrictions.

(Expressed in Canadian dollars)

14. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 23.0% to income before income taxes. The reasons for the differences are as follows:

	December 31, 2023	December 31, 2022
Net loss for the year	$ (50,623,170)	$ (40,024,912)
Statutory tax rate	23.0%	23.0%
Expected income tax recovery	(11,643,329)	(9,205,730)
Items not deductible for tax purposes	1,333,417	900,837
Deferred tax on share issue costs not recognized	(251,725)	(179,532)
Adjustments in respect of prior years	19,137	(1,478,673)
Change in unrecognized tax assets	10,542,500	9,963,098
Income tax recovery	$ —	$ —

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2023 and December 31, 2022 are presented below:

	December 31, 2023	December 31, 2022
Deferred tax Asset:		
Non-capital losses	$ 2,793,932	$ 2,491,984
Lease liability	1,619,347	1,724,011
Long-term debt	2,300	2,300
Total deferred tax asset	**$ 4,415,579**	**$ 4,218,295**
Deferred tax Liabilities:		
Property, plant, and equipment	3,256,738	2,362,357
Investment	220,839	501,846
Convertible debenture	938,002	1,354,092
Total deferred tax liabilities	**$ 4,415,579**	**$ 4,218,295**
Net deferred taxes assets and liabilities	**$ —**	**$ —**

The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

(Expressed in Canadian dollars)

		December 31, 2023		December 31, 2022
Non-capital losses	$	112,558,374	$	74,064,151
US deductible stock options		6,719,746		5,276,114
Share issue cost		5,238,410		4,962,500
SR&ED pool		9,511,043		4,667,821
ITC pool		1,936,607		755,931
Capital loss carry-forward		69,543		69,543
	$	**136,033,723**	**$**	**89,796,060**

The Company has incurred non-capital losses in Canada of approximately $100,439,073 for the year-ended December 31, 2023 (December 31, 2022 - $70,354,816) that may be carried forward and used to reduce taxable income which will expire in the years 2026 – 2043. The Company incurred additional non-capital losses in the United States of $24,266,831 for the year-ended December 31, 2023 (December 31, 2022 - $14,544,048) that may be carried forward indefinitely and applied against taxable income, but are subject to certain utilization restrictions.

15. ACCOUNTS RECEIVABLE

The following table summarizes the Company's components of accounts receivable:

		For the years ended December 31,		
		2023		2022
Trade receivable	$	875,019	$	965,084
Other receivables		3,358,653		—
	$	4,233,672	$	965,084

The Company entered into a Supply Chain Support Services Agreement with SEA Electric on November 15, 2023, whereby the Company made payments on behalf of SEA Electric and charged the amounts back including a 7% service fee. Amounts receivable of $2,935,699 from SEA Electric are included in other receivables of $3,358,653, and have been recorded in other income. Also included in other receivables is GST receivable.

16. RESEARCH AND DEVELOPMENT

Costs incurred for research and development activities include materials, supplies and software expenses in order to complete testing over the Company's products. Additionally, the Company allocates payroll and consulting fees, and share-based payment expenses to research and development based on the time attributable to related activities.

(Expressed in Canadian dollars)

The following table summarizes the Company's components of research and development expense:

	For the years ended December 31,			
		2023		2022
Research and development	$	6,109,953	$	3,378,064
Payroll and consulting fees		6,060,202		4,594,309
Share-based payments		666,737		793,128
	$	12,836,892	$	8,765,501

17. RELATED PARTY TRANSACTIONS

Key management compensation

Key management consists of the Officers and Directors who are responsible for planning, directing and controlling the activities of the Company. For the years ended December 31, 2022 and 2021, key management compensation, including compensation paid to companies that are controlled by the Officers and Directors, was as follows:

		December 31, 2023		December 31, 2022
Management and consulting fees	$	4,184,323	$	2,885,827
Share based compensation		3,534,082		1,239,268
	$	7,718,405	$	4,125,095

18. SUBSEQUENT EVENTS

Merger Agreement with SEA Electric Inc.

On January 30, 2024, Exro Technologies Inc. ("Exro" or "the Company") entered into a Merger Agreement with SEA Electric Inc. ("SEA Electric") for the acquisition of SEA Electric by Exro (the "Transaction").

Under the terms of the Merger Agreement, Exro will issue a combination of common shares (the "Exro Common Shares") and non-voting convertible preferred shares (the "Exro Convertible Shares") to SEA Electric stockholders. The total implied value issued to SEA Electric stockholders is approximately US$248 million ($332 million), excluding existing SEA Electric shares held by Exro. Additionally, Exro will assume approximately US$46 million ($62 million) in SEA Electric net debt as part of the Transaction.

Exro will account for the acquisition of SEA Electric using the acquisition method as prescribed by International Financial Reporting Standards (IFRS). Under this method, Exro will recognize the identifiable assets acquired, liabilities assumed, and any non-controlling interest at their fair values as of the acquisition date. Any excess of the consideration transferred over the net identifiable assets acquired will be recognized as goodwill.

The Transaction is expected to be completed on April 5, 2024, subject to customary closing conditions, including regulatory approvals and approval by Exro shareholders.

Upon completion of the Transaction, the Combined Company will continue to operate under the name Exro Technologies Inc. and trade on the Toronto Stock Exchange under the ticker symbol "EXRO".

The financial impact of this Transaction will be reflected in the Company's financial statements upon completion of the Transaction.

Financing Transaction

On February 16, 2024, Exro Technologies Inc. ("Exro" or "the Company") successfully closed its previously announced bought deal private placement offering (the "Offering") of subscription receipts ("Subscription Receipts"). Pursuant to the Offering, Exro issued a total of 31,600,000 Subscription Receipts at an offering price of $0.95 per Subscription Receipt, generating total gross proceeds of approximately $30 million.

The Offering was completed in connection with the Company's announcement on January 30, 2024, regarding its merger agreement with SEA Electric Inc. ("SEA Electric" or "SEA").

Each Subscription Receipt issued in the Offering will entitle the holder to receive, upon satisfaction of certain conditions, one common share of the Company ("Common Share") without payment of additional consideration. The net proceeds from the Offering will be held in escrow until the closing of the Transaction and are intended to support the business plan of the Combined Company, including production, capital expenditures, working capital requirements, and normal course corporate and operating needs.

The funds raised through the Financing Transaction will be utilized to partly finance the acquisition of SEA Electric, as well as to support the growth initiatives and working capital requirements of the Combined Company.