

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from _____ to _____

Commission file number: 001-40867

Volcon, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

84-4882689

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

2590 Oakmont Drive, Suite 520, Round Rock, TX

(Address of Principal Executive Offices)

78665

(Zip Code)

(512) 400-4271

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	VLCN	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The registrant had 24,345,922 shares of common stock outstanding at August 10, 2022.

TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
Item 1.	3
<u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021 (unaudited)</u>	3
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2022 and 2021 (unaudited)</u>	4
<u>Consolidated Statements of Stockholders Equity for the Six Months Ended June 30, 2022 and 2021 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2022 and 2021 (unaudited)</u>	7
<u>Notes to the Financial Statements (unaudited)</u>	9
Item 2.	26
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3.	33
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
Item 4.	33
<u>Controls and Procedures</u>	
<u>PART II — OTHER INFORMATION</u>	
Item 1.	34
<u>Legal Proceedings</u>	
Item 1A.	34
<u>Risk Factors</u>	
Item 2.	34
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
Item 3.	35
<u>Defaults Upon Senior Securities</u>	
Item 4.	35
<u>Mine Safety Disclosures</u>	
Item 5.	35
<u>Other Information</u>	
Item 6.	35
<u>Exhibits</u>	
<u>Signatures</u>	36

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VOLCON, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
ASSETS		
Current assets:		
Cash	\$ 4,720,750	\$ 5,572,199
Restricted cash	236,250	–
Accounts receivable	1,119,494	25,585
Inventory	2,533,317	2,209,015
Inventory deposits	926,251	1,981,397
Prepaid expenses and other current assets	1,318,407	1,092,860
Total current assets	<u>10,854,469</u>	<u>10,881,057</u>
Long term assets:		
Property and equipment, net	943,375	809,734
Intangible assets, net	8,719	18,053
Other long-term assets	274,823	732,810
Right of use assets - operating leases	800,843	2,182,612
Total assets	<u>\$ 12,882,229</u>	<u>\$ 14,624,265</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,357,879	\$ 1,454,103
Accrued liabilities	1,339,478	771,631
Accrued purchase commitments	1,199,524	1,506,976
Current portion of notes payable	17,920	17,201
Right of use operating lease liabilities, short term	301,146	456,207
Customer deposits	2,221	2,277,607
Total current liabilities	<u>4,218,168</u>	<u>6,483,725</u>
Notes payable, net of current portion	59,642	68,785
Right of use operating lease liabilities, long term	509,925	1,767,506
Total liabilities	<u>4,787,735</u>	<u>8,320,017</u>
COMMITMENTS AND CONTINGENCIES		
	–	–
Stockholders' equity:		
Preferred stock: \$0.00001 par value, 5,000,000 shares authorized, 2,900,000 shares designated no shares outstanding	–	–
Common stock: \$0.00001 par value, 100,000,000 shares authorized, 24,335,922 shares issued and outstanding as of		
June 30, 2022, 17,309,187 issued and outstanding as of December 31, 2021	197	128
Additional paid-in capital	68,132,627	47,803,643
Accumulated deficit	(60,038,330)	(41,499,522)
Total stockholders' equity	<u>8,094,494</u>	<u>6,304,249</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 12,882,229</u>	<u>\$ 14,624,265</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

VOLCON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022, AND 2021
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Revenue	\$ 2,367,853	\$ —	\$ 3,552,355	\$ —
Cost of goods sold	(6,009,327)	—	(9,537,042)	—
Gross margin	(3,641,474)	—	(5,984,687)	—
Operating expenses:				
Sales and marketing	1,645,907	466,307	2,660,813	814,388
Product development	2,102,709	3,007,655	4,598,421	4,562,526
General and administrative expenses	2,529,451	649,174	5,324,390	14,047,543
Total operating expenses	6,278,067	4,123,136	12,583,624	19,424,457
Loss from operations	(9,919,540)	(4,123,136)	(18,568,311)	(19,424,457)
Other income (expense)	(2,131)	442	38,986	(5,490)
Interest expense	(4,791)	(12,905)	(9,483)	(25,338)
Total other expense	(6,922)	(12,463)	29,503	(30,828)
Loss before provision for income taxes	(9,926,462)	(4,135,599)	(18,538,808)	(19,455,285)
Provision for income taxes	—	—	—	—
Net loss	\$ (9,926,462)	\$ (4,135,599)	\$ (18,538,808)	\$ (19,455,285)
Net loss per common share – basic	\$ (0.41)	\$ (2.00)	\$ (0.81)	\$ (9.59)
Net loss per common share – diluted	\$ (0.41)	\$ (2.00)	\$ (0.81)	\$ (9.59)
Weighted average common shares outstanding – basic	24,243,189	2,065,198	23,001,040	2,028,818
Weighted average common shares outstanding – diluted	24,243,189	2,065,198	23,001,040	2,028,818

The accompanying notes are an integral part of these unaudited consolidated financial statements.

VOLCON, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2021
(Unaudited)

	<u>Common Stock</u>		<u>Series A Preferred Stock</u>		<u>Series B Preferred Stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>			
Balance at January 1, 2021	1,937,500	\$ 8	–	\$ –	–	\$ –	232,550	\$ (1,374,413)	\$ (1,141,855)
Proceeds from WeFunder offering, net of issuance costs of \$53,500	–	–	–	–	–	–	2,205,440	–	2,205,440
Issuance of series A preferred stock, net of issuance costs of \$205,470	79,750	–	415,287	4	–	–	2,464,504	–	2,464,508
Conversion of WeFunder offering to series A preferred stock	–	–	351,832	4	–	–	(4)	–	–
Conversion of SAFE Liability to series A preferred stock	–	–	424,269	4	–	–	1,999,996	–	2,000,000
Issuance of series B preferred stock, net of issuance costs of \$890,026	123,296	–	–	–	1,105,827	11	9,615,320	–	9,615,331
Stock-based compensation	–	–	–	–	–	–	13,406,594	–	13,406,594
Net loss	–	–	–	–	–	–	–	(19,455,285)	(19,455,285)
Balance at June 30, 2021	<u>2,140,546</u>	<u>\$ 8</u>	<u>1,191,388</u>	<u>\$ 12</u>	<u>1,105,827</u>	<u>\$ 11</u>	<u>\$ 29,924,400</u>	<u>\$ (20,829,698)</u>	<u>\$ 9,094,733</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

VOLCON, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2022
(Unaudited)

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>			
Balance at January 1, 2022	17,309,187	\$ 128	\$ 47,803,643	\$ (41,499,522)	\$ 6,304,249
Issuance of common stock for public offering, net of issuance costs of \$1,910,883	6,666,667	67	18,089,117	–	18,089,184
Issuance of common stock for cashless exercise of warrants	83,552	–	–	–	–
Issuance of common stock for exercise of stock options and restricted options	234,769	2	39,998	–	40,000
Stock-based compensation	44,623	–	2,199,869	–	2,199,869
Forfeiture of performance shares	(2,876)	–	–	–	–
Net loss	–	–	–	(18,538,808)	(18,538,808)
Balance at June 30, 2022	<u>24,335,922</u>	<u>\$ 197</u>	<u>\$ 68,132,627</u>	<u>\$ (60,038,330)</u>	<u>\$ 8,094,494</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

VOLCON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND 2021
(Unaudited)

	June 30, 2022	June 30, 2021
Cash flow from operating activities:		
Net loss	\$ (18,538,808)	\$ (19,455,285)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	2,199,869	13,406,594
Loss on write down of inventory and inventory deposits	606,963	–
Loss on lease terminations	395,848	–
Loss on write off of property & equipment	79,712	145,000
Write off of intangible assets	6,427	–
Noncash interest expense	–	23,468
Amortization of right of use assets	257,647	131,019
Depreciation and amortization	306,756	63,855
Changes in operating assets and liabilities:		
Accounts receivable	(1,093,909)	(208,469)
Inventory	(1,971,245)	(860,554)
Inventory deposits	1,787,673	(1,671,830)
Prepaid assets and other current assets	(225,547)	(180,613)
Other assets	(9,453)	(602,253)
Accounts payable	(96,224)	573,632
Accrued liabilities	550,889	–
Right of use liabilities - operating leases	(199,966)	(121,933)
Customer deposits	(2,275,386)	480,353
Net cash provided by (used in) operating activities	(18,218,754)	(8,277,016)
Cash flow from investing activities:		
Purchase of property and equipment	(517,205)	(483,039)
Purchase of intangible assets	–	(38,754)
Net cash used by investing activities	(517,205)	(521,793)
Cash flow from financing activities:		
Repayment of notes payable	(8,424)	(5,457)
Proceeds from WeFunder offering, net of offering costs of \$53,500	–	2,205,440
Proceeds from issuance of Series A preferred stock, net of \$205,470 of issuance costs	–	2,464,508
Proceeds from issuance of Series B preferred stock, net of \$890,026 of issuance costs	–	9,615,331
Proceeds from issuance of common stock from public offering, net of issuance costs of \$1,910,803	18,089,184	–
Proceeds from exercise of stock options	40,000	–
Net cash provided by financing activities	18,120,760	14,279,822
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(615,199)	5,481,013
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	5,572,199	536,082
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$ 4,957,000	\$ 6,017,095

The accompanying notes are an integral part of these unaudited consolidated financial statements.

VOLCON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND 2021
(Unaudited)

	2022	2021
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 6,020	\$ –
Cash paid for income taxes	\$ –	\$ –
Non-cash transactions		
Recognition of initial right of use asset - operating lease	\$ 143,540	\$ 1,066,511
Acquisition of property and equipment with note payable	\$ –	\$ 30,942
Conversion of SAFE liability to Series A preferred stock	\$ –	\$ 2,000,000

The accompanying notes are an integral part of these unaudited consolidated financial statements.

VOLCON, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – ORGANIZATION, NATURE OF OPERATIONS AND GOING CONCERN

Organization and Nature of Operations

Volcon, Inc. (“Volcon” or the “Company”) was formed on February 21, 2020, as a Delaware corporation, under the name Frog ePowersports, Inc. The Company was renamed Volcon on October 1, 2020. Volcon is a developer and manufacturer of all-electric off road powersport vehicles.

On January 5, 2021, the Company created Volcon ePowersports, LLC, a Colorado wholly-owned subsidiary of the Company, to sell Volcon vehicles and accessories in the United States.

Going Concern

The accompanying interim consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has recurring losses and has generated negative cash flows from operations since inception and will need to obtain additional funding in 2022 to continue its operations. Due to these conditions, this raises substantial doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans or the sale of equity. The consolidated financial statements do not include any adjustments that may result should the Company be unable to continue as a going concern.

Impact of COVID-19

The outbreak of the 2019 novel coronavirus disease (“COVID-19”), which was declared a global pandemic by the World Health Organization on March 11, 2020, and the related responses by public health and governmental authorities to contain and combat its outbreak and spread, has severely impacted the U.S. and world economies. Economic recessions, including those brought on by the COVID-19 outbreak, may have a negative effect on the demand for the Company’s products and the Company’s operating results. The range of possible impacts on the Company’s business from the coronavirus pandemic could include: (i) changing demand for the Company’s products; (ii) potential disruption to the Company’s supply chain and distribution network; and (iii) disruption in the production of the Company’s vehicles due to employee illness or government regulations regarding social distancing and workplace requirements.

Impact of Russia and Ukraine Conflict

On February 24, 2022, Russia invaded Ukraine. The conflict between Russia and Ukraine could impact the availability of nickel, an element used in the production of lithium ion cells used in batteries that power our vehicles. The shortage of these cells could have an impact on our ability to produce vehicles to meet our customers’ demands. In addition, sanctions against Russia could impact the price of elements, including nickel, that are used in the production of batteries which would result in higher costs to produce our vehicles. These sanctions have also impacted the U.S. and global economy and could result in an economic recession which could cause a broader disruption to the Company’s supply chain and distribution network and customer demand for our products.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Unaudited Financial Information

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the Securities and Exchange Commission (“SEC”) on March 23, 2022. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP have been omitted from this report on Form 10-Q pursuant to the rules and regulations of the SEC.

Results for the interim periods in this report are not necessarily indicative of future financial results and have not been audited by our independent registered public accounting firm. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary to present fairly our interim consolidated financial statements as of June 30, 2022 and December 31, 2021, and for the three and six months ended June 30, 2022 and 2021. These adjustments are of a normal recurring nature and consistent with the adjustments recorded to prepare the annual audited consolidated financial statements as of December 31, 2021.

Basis of Presentation

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

Stock Dividend

On July 27, 2021, the board of directors approved a common stock dividend of 1.5 shares for each share of common stock. The Company has accounted for this as a stock split since all common stock shares, warrants, options and restricted stock unit amounts and common stock per share amounts have been adjusted for this stock dividend. All periods presented have been adjusted to reflect this stock dividend. As a result of the stock dividend, Series A and Series B preferred stock converted at a ratio of 2.5 common shares for each preferred share outstanding upon completion of the Company’s initial public offering completed in October 2021.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities as of the dates of the financial statements and the reported amounts of expenses during the reporting periods.

Making estimates requires management to exercise judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, actual results could differ significantly from those estimates.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include short-term investments with original maturities of 90 days or less at the date of purchase. The recorded value of our cash and cash equivalents approximates their fair value. Restricted cash includes cash equivalents restricted as collateral for the Company’s corporate credit cards with a bank. Cash and cash equivalents at June 30, 2022 is \$4,720,750 and restricted cash was \$236,250. There was no restricted cash as of December 31, 2021.

Revenue Recognition

For sales directly to consumers, revenue is recognized when the Company transfers control of the product to the customer and the 14-day acceptance period has expired, or earlier acceptance has been received from the customer. For sales to dealers or distributors revenue is recognized when transfer of control of the product is made as there is no acceptance period or right of return. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring control of vehicles, parts, and accessories. Consideration that is received in advance of the transfer of goods is recorded as customer deposits until delivery has occurred or the customer cancels their order and the consideration is returned to the customer. Sales and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. The Company's sales do not have a financing component.

Sales promotions and incentives. The Company provides for estimated sales promotions and incentives, which are recognized as a component of sales in measuring the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Examples of sales promotion and incentive programs include distributor fees, dealer co-op advertising and volume incentives. Sales promotions and incentives are estimated based on contractual requirements. The Company records these amounts as a liability in the balance sheet until they are ultimately paid. Adjustments to sales promotions and incentives accruals are made as actual usage becomes known to properly estimate the amounts necessary to generate consumer demand based on market conditions as of the balance sheet date.

Shipping and handling charges and costs. The Company records shipping and handling charged to the customer and related shipping costs as a component of cost of sales when control has transferred to the customer.

Product Warranties

The Company provides a one-year warranty on vehicles, and a two-year warranty on the battery pack. The Company accrues warranty reserves at the time revenue is recognized. Warranty reserves include the Company's best estimate of the projected cost to repair or to replace any items under warranty, based on actual warranty experience as it becomes available and other known factors that may impact the evaluation of historical data. The Company reviews its reserves quarterly to ensure that the accruals are adequate to meet expected future warranty obligations and will adjust estimates as needed. Factors that could have an impact on the warranty reserve include the following: changes in manufacturing quality, shifts in product mix, changes in warranty coverage periods, product recalls and changes in sales volume. Warranty expense is recorded as a component of cost of goods sold in the statement of operations and is recognized as a current liability.

Inventory and Inventory Deposits

The Company purchases parts and assembles the Grunt in a leased facility. Raw materials inventory costs include the cost of parts, including duties, tariffs and shipping. Work in process and finished goods include the cost of parts, labor and manufacturing overhead costs associated with the assembly of the vehicle. Finished goods also include accessories for the vehicle and branded merchandise such as hats and shirts.

Certain vendors require the Company to pay an upfront deposit before they will manufacture and ship our parts or accessories. These payments are classified as inventory deposits in the balance sheet until title and risk of loss transfers to the Company, at which time they are classified as inventory.

Inventories and inventory deposits are stated at the lower of cost (first-in, first-out method) or net realizable value.

Property and Equipment

Property and equipment are valued at cost. Additions are capitalized and maintenance and repairs are charged to expense as incurred. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Category	Estimated Useful Lives
Machinery, tooling and equipment	3-7 years
Vehicles	5 years
Internal use manufactured vehicles	1 year
Furniture & Fixtures	5 years
Computers	3 years

Leasehold improvements are depreciated over the shorter period of their estimated useful life or term of the lease.

Intangible Assets

Intangible assets include acquired domain names and software. Domain names are amortized over 15 years and software is amortized over the life of the shorter of the software term or three years.

Long-Lived Assets

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the historical carrying cost value of an asset may no longer be appropriate. The Company assesses recoverability of the asset by comparing the undiscounted future net cash flows expected to result from the asset to the carrying value. If the carrying value exceeds the undiscounted future net cash flows of the asset, an impairment loss is measured and recognized. An impairment loss is measured as the difference between the net book value and the fair value of the long-lived asset.

Leases

Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. The Company does not separate non-lease components from the lease components to which they relate, and instead accounts for each separate lease and non-lease component associated with that lease component as a single lease component.

ASC 842 defines initial direct costs as only the incremental costs of signing a lease. Initial direct costs related to leasing that are not incremental are expensed as general and administrative expenses in our statements of operations.

The Company's operating lease agreements primarily consist of leased real estate and are included within ROU assets – operating leases and ROU lease liabilities – operating leases on the balance sheets. The Company's lease agreements may include options to extend the lease, which are not included in minimum lease payments unless they are reasonably certain to be exercised at lease commencement. The Company's leases do not provide an implicit rate, the Company uses its estimated incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

Research and Development Expenses

The Company records research and development expenses in the period in which they are incurred as a component of product development expenses.

Income Taxes

Deferred taxes are determined utilizing the "asset and liability" method, whereby deferred tax asset and liability account balances are determined based on the differences between financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, when it's more likely than not that deferred tax assets will not be realized in the foreseeable future. Deferred tax liabilities and assets are classified as current or non-current based on the underlying asset or liability or if not directly related to an asset or liability based on the expected reversal dates of the specific temporary differences.

Fair Value of Financial Instruments

The Company discloses fair value measurements for financial and non-financial assets and liabilities measured at fair value. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets but are corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Stock-Based Compensation

The Company has a stock-based incentive award plan for employees, consultants and directors. The Company measures stock-based compensation at the estimated fair value on the grant date and recognizes the amortization of stock-based compensation expense on a straight-line basis over the requisite service period, or when it is probable criteria will be achieved for performance-based awards. Fair value is determined based on assumptions related to the fair value of the Company common stock, stock volatility and risk-free rate of return. The Company has elected to recognize forfeitures when realized.

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standard Board or other standard setting bodies that the Company adopts as of the specified effective date. The Company does not believe that the impact of recently issued standards that are not yet effective will have a material impact on the Company's financial position or results of operations upon adoption.

NOTE 3 – INVENTORY

Inventory consists of the following:

	June 30, 2022	December 31, 2021
Raw materials	\$ 1,973,524	\$ 1,822,306
Work in process	153,616	45,444
Finished goods	406,177	341,265
Total inventory	<u>\$ 2,533,317</u>	<u>\$ 2,209,015</u>

The Company has purchase commitments for future payments due for inventory where initial deposits were paid as of June 30, 2022. The total additional payments due subsequent to June 30, 2022 are \$1,986,296.

NOTE 4 – LONG – LIVED ASSETS***Property and Equipment***

Property and equipment consist of the following:

	June 30, 2022	December 31, 2021
Machinery, tooling and equipment	\$ 646,704	\$ 554,378
Vehicles	156,648	148,460
Internal use manufactured vehicles	244,231	73,500
Fixtures & furniture	67,996	75,935
Leasehold improvements	72,089	60,248
Computers	195,266	88,610
	<u>1,382,934</u>	<u>1,001,130</u>
Less: Accumulated depreciation	(439,559)	(191,397)
Total property and equipment	<u>\$ 943,375</u>	<u>\$ 809,734</u>

Depreciation expense for the three and six months ended June 30, 2022 was \$192,322 and \$303,849, respectively. Depreciation expense for the three and six months ended June 30, 2021 was \$47,527 and \$60,850, respectively.

Intangible Assets

Intangible assets consist of the following:

	June 30, 2022	December 31, 2021
Domain names	\$ 17,438	\$ 17,438
Software	—	13,125
	<u>17,438</u>	<u>30,563</u>
Less: Accumulated amortization	(8,719)	(12,510)
Total intangible assets	<u>\$ 8,719</u>	<u>\$ 18,053</u>

Amortization expense for the three and six months ended June 30, 2022 was \$1,453 and \$2,906, respectively. Amortization expense for the three and six months ended June 30, 2021 was \$1,275 and \$3,005, respectively.

NOTE 5 – NOTES PAYABLE

Notes Payable

In December 2020, the Company entered into a financing arrangement for \$75,702 with an interest rate of 8.64% for a vehicle. The Company will make monthly payments of \$1,211 over 72 months. In April 2021, the Company entered into a financing arrangement for \$30,942 with an interest rate of 7.64% for a vehicle. The Company will make monthly payments of \$753 over 48 months.

The following table provides the maturities of these notes payable as of June 30, 2022:

Remainder of 2022	\$	11,842
2023		23,685
2024		23,685
2025		17,664
2026		14,654
Total future payments		<u>91,530</u>
Less: Interest		<u>(13,968)</u>
Total notes payable		77,562
Less current portion		<u>(17,920)</u>
Long-term notes payable	<u>\$</u>	<u>59,642</u>

NOTE 6 – RELATED PARTY TRANSACTIONS

The Company subleased warehouse and office space on a month to month basis from a company owned by a consultant who was also the Company's former Chief Operating Officer and his spouse. Monthly rent was \$11,120 and the Company could cancel the lease with a 90-day cancellation notice. In May 2021, the consultant became a salaried employee of the Company, however, in December 2021, the employee resigned from the Company. As of December 31, 2021, the Company continued to rent the warehouse and office space under the same terms.

In January 2022, the Company executed a lease assignment with the ultimate landlord of this facility. The lease will expire on December 31, 2023 and the monthly lease payment is approximately \$9,800. The Company paid the former Chief Operating Officer \$15,317 to reimburse him for the security deposit on the lease of \$9,453 plus \$5,864 for leasehold improvements and equipment he installed in the facility. Total expense recognized to this related party for this lease for the three and six months ended June 30, 2022 was zero and \$11,120, respectively, and \$33,360 for the three and six months ended June 30, 2021. See further discussion of the termination of this lease effective September 2022 in Note 11 below.

In November 2020, the Company entered into an operating lease with an entity controlled by the Company's two founders for its future headquarters and production facility in Liberty Hill, Texas. The lease had a lease term of 5 years, and monthly payments ranging from approximately \$15,000 per month to \$17,000 per month over the lease term and gave the Company access to the land for use in testing its vehicles prior to the construction of any facilities. In February 2021, the Company entered into an amendment of the lease related to its future headquarters to expand the leased premises. The Company paid an additional security deposit of \$139,230 and additional prepaid rent of \$315,588. The total minimum lease payments under the amended lease totaled approximately \$3,930,170.

In October 2021, the Company began discussions for an additional amendment to the lease, in anticipation of manufacturing the Stag at this location, which would result in the monthly payment increasing to \$100,000 for the first year of the lease and increasing annually throughout the term of the lease to \$107,000 in the final year. Monthly payments for the initial lease and the amended agreement would begin at the time a certificate of occupancy is received by the landlord.

The Company evaluated the cost of this facility in relation to other lower cost options, including having a third-party manufacture the Stag, and determined that it would be in the best interest of the Company to terminate this agreement. On April 27, 2022, the Company informed the landlord that we would be terminating the lease. On May 27, 2022, the landlord notified the Company that the landlord would refund \$85,756 of the prepaid rent and security deposit balance of \$601,818 paid by the Company. This refund would be paid to the Company once the landlord has sold the land and the landlord will release the Company from any remaining obligations under the lease and amendment. The unrefunded portion of the prepaid rent and security deposit relates to some survey, architecture and construction design costs which were incurred by the landlord prior to the Company terminating the lease. The Company has recognized a loss on the termination of this lease of \$247,525 for the three and six month periods ended June 30, 2022.

Total amortization expense for the right of use asset recorded for the initial lease for the three and six months ended June 30, 2022 was \$12,342 and \$49,367, respectively, and for the three and six months ended June 30, 2021 was \$37,025 and \$74,051, respectively.

In June 2021, the Company entered into an agreement with a company controlled by the Company's Chairman and founding stockholder to lease office space for \$2,000 per month for a period of one year. Total expense recorded for this lease for the three and six months ended June 30, 2022 was \$6,000 and \$12,000, respectively. In May 2022 the Company informed the landlord that it will terminate this lease and the landlord has confirmed that the lease will terminate effective September 1, 2022.

On August 28, 2020, the Company entered into consulting agreements with Pink Possum, LLC (“Pink Possum”) an entity controlled by Mr. Okonsky, and Highbridge Consultants, LLC (“Highbridge”), an entity controlled by Mr. James, pursuant to which Messrs. Okonsky and James provide the Company with services. In consideration for entering into the consulting agreements, the Company issued the two entities ten-year warrants to purchase the Company’s common stock at an exercise price of \$0.004 per share. The number of shares of common stock issuable pursuant to the warrants was based on the number of shares of the Company’s common stock outstanding at the time of exercise and provided that Pink Possum and Highbridge would receive 18.75% and 25%, respectively, of the Company’s shares of common stock outstanding at the time of exercise on a fully diluted basis. On March 26, 2021 and March 25, 2021, respectively, Pink Possum and Highbridge entered into amendments to the consulting agreements agreeing to exchange the original warrants for new ten-year warrants to purchase 4,750,000 and 6,250,000 shares, respectively, of common stock at an exercise price of \$0.98. During the quarter ended March 31, 2021, the Company recognized compensation expenses of \$5.6 million and \$7.4 million for the warrants issued to Pink Possum and Highbridge, respectively. On December 20, 2021, Highbridge exercised all of its warrants on a cashless basis and the Company issued 5,507,575 shares of common stock to Highbridge.

In addition, pursuant to the consulting agreements, upon the occurrence of a Fundamental Transaction (as defined below) for an aggregate gross sales price of \$100.0 million or more, each entity will receive a cash payment equal to 1% of such gross sales price. For the purposes of the consulting agreements, “Fundamental Transaction” means any of the following: (i) a consolidation or merger involving the Company if the holders of the voting securities of the Company that are outstanding immediately prior to the consummation of such consolidation or merger do not, immediately after the consummation of such consolidation or merger, hold voting securities that collectively possess at least a majority of the voting power of all the outstanding securities of the surviving entity of such consolidation or merger or such surviving entity’s parent entity; (ii) a transfer or issuance (in a single transaction or series of related transactions) by one or more of the Company and its stockholders to one person or to any group of persons acting in concert, of shares of the Company’s capital stock then collectively possessing 50% or more of the voting power of all then outstanding shares of the Company’s capital stock (computed on an as-converted to common stock basis); or (iii) any sale, license, lease, assignment or other disposition of all or substantially all of the assets of the Company. Furthermore, commencing upon the completion of the Company’s initial public offering of the shares of our common stock, if the Company’s market capitalization exceeds \$300.0 million for a period of 21 consecutive trading days, each of the entities will receive an additional cash payment equal to \$15.0 million; provided that the Company will have the right, in its sole discretion, to make the foregoing \$15.0 million payment by the issuance of shares of the Company’s common stock. The foregoing amounts will be payable to the entities if the above milestones occur any time prior to the ten-year anniversary of original consulting agreements, or August 28, 2030.

Also see “*Note 7 -- Stockholders’ Equity*” for a further discussion of the warrants issued to Pink Possum and Highbridge.

NOTE 7 – STOCKHOLDERS’ EQUITY

The Company is authorized to issue up to 100,000,000 shares of common stock with a par value of \$0.00001. In addition, the Company is authorized to issue 5,000,000 shares of preferred stock with a par value of \$0.00001. The specific rights of the preferred stock, when so designated, shall be determined by the board of directors.

Common Stock

In October 2021, the Company completed its initial public offering and sold 3,226,875 shares of common stock for net proceeds of approximately \$15.9 million. Total issuance costs were \$2,949,882 including the issuance of fully vested warrants to purchase 162,594 shares of the Company’s common stock with a five year exercise term at an exercise price of \$6.88 per share to the underwriter of the initial public offering which were valued at \$981,871. Upon completion of the initial public offering all shares of preferred stock were converted to common stock. The total shares of common stock issued upon conversion of preferred stock were 5,743,175.

On February 1, 2022, the Company sold 6,666,667 shares of its common stock in a public offering at \$3.00 per share. The Company received net proceeds of \$18,089,184 after underwriter commissions and expenses of \$1,910,803. The underwriter was also issued a warrant to purchase 333,334 shares of the Company's common stock at an exercise price of \$3.75 per share that expires five years from the date of issuance.

The underwriting agreement provided the underwriter with the option to sell an additional 1,000,000 shares (the "Overallotment") which can be sold for up to 45 days subsequent to the completion of the offering at \$3.00 per share. The underwriter did not exercise the option for the Overallotment.

The Company's officers and directors agreed not to sell any shares for 90 days following this offering. The Company has agreed not to issue any shares for a period of twelve months following the offering, other than for the purposes of shares issued related to the 2021 Plan (as defined below) or for an acquisition or merger, without the consent of the underwriter.

SAFE Agreements

During the period ended December 31, 2020, the Company entered into SAFE agreements (Simple Agreement for Future Equity) with investors through an exchange for cash investments totaling \$2,000,000. Upon a future equity financing, the SAFE agreements would convert into the same securities in that equity financing at the lower of the price per share of the funding, or a price per share based on a \$5 million company valuation using a fully diluted common stock basis. The SAFE agreements had no interest rate or maturity date, and the SAFE investors had no voting right prior to conversion. The SAFE agreements were recorded as a liability of \$2,000,000 as of December 31, 2020. In January 2021, upon closing of the Series A Preferred Stock offering discussed below, the amount invested under these SAFE agreements were converted into 424,269 shares of Series A Preferred Stock.

In January 2021, the Company completed a WeFunder SAFE offering which was convertible into shares of the Company's preferred stock upon specified future financing events. The Company received gross proceeds of \$2,258,940 and paid expenses of \$53,500, reflected as costs of capital. In connection with the Series A Preferred Stock offering as discussed below, the WeFunder SAFE investments were converted into 351,832 shares of Series A Preferred Stock.

Preferred Stock

In 2021, the Company designated 1,400,000 shares of preferred stock as Series A Preferred Stock. The Series A Preferred Stock had a par value of \$0.0001, had no voting rights, no dividends and each share would automatically convert into 2.5 shares of common stock of the Company at the time of the Company's initial public offering. In February 2021, the Company completed an offering of 415,287 shares of Series A Preferred Stock and received gross proceeds of \$2,669,978. The Company paid expenses of \$205,470 related to the offering including issuing to one financial broker dealer 79,750 shares of common stock and 79,775 fully vested warrants with a 5 year exercise term to purchase common stock with an exercise price of \$2.57 valued at \$49,743.

In 2021, the Company designated 1,500,000 shares of preferred stock as Series B Preferred Stock, with a par value of \$0.00001 per share and a stated value of \$9.50 per share. The Series B Preferred Stock would receive dividends equivalent to any such dividends paid on common stock in the future, had no voting rights, and each share would automatically convert into 2.5 shares of common stock upon completion of the Company's initial public offering. As of March 31, 2021, the Company completed the sale of 457,688 shares of Series B Preferred Stock and received gross proceeds of \$4,347,495 and paid expenses of \$70,802. In May 2021, the Company completed the remaining sale of 648,139 shares of Series B Preferred Stock and received gross proceeds of \$6,157,842 for these shares and paid expenses of \$819,224. The Company issued 123,296 shares of common stock and 197,277 fully vested warrants to purchase common stock with a 5 year exercise term and an exercise price of \$3.80 valued at \$182,281 to two financial brokers who assisted the Company with this offering.

As noted above, the Series A and Series B Preferred Stock was converted to shares of common stock upon the closing of the Company's initial public offering in October 2021.

Warrants

During the year ended December 31, 2021, the Company issued fully vested warrants to purchase 150,000 shares of the Company's common stock to consultants with exercise prices ranging from \$0.245 - \$1.00 which expire 10 years from the date of issuance. The Company valued the warrants using an estimated fair value of the shares of common stock between \$0.76 – \$1.18, volatility of 105% based on peer companies, risk free interest rate of 0.85%, no dividends and an estimated life of 5 years. During the year ended December 31, 2021, certain warrant holders, including those from the Series A and Series B Preferred Stock offerings, exercised warrants representing 317,018 shares of common stock, primarily on a cashless basis, and the Company issued 236,220 shares of common stock as settlement for these warrants. Total proceeds received from warrant exercises occurring in the year ended December 31, 2021 was \$6,250.

Entities controlled by the Company's two founders, who were both directors and one of which was the Chairman of the Board at the time these agreements were entered into, each entered into an anti-dilution warrant with the Company. In the event of their ownership of the Company's fully diluted capitalization being less than 25% or 18.75%, each individual would have received common stock warrants with an exercise price of \$0.0041 to purchase sufficient shares to return them to those ownership percentages. The warrants were fully vested upon grant and have an exercise period of 10 years from the date of grant. As of December 31, 2020, no warrants were owed to the two founders. As discussed below, subsequent to December 31, 2020, the anti-dilution warrants were exchanged for a fixed number of warrants.

In March 2021, the Company agreed to exchange the two anti-dilution warrants that were issued to entities controlled by the Company's two founders for a total of 11,000,000 warrants to purchase shares of common stock at an exercise price of \$0.98 for a period of 10 years. In connection with this exchange, the Company amended its existing consulting agreements with the entities controlled by the founders, to allow for the payment of compensation totaling \$30,000,000 in the event that the Company's market capitalization exceeds \$300,000,000 for 21 consecutive trading days. The Company will have the option to settle the amount by issuing shares of common stock based on the closing price of the Company's stock at the start of the 21-day period. In addition to this payment, each of the entities controlled by the two founders will continue to receive a cash payment equal to 1% of the gross sale price in the event of a change of control of the Company with a sale price of at least \$100,000,000. In connection with the exchange, the Company recognized expense of \$13,031,989 for the estimated fair value of the warrants on a Black-Scholes option pricing model utilizing the following assumptions: 1) volatility of 106% based on a peer group of companies; 2) risk-free rate of 1.67%; 3) dividend rate of 0.0%; and 4) an expected term of 10 years. In December 2021, the entity controlled by one of the founders exercised its warrants on a cashless basis and the Company issued 5,507,575 shares of common stock. As of July 26, 2022, this founder is no longer on the board of directors but does hold board observer rights.

During three and six months ended June 30, 2022, the Company recognized expense of \$0 and \$7,302, respectively, and during the three and six months ended June 30, 2021, the Company recognized expense of \$24,965 and \$13,123,141, respectively, related to common stock warrants. No additional expense will be recognized in the future for any warrants outstanding as of June 30, 2022.

The following is the activity related to common stock warrants during the six months ended June 30, 2022:

	Common Stock Warrants			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life in years	Intrinsic Value
Outstanding at January 1, 2022	5,174,209	\$ 1.16		
Granted	333,334	3.75		
Canceled	–	–		
Expired	–	–		
Exercised	(83,760)	\$ 0.004		
Outstanding at June 30, 2022	5,423,783	\$ 1.33	8.28	\$ 4,258,768
Exercisable at June 30, 2022	5,423,783	\$ 1.33	8.28	\$ 4,258,768

NOTE 8 – STOCK-BASED COMPENSATION

In January 2021, the Company’s board of directors adopted the Volcon, Inc. 2021 Stock Plan, (the “2021 Plan”). The 2021 Plan is a stock-based compensation plan that provides for discretionary grants of stock options, stock awards, and restricted stock unit awards to employees, members of the board of directors and consultants (including restricted stock units issued prior to the adoption of the plan as further discussed below). The Company initially reserved a total of 3,000,000 shares of the Company’s common stock for issuance under the 2021 Plan. On July 26, 2022, the Company’s shareholders approved an increase of 4,000,000 shares of the Company’s common stock for issuance under the 2021 plan, which may be adjusted for changes in capitalization and certain corporate transactions. To the extent that an award, if forfeitable, expires, terminates or lapses, or an award is otherwise settled in cash without the delivery of shares of common stock to the participant, then any unpaid shares subject to the award will be available for future grant or issuance under the 2021 Plan. Shares available for issuance under the 2021 Plan as of June 30, 2022, were 260,105 shares. An amendment to the 2021 Plan that increased the available shares under the 2021 Plan by an additional 4,000,000 shares was approved by the Company’s shareholders on July 26, 2022. Awards vest according to each agreement and as long as the employee remains employed with the Company or the consultant continues to provide services in accordance with the terms of the agreement. The Company has granted awards with time-based vesting and performance-based vesting features.

Restricted Stock Units

The following is the restricted stock unit activity for the six months ended June 30, 2022:

Outstanding January 1, 2022	350,000
Granted	35,000
Vested	(185,000)
Canceled	(50,000)
Outstanding June 30, 2022	150,000

In January 2022, the Company modified the vesting terms of 100,000 RSUs that had vested as of December 31, 2021 to extend the vesting through May 15, 2022. The Company granted an additional 25,000 RSUs to the holders of these RSUs that vesting was extended and these additional RSUs will also vest as of May 15, 2022. The Company recorded additional expenses of \$213,987 and \$912,263 during the three and six months ended June 30, 2022, respectively, related to these modifications. The remaining 25,000 shares that were vested as of December 31, 2021 were issued in January 2022. In January 2022, the Company granted 10,000 RSUs that vested over 3 months (vesting began in December 2021), to a consultant.

During the three and six months ended June 30, 2022, the Company recognized expenses of \$249,222 and \$1,196,810 (including the amounts noted above), respectively, and for the three and six months ended June 30, 2021, \$100,088 and \$200,175, respectively, for RSUs. The Company expects to recognize additional compensation expenses of \$192,415 related to RSUs assuming all awards outstanding at June 30, 2022 will vest.

Performance Shares

In January 2021, the board of directors authorized 250,000 common shares to be reserved under the 2021 Plan for issuance to employees upon achieving multiple Company performance milestones. The allocation of the number of shares to be awarded was to be determined upon achievement of all the milestones. In July 2021, the Compensation Committee of the board of directors approved a grant of 162,507 shares since some of the performance milestones were met. The Company recognized share-based compensation expenses of \$594,775 related to the grant of these shares.

The remaining 87,493 shares not awarded in July 2021 were available for issuance to employees as of December 31, 2021 based upon achieving multiple Company performance milestones for the second half of 2021. On March 1, 2022, the Compensation Committee of the board of directors approved a grant of 44,623 shares for the achievement of some of the Company’s performance milestones, and the Company recognized share-based compensation expenses of \$82,050 related to the grant of these shares in the quarter ended March 31, 2022. Certain individuals whose employment terminated subsequent to December 31, 2021 forfeited their share grants totaling 2,876 shares and such shares are available for future issuance under the 2021 Plan.

Stock Options

The following summarizes activity relating to common stock options to employees and consultants for services during the six months ended June 30, 2022:

	Common Stock Options			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life in years	Intrinsic Value
Outstanding at January 1, 2022	1,964,045	\$ 3.33		
Granted	605,704	\$ 6.91		
Forfeited	(369,733)	\$ 3.63		
Exercised	(49,769)	\$ 1.00		
Outstanding at June 30, 2022	2,150,247	\$ 4.26		\$
Exercisable at June 30, 2022	278,333	\$ 1.00	8.91	\$ 233,800

The Company valued the options using an estimated fair value of the shares of common stock between \$0.98 – \$5.00, volatility between 71% - 105% based on peer companies, risk free interest rate between 0.77% - 0.85%, no dividends and an estimated life of 6 years. During the three and six months ended June 30, 2022, the Company recognized expenses of \$375,391 and \$995,667 respectively, and for the three and six months ended June 30, 2021 the Company recognized \$78,663 and \$83,278, respectively, related to common stock options. The Company expects to recognize additional compensation expenses of \$3,871,523 related to these common stock options assuming all awards vest.

Total stock-based compensation recorded for the three and six months ended June 30, 2022 and 2021 for all stock based compensation awards, including warrants, has been recorded as follows:

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Cost of Goods Sold	\$ 55,373	\$ –	\$ 277,879	\$ –
Sales and Marketing	188,529	5,130	461,856	52,856
Product Development	233,050	101,921	579,194	128,678
General and Administrative	147,662	96,665	880,850	13,225,060
Total	\$ 624,614	\$ 203,716	\$ 2,199,779	\$ 13,406,594

The amounts for the three months ended June 30, 2021 were incorrectly disclosed when previously reported but properly recorded in the financial statements. The amounts for the six months ended June 30, 2021 were properly recorded and disclosed and there is no error to the financial statements for the three and six months ended June 30, 2021 other than this disclosure.

	Three Months Ended June 30, 2021 (as previously reported)
Cost of Goods Sold	\$ –
Sales and Marketing	24,176
Product Development	50,307
General and Administrative	13,128,395
Total	\$ 13,202,878

NOTE 9 – LOSS PER COMMON SHARE

The basic net loss per common share is calculated by dividing the Company's net loss available to common shareholders by the weighted average number of common shares during the year. The diluted net loss per common share is calculated by dividing the Company's net loss available to common shareholders by the diluted weighted average number of common shares outstanding during the year. The diluted weighted average number of common shares outstanding is the basic weighted number of common shares adjusted for any potentially dilutive debt or equity. Common shares consisting of common stock warrants, stock options and restricted stock units totaling 7,724,030 shares as of June 30, 2022 were excluded from the calculation of diluted net loss per share due to their antidilutive effect. Common shares consisting of common stock warrants, stock options and restricted stock units totaling 13,289,237 and Series A and Series B preferred stock of 1,191,38 and 1,105,827, respectively, convertible into 5,743,036 shares of common stock as of June 30, 2021 and any potential shares issuable under the anti-dilution warrants discussed above were excluded from the calculation of diluted net loss per share due to their antidilutive effect.

	<u>Three months June 30, 2022</u>	<u>Three months June 30, 2021</u>	<u>Six months June 30, 2022</u>	<u>Six months June 30, 2021</u>
Numerator:				
Net loss	\$ (9,926,462)	\$ (4,135,599)	\$ (18,538,808)	\$ (19,455,285)
Denominator:				
Denominator for basic and diluted net loss per common share - weighted average of common shares	24,243,189	2,065,198	23,001,040	2,028,818
Basic and diluted net loss per common share	\$ (0.41)	\$ (2.00)	\$ (0.81)	\$ (9.59)

NOTE 10 – INCOME TAXES

Deferred taxes are determined by applying the provisions of enacted tax laws and rates for the jurisdictions in which the Company operates to the estimated future tax effects of the differences between the tax basis of assets and liabilities and their reported amounts in the Company's financial statements. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that the related tax benefits will not be realized.

Due to losses since inception and for all periods presented, no income tax benefit or expense has been recognized as a full valuation allowance has been established for any tax benefit that would have been recognized for the loss in any period presented.

Significant components of the Company's deferred tax assets and liabilities at June 30, 2022 and December 31, 2021 are as follows:

	June 30, 2022	December 31, 2021
Deferred tax assets		
Net operating losses	\$ 8,366,985	\$ 5,078,075
Depreciation and amortization	225,385	46,030
Research & development credit	592,276	592,276
Lease liability	170,325	466,980
Stock-based compensation	3,276,471	2,872,973
Accrued expenses	506,680	478,171
Other	2,226	336
Total	<u>13,140,348</u>	<u>9,534,840</u>
Valuation allowance	<u>(13,140,348)</u>	<u>(9,076,492)</u>
Net deferred tax asset	168,177	458,348
Deferred tax liabilities		
Right of use assets	<u>(168,177)</u>	<u>(458,348)</u>
Total net deferred taxes deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

Management currently believes that since the Company has a history of losses it is more likely than not that the deferred tax regarding the loss carry forwards and other temporary differences will not be realized in the foreseeable future. The Company believes that carryforward limitations will be applied to the historical net operating losses due to the recent change of control transition. The Company's cumulative net operating loss carry forward of approximately \$39,842,783 as of June 30, 2022, may be limited in future years depending on future taxable income in any given fiscal year. The net operating losses can be carried forward indefinitely.

The Company has recorded no liability for income taxes associated with unrecognized tax benefits at the date of adoption and has not recorded any liability associated with unrecognized tax benefits. Accordingly, the Company has not recorded any interest or penalty in regard to any unrecognized benefit.

NOTE 11 – LEASES

The components of lease cost for operating leases for the three and six months ended June 30, 2022 and 2021 were as follows:

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Lease Cost				
Operating lease cost	\$ 140,583	\$ 93,994	\$ 299,256	\$ 131,019
Short-term lease cost	90,782	55,438	131,380	88,248
Variable lease cost	-	-	-	-
Sublease income	-	-	-	-
Total lease cost	<u>\$ 231,365</u>	<u>\$ 149,432</u>	<u>\$ 430,636</u>	<u>\$ 219,267</u>

Supplemental cash flow information related to leases for the six months ended June 30, 2022, was as follows:

	June 30, 2022	June 30, 2021
Other Lease Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 199,966	\$ 149,432

The following table summarizes the lease-related assets and liabilities recorded on the balance sheet at June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
Lease Position		
Operating Leases		
Operating lease right-of-use assets	\$ 800,843	\$ 2,182,612
Right of use liabilities operating leases short term	301,146	456,207
Right of use liabilities operating leases long term	509,925	1,767,506
Total operating lease liabilities	<u>\$ 811,071</u>	<u>\$ 2,223,713</u>

The Company utilizes the incremental borrowing rate in determining the present value of lease payments unless the implicit rate is readily determinable. The Company recognized an initial right of use asset and lease liability of \$143,540 for leases entered into during the six months ended June 30, 2022.

Lease Term and Discount Rate

Weighted-average remaining lease term (years)	
Operating leases	3.3
Weighted-average discount rate	
Operating leases	5.5%

The following table provides the maturities of lease liabilities at June 30, 2022:

	Operating Leases
Remainder of 2022	\$ 117,172
2023	239,261
2024	168,010
2025	146,908
2026	99,880
Total future undiscounted lease payments	771,231
Less: Interest	(74,226)
Present value of lease liabilities	<u>\$ 697,005</u>

As discussed in Note 6 above, the Company terminated the lease, and related amendment, for a manufacturing facility and the above does not include any amounts related to that lease.

In addition, the Company closed its Denver, Colorado, store location (the Company's only store) in June 2022 and entered into a lease termination agreement in July 2022 to relieve the Company of its future obligations under the lease. The Company has recorded a loss of \$148,322 in the three and six months ended June 30, 2022 related to this facility which includes the write off of prepaid rent, security deposit, right of use asset and liability to and a loss on the writeoff of leasehold improvements and fixtures and furniture of \$46,289.

In July 2022, the Company entered into a new lease agreement for office space in Round Rock, Texas with the landlord of its current Round Rock facilities. The lease begins in August 2022 and terminates in August 2026. In connection with signing this lease, the landlord has agreed to terminate the lease on one of the current facilities that would have expired in December 2023. The additional monthly rent after consideration of the rent on the facility being canceled is not significant.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended as a review of significant factors affecting the Company's financial condition and results of operations for the periods indicated. This discussion and analysis should be read in conjunction with the financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K, which contains audited financial statements of the Company as of and for the year ended December 31, 2021, previously filed with the Securities and Exchange Commission. Results for the three and six months ended June 30, 2022 are not necessarily indicative of results for the year ending December 31, 2022 or any future period.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on form 10-Q, together with other statements and information publicly disseminated by the Company, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions.

In addition, from time to time, we or our representatives may make forward-looking statements orally or in writing. We base these forward-looking statements on our expectations and projections about future events, which we derive from the information currently available to us. Such forward-looking statements relate to future events or our future performance, including: our financial performance and projections; our growth in revenue and earnings; and our business prospects and opportunities. You can identify forward-looking statements by those that are not historical in nature, particularly those that use terminology such as "may," "should," "expects," "anticipates," "contemplates," "estimates," "believes," "plans," "projected," "predicts," "potential," or "hopes" or the negative of these or similar terms. In evaluating these forward-looking statements, you should consider various factors, including: our ability to change the direction of the Company; our ability to keep pace with new technology and changing market needs; our capital needs, and the competitive environment of our business. These and other factors may cause our actual results to differ materially from any forward-looking statement. Forward-looking statements are only predictions. The forward-looking events discussed in this document and other statements made from time to time by us or our representatives, may not occur, and actual events and results may differ materially and are subject to risks, uncertainties and assumptions about us. We are not obligated to publicly update or revise any forward-looking statement, whether as a result of uncertainties and assumptions, the forward-looking events discussed in this document and other statements made from time to time by us or our representatives might not occur.

While we believe we have identified material risks, these risks and uncertainties are not exhaustive. Other sections of this Form 10-Q describe additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this Form 10-Q to conform our prior statements to actual results or revised expectations, and we do not intend to do so.

Forward-looking statements include, but are not limited to, statements about:

- our ability to obtain additional funding to produce, market and sell our vehicles and develop new products;
- our ability to produce our vehicles with sufficient scale and quality to satisfy customers;
- anticipated timing for the design, production and launch of our vehicles;
- the inability of our suppliers to deliver the necessary components for our vehicles at prices and volumes acceptable to us;
- our ability to establish a network of dealers to sell and service our vehicles;
- our vehicles will perform as expected;
- our facing product warranty claims or product recalls;
- our facing adverse determinations in significant product liability claims;
- customer adoption of electric vehicles;
- the development of alternative technology that may adversely affects our business;
- the impact of COVID-19 on our business;
- increased government regulation of our industry;
- tariffs and currency exchange rates; and
- the conflict with Russia and the Ukraine and the potential adverse effect it may have on the availability of batteries for our vehicles.

Overview

We are an all-electric, off-road powersports vehicle company developing and manufacturing electric two and four-wheel motorcycles and utility terrain vehicles (“UTVs”), also known as side-by-sides. In October 2020, we launched our offerings with two off-road motorcycles – the Grunt and the Runt. We initially began taking orders on our website for these initial offerings and began delivering the Grunts in the third quarter of 2021. We terminated our direct-to-consumer sales platform as of November 24, 2021, and as of that date, U.S. customers made deposits for 360 Grunts (net of cancellations), plus accessories and a delivery fee representing total deposits of \$2.2 million. These orders are cancelable by the customer until the vehicle is delivered and after a 14-day acceptance period, therefore the deposits have been recorded as deferred revenue. As of June 30, 2022, we have shipped all direct to consumer orders and all revenue related to these sales has been recognized.

Beginning in November 2021, we began negotiating dealership agreements with retail partners to display and sell our vehicles and accessories. Customers will be able to buy our vehicles and accessories directly from a local dealership. Some of these retail partners will also provide warranty and repair services to our customers. Through June 30, 2022, we have entered into over 100 dealership agreements. We began shipping Grunts to dealers in May 2022.

We recognized revenues on 408 and 594 Grunts for the three and six months ended June 30, 2022, respectively.

We are assembling the Grunt in a leased production facility in Round Rock, Texas.

We are evaluating potential suppliers to manufacture the 2023 Runt, a smaller version of the Grunt, and as of June 30, 2022 we are completing the final design and manufacturing specifications. We expect to begin selling the Runt in the second quarter of 2023.

We are designing an upgraded Grunt, the 2023 Grunt EVO, that will have a belt drive rather than a chain drive, an upgraded rear suspension, including a new shock, a new seat and will be available in additional colors and have aftermarket accessory upgrades such as handlebars, grips, foot pegs and seats. We expect the Grunt EVO to be available beginning in the first quarter of 2023.

In the fourth quarter of 2022, we expect to begin selling the 2023 Volcon Brat E-Bike which will be manufactured by a third party.

In December 2021 we received the first prototype of the Volcon Stag LE, and we publicly introduced a prototype of the Stag LE on July 1, 2022. We expect to deliver the first Stag model to customers beginning in the first half of 2023. We expect the Stag LE to be followed by the introduction of other models of the Stag in 2024 and a higher performance, longer range UTV (to be named) which we expect to be available for sale in 2025.

We signed a lease for a dedicated, built-to-suit manufacturing facility on 53 acres in Liberty Hill, Texas, 25 miles northwest of downtown Austin from an entity controlled by our founders. An amendment to the lease that provided for additional tenant improvements and access to an additional 17 acres of land was proposed in October 2021.

The Company evaluated the cost of this facility in relation to other lower cost options and determined that it would be in the best interest of the Company to terminate this agreement. The Company notified the landlord on April 27, 2022 that it would be terminating the lease. On May 27, 2022, the landlord notified the Company that the landlord would refund \$85,756 of the prepaid rent and security deposit balance of \$601,818 paid by the Company. This refund will be paid to the Company once the landlord has sold the land and the landlord will release the Company from any remaining obligations under the lease and amendment. The unrefunded portion of the prepaid rent and security deposit relates to some of the survey, architecture and construction design costs which were incurred by the landlord prior to the Company terminating the lease.

We plan to sell our vehicles and accessories globally in a three-phase rollout of export sales—Latin America importers starting in 2022, Canada and Europe expected in 2022 and Australia expected in 2023, subject to homologation requirements of each country, if any. Export sales are executed through individual importers in each country that buy vehicles by the container. Each importer will sell vehicles to local dealers or directly to customers. Local dealers will provide warranty and repair services for vehicles purchased in their country. For the three and six months ended June 30, 2022, we recognized revenue on 63 and 70 Grunts shipped to Latin America importers, respectively.

Results of Operations

The following financial information is for the three months and six months ended June 30, 2022 and 2021.

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Revenue	\$ 2,367,853	\$ –	\$ 3,552,355	\$ –
Cost of goods sold	(6,009,327)	–	(9,537,042)	–
Gross margin	(3,641,474)	–	(5,984,687)	–
Operating expenses:				
Sales and marketing	1,645,907	466,307	2,660,813	814,388
Product development	2,102,709	3,007,655	4,598,421	4,562,526
General and administrative expenses	2,529,451	649,174	5,324,390	14,047,543
Total operating expenses	6,278,067	4,123,136	12,583,624	19,424,457
Loss from operations	(9,919,540)	(4,123,136)	(18,568,311)	(19,424,457)
Other income (expense)	(2,131)	442	38,986	(5,490)
Interest expense	(4,791)	(12,905)	(9,483)	(25,338)
Total other expense	(6,922)	(12,463)	29,503	(30,828)
Loss before provision for income taxes	(9,926,462)	(4,135,599)	(18,538,808)	(19,455,285)
Provision for income taxes	–	–	–	–
Net loss	<u>\$ (9,926,462)</u>	<u>\$ (4,135,599)</u>	<u>\$ (18,538,808)</u>	<u>\$ (19,455,285)</u>

Revenue

Revenue for the three and six months ended June 30, 2022, was \$2,367,853 and \$3,552,355 which represents sales of Grunts of \$2,270,924 and \$3,436,635; and accessories and parts of \$96,930 and \$115,720, respectively. There was no revenue for the three and six months ended June 30, 2021 as the Company was still developing the Grunt as of June 30, 2021.

Cost of Goods Sold

Cost of goods sold for the three months ended June 30, 2022 include labor costs of \$678,809 for employees and contractors performing assembly and quality control testing of Grunts and stock-based compensation of \$55,372 for share-based awards for employees. Part costs for Grunts sold during the period was \$4,106,542, which includes an adjustment of \$615,682 to reduce inventory to its net realizable value and other inventory adjustments of \$427,694. Facilities costs were \$167,639 for our manufacturing facility and inventory warehousing costs. Shipping costs and duties/tariffs for inventory purchases and shipments to customers were \$350,259.

Cost of goods sold for the six months ended June 30, 2022 include labor costs of \$1,363,971 for employees and contractors performing assembly and quality control testing of Grunts and stock-based compensation of \$278,450 for share-based awards for employees. Part costs for Grunts sold during the period was \$4,253,413. Facilities costs were \$327,306 for our manufacturing facility and inventory warehousing costs. Shipping costs and duties/tariffs for inventory purchases and shipments to customers were \$1,358,516.

There were no cost of goods sold for the three or six months ended June 30, 2021 as there were no production or sales in these periods.

In the next 6 to 9 months we could experience manufacturing delays due to shipping constraints in our supply chain. We expect cost of goods sold to increase as we sell higher quantities of Grunts and begin selling the Brat in the fourth quarter of 2022. We expect the cost per Grunt to decrease as we gain efficiencies in the manufacturing process and the cost of some parts are reduced as we source them from additional suppliers.

Sales and Marketing Expense

Sales and marketing expenses relate to costs to increase exposure and awareness for our products and developing our network of U.S. dealers and international distributors.

For the three months ended June 30, 2022 sales and marketing expenses were \$1,645,907 and includes \$525,766 for promoting our products and brand, \$468,880 for employee payroll costs, stock-based compensation expense of \$188,529 for share-based awards granted to employees and consultants, \$223,434 for facilities costs, primarily to operate our dealership in Denver, Colorado and travel costs of \$66,073 primarily related to costs incurred for travel to build our dealer network.

For the six months ended June 30, 2022 sales and marketing expenses were \$2,660,813 and includes \$662,246 for promoting our products, employee payroll costs of \$900,063, stock-based compensation of \$461,286 for share-based awards granted to employees and consultants, \$297,541 for facilities costs, primarily to operate our dealership in Denver, Colorado and travel costs of \$106,290 primarily related to costs incurred for travel to build our dealer network.

Sales and marketing expenses were \$466,307 and \$814,388 for the three and six months ended June 30, 2021, respectively. For the three months ended June 30, 2021, sales and marketing expenses were primarily related to professional fees of \$214,000, employee payroll costs of \$148,000, and stock-based compensation of \$29,000 for share based awards granted to employees. For the six months ended June 30, 2021, sales and marketing expenses were primarily related to professional fees of \$396,000, employee payroll costs of \$242,000, and stock-based compensation of \$76,000 for share based awards granted to employees and consultants.

We expect sales and marketing expenses to increase as we expand our U.S. dealer and international distributor networks and promote our products.

General and Administrative Expense

General and administrative expenses relate to costs for our finance, accounting and administrative functions to support the development, manufacturing and sales of our products.

For the three months ended June 30, 2022, general and administrative expenses were \$2,529,451 and were primarily related to expenses associated with employee payroll costs of \$692,565, stock-based compensation of \$152,364, professional fees of \$768,637, including legal fees of \$629,974 and recruiting fees of \$42,879, and insurance costs of \$289,338.

For the six months ended June 30, 2022, general and administrative expenses were \$5,324,390 and were primarily related to expenses associated with employee payroll costs of \$1,426,225, stock-based compensation of \$894,974, professional fees of \$1,567,128, including legal fees of \$1,118,806, tax and accounting fees of \$193,928, and recruiting fees of \$144,049, and insurance costs of \$746,157.

General and administrative expenses were \$649,174 and \$14,047,543 for the three and six months ended June 30, 2021, respectively. For the three months ended June 30, 2021, general and administrative expenses were primarily related to employee payroll costs of \$168,000, stock-based compensation of \$97,000 for share based awards granted to employees and consultants, and professional fees of \$353,000. For the six months ended June 30, 2021, general and administrative expenses were primarily related to employee payroll costs of \$252,000, stock-based compensation of \$13,225,000 (consisting of \$13.0 million due to warrants issued to our founders in March 2021 and \$225,000 due to share based awards granted to employees and consultants), and professional fees of \$496,000.

We expect general and administrative expenses to increase as we increase staffing to support sales, manufacturing, product development and to comply with public company reporting and compliance requirements.

Product Development Expense

Product development expenses relate to development of our products and process to manufacture these products.

For the three months ended June 30, 2022, product development expenses totaled \$2,102,709 and primarily relate to expenses associated with employee payroll costs of \$1,027,495, stock-based compensation of \$228,437 for share-based awards granted to employees and consultants, professional fees of \$55,182 for product design and \$0 for employee recruitment, prototype parts and tooling costs of \$96,451, facilities cost of \$48,110 and software fees, small equipment, tools and shop supplies of \$39,042.

For the six months ended June 30, 2022, product development expenses totaled \$4,598,421 and primarily related to expenses associated with employee payroll costs of \$1,877,885, stock-based compensation of \$565,159 for share-based awards granted to employees and consultants, professional fees of \$543,261 for product design and \$95,130 for employee recruitment, prototype parts and tooling costs of \$1,071,274, and facilities cost of \$130,241.

Product development expenses for the three months ended June 30, 2021 are primarily employee payroll costs of \$535,000, stock-based compensation of \$78,000 for share based awards granted to employees and consultants, professional fees of \$433,000 for product design, and prototype parts and tooling costs of \$1,576,000. Product development expenses for the six months ended June 30, 2021 are primarily employee payroll costs of \$743,000, stock-based compensation of \$105,000 for share based awards granted to employees and consultants, professional fees of \$642,000 for product design, and prototype parts and tooling costs \$2,489,000.

We expect product development costs to increase in the future as our product development activities expand for new vehicle models.

Interest and Other Expenses

Interest and other expenses for the three and six months ended June 30, 2022 and 2021 were not significant for either period.

Net Loss

Net loss for the three and six months ended June 30, 2022, was \$9,926,462 and \$18,538,808, respectively, compared to \$4,135,599 and \$19,455,285 for the three and six months ended June 30, 2021, respectively.

Liquidity and Capital Resources

On June 30, 2022, we had cash of \$4.9 million, including \$0.2 million of restricted cash, and we had working capital of \$6.6 million. Since inception we have funded our operations from proceeds from debt and equity sales.

Cash used in operating activities

Net cash used in operating activities was \$18.2 million for the six months ended June 30, 2022 and includes all of our operating costs except stock-based compensation, write down of inventory and prepaid inventory and depreciation and amortization. Cash used in operating activities includes increases in accounts receivable of \$1.2 million for sales made to dealers, an increase in inventory of \$0.9 million offset by a reduction in inventory deposits of \$1.1 million as we made fewer deposits based on the timing of inventory purchases domestically versus internationally to build Grunts for delivery to customers, a decrease of \$2.3 million as we recognized revenue for shipments to the remaining direct to consumer customers in the six months ended June 30, 2022, and an increase of \$0.3 million due to higher accrued liabilities due to the timing of invoices received from vendors and an increase in prepaid expenses of \$0.3 million.

Net cash used in operating activities was \$8.3 million for the six months ended June 30, 2021 and includes all of our operating costs except stock-based compensation, and depreciation and amortization. Cash used in operating activities include increases in inventory and prepaid inventory totaling \$2.5 million as we made payments and deposits to purchase raw materials to begin production of the Grunt in September 2021 for delivery to customers.

Cash used in investing activities

Net cash used in investing activities was \$0.5 million for the six months ended June 30, 2022, consisting of purchases of equipment and tooling related to our Grunt manufacturing and product development. Net cash used in investing activities was \$0.5 million for the six months ended June 30, 2021 and mainly included purchases of equipment and tooling related to our product development and certain intangible assets.

Cash provided by financing activities

Cash provided from financing activities for the period ended June 30, 2022, was \$18.1 million and was related to proceeds received from the public offering of our common stock in February 2022 where we sold 6,666,667 shares at \$3.00 per share.

Net cash provided by financing activities was \$14.3 million for the six months ended June 30, 2021. In January 2021, we completed a WeFunder SAFE offering which was convertible into preferred stock upon future financing events. We received gross proceeds of \$2.3 million and paid expenses of \$0.1 million. In February 2021, we completed an offering of our Series A preferred stock. We received gross proceeds of \$2.7 million and issued 415,287 shares of Series A preferred stock. We paid commissions and expenses of \$0.2 million and issued 79,750 shares of common stock and warrants to purchase 79,750 shares of common stock with an exercise price of \$2.57 to placement agents in connection with the offering. This equity financing resulted in the SAFE investments of \$2.0 million as of December 31, 2020, converting into 424,269 shares of Series A preferred stock and the WeFunder SAFE investments converting into 351,832 shares of Series A preferred stock. In March 2021, we sold 457,688 shares of Series B preferred stock at \$9.50 per share resulting in gross proceeds of \$4.2 million. We paid commissions and expenses of \$0.1 million.

Our continuation as a going concern is dependent upon our ability to obtain continued financial support from our stockholders, necessary equity financing to continue operations and the attainment of profitable operations. As of June 30, 2022, we had incurred an accumulated deficit of \$60 million since inception. Additionally, management anticipates that our cash on hand as of June 30, 2022, is insufficient to fund planned operations, including the development of our vehicles, beyond one year from the date of the issuance of the financial statements as of and for the six months ended June 30, 2022. These factors raise substantial doubt regarding our ability to continue as a going concern.

JOBS Act Accounting Election

The recently enacted JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We have implemented all new accounting pronouncements that are in effect and may impact our financial statements and we do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our financial position or results of operations.

Critical Accounting Policies

No critical accounting policies or estimates existed as of June 30, 2022.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the appropriate time periods, and that such information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. We, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were not effective as of June 30, 2022 to provide assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to management as appropriate, to allow timely decisions regarding disclosures. Notwithstanding this conclusion, we believe that our unaudited consolidated financial statements contained in this Quarterly Report fairly present our financial position, results of operations and cash flows for the periods covered thereby in all material respects. Management is working to identify corrective actions for the weakness and will periodically re-evaluate the need to add personnel and implement improved review procedures.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting during the six months ended June 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time in the ordinary course of our business, we may be involved in legal proceedings, the outcomes of which may not be determinable. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. We are not able to estimate an aggregate amount or range of reasonably possible losses for those legal matters for which losses are not probable and estimable. We have insurance policies covering potential losses where such coverage is cost effective.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 23, 2022 and our Form 10-Q for the quarter ended March 31, 2022 filed with the SEC on May 12, 2022, which is accessible on the SEC’s website at www.sec.gov except for the following:

We have determined that we will not proceed with completing a lease for a new facility from an entity controlled by our founders, and this arrangement was not conducted on an arm’s length basis. If we cannot find a suitable facility or an alternative option to have a third party assemble the Stag our business could be materially and adversely affected

We signed a lease for a dedicated, built-to-suit manufacturing facility on 53 acres in Liberty Hill, Texas from an entity controlled by our founders. In February 2021, we entered into an amendment of the lease to expand the leased premises. We paid an additional security deposit of \$139,230 and additional prepaid rent of \$315,588. The total minimum lease payments under the amended lease totaled approximately \$3,930,170. In October 2021 an amendment to the lease was proposed to increase the tenant improvement allowance and increase the land to approximately 70 acres. We evaluated the cost of this facility in relation to other lower cost options and determined that it would be in the best interest of the Company to terminate this agreement. On April 27, 2022, we informed the landlord that we would be terminating this lease.

On May 27, 2022, the landlord notified the Company that the landlord would refund \$85,756 of the prepaid rent and security deposit balance of \$601,818 paid by the Company. This refund would be paid to the Company once the landlord has sold the land and the landlord will release the Company from any remaining obligations under the lease and amendment. The unrefunded portion of the prepaid rent and security deposit relates to some survey, architecture and construction design costs which were incurred by the landlord prior to the Company terminating the lease. The Company has recognized a loss on the termination of this lease of \$247,525, for the three and six month periods ended June 30, 2022.

The Company is currently evaluating an option to have a third party manufacture the Stag in a third-party’s facility as well as evaluating other facilities to manufacture the Stag. If we cannot agree to terms with a third-party manufacturer or find a suitable facility to manufacture the Stag on commercially reasonable terms, our manufacturing capabilities may be impaired. If our manufacturing capabilities are impaired, we may not be able to manufacture and ship the Stag in a timely manner, which would adversely affect our business, results of operations or financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Volcon, Inc. (incorporated by reference to exhibit 3.1 of the Form 8-K filed October 8, 2021)
3.2	Amended and Restated Bylaws of Volcon, Inc. (incorporated by reference to exhibit 3.2 of the Form S-1 file number 333-259468)
4.1	Form of common stock (incorporated by reference to exhibit 4.1 of the Form S-1 file number 333-259468)
4.2	Form of Warrant issued to Pink Possum, LLC and Highbridge Consulting, LLC (incorporated by reference to exhibit 4.2 of the Form S-1 file number 333-259468)
4.3	Form of Underwriter Warrant (incorporated by reference to exhibit 4.3 of the Form S-1 file number 333-259468)
4.4	Form of Underwriter Warrant (incorporated by reference to exhibit 4.3 of the Form S-1 file number 333-262343)
10.1	Amendment to the Volcon, Inc. 2021 Stock Plan (as amended and restated) (incorporated by reference to exhibit 10.1 of the Form 8-K filed July 27, 2022)
10.2*†	Supply Agreement with General Motors LLC executed as of August 9, 2022 and effective as of August 3, 2022
10.3*	Supplier Agreement with GLV Ventures effective August 11, 2022
31.1*	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
31.2*	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
32.1*(1)	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*(1)	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in IXBRL, and included in exhibit 101).

* Filed herewith.

† Indicates management contract or compensatory plan, contract or arrangement.

(1) The certifications on Exhibit 32 hereto are deemed not “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VOLCON, INC.

SIGNATURE	TITLE	DATE
<u>/s/ Jordan Davis</u> Jordan Davis	Chief Executive Officer and Director (principal executive officer)	August 15, 2022
<u>/s/ Greg Endo</u> Greg Endo	Chief Financial Officer (principal financial and accounting officer)	August 15, 2022

*Certain portions of this exhibit have been omitted pursuant to Rule 601(b)(10) of Regulation S-K. The omitted information is (i) not material and (ii) the type that the registrant treats as private or confidential. Information that has been omitted has been noted in this document with a placeholder identified by the mark “[***]”.*

SUPPLY AGREEMENT

THIS SUPPLY AGREEMENT (“**Agreement**”) is made and entered into as of August 3, 2022 between Volcon, Inc., a Delaware Corporation, with registered office in 2590 Oakmont Drive, Suite 520 Round Rock, TX (“**Buyer**”), and **General Motors LLC**, a Delaware limited liability company (“**Seller**”), each of Buyer and Seller referred to individually as a “**Party**,” and collectively as the “**Parties**”.

PREMISE

- A. Seller is engaged in the business of, among other things, designing, developing, manufacturing, assembling, marketing and selling electrification systems and other electrification products such as drive units and related components, parts and/or accessories;
- B. Buyer is engaged in the business of, among other things, off-highway applications of electrification systems; and
- C. Buyer desires to purchase from Seller, and Seller desires to manufacture and sell to Buyer, Products for use in Buyer’s applications.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the Parties agree as follows:

AGREEMENT

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

“**Affiliate**” of a Party means a Person directly or indirectly controlling or controlled by or under direct common control with the Party. For purpose of this definition, “control” means the direct or indirect ownership of at least twenty percent (20%) of the voting rights (or their equivalent) of an entity or the rights to exercise management control.

“**Agreement**” means this Supply Agreement together with its Exhibits and any Amendments thereto.

“**Confidential Information**” has the meaning set forth in Article 17.

“**End Customer**” means: (1) the owner, operator or purchaser of a Modified Vehicle; or (2) any company or organization that purchases a Product from Buyer.

“**Field Action**” means any recall, quality improvement, or service campaign to address a quality issue that is systemic or common to a substantial number of Products.

“**Field Issue**” means a systemic Product quality issue that may result in a Field Action.

“**Incoterms**” means the Incoterms published by the International Chamber of Commerce, 2020 Edition.

“**Intellectual Property**” means any letters patent, patented articles, patent applications, designs, industrial designs, copyrights and copyrightable works, inventions whether or not capable of protection by patent or registration, techniques, technical data and know-how, whether registered or unregistered and including applications, registrations and renewals in connection thereunder for the grant of any such assets or rights of the foregoing descriptions and all rights or forms of protection having equivalent or similar effect.

“**Modified Vehicle**” means a vehicle in which a Product is, or will be, installed.

“**NOC Process**” is as defined in Section 9.2.

“**Party**” or “**Parties**” means individually or collectively the Seller and/or Buyer.

“**Person**” means an individual, corporation, limited liability company, partnership, limited partnership, syndicate, person, trust, association, or entity; or government, political subdivision, agency, or instrumentality of a government.

“**Pricing Package**” means the document issued by Seller from time to time and prepared for Buyer that sets forth pricing, forecast, shipping, payment, etc. requirements applicable to the Products (defined below) to be purchased by Buyer, and to be attached hereto as **Exhibit 2.2**, which pricing shall be subject to **Exhibit 7.1**.

“**Product**” or “**Products**” means the electrification systems as described in **Exhibit 2.1**, as may be changed from time to time according to the NOC Process (see definition below).

“**REACH**” (Registration, Evaluation, Authorisation and restriction of Chemicals) is a regulation of the European Union, adopted to improve the protection the environment from the risks that can be posed by chemicals, while enhancing the competitiveness of the EU chemicals industry.

“**Service Parts**” means the components or parts that Buyer may purchase from time to time for the purpose of servicing or repairing the Products.

1.2 Interpretations

In this Agreement, except to the extent that the context otherwise requires:

- (a) when a reference is made in this Agreement to a Section or Exhibit, such reference is to a Section of, or an Exhibit to, this Agreement unless otherwise indicated;
- (b) the table of contents and headings for this Agreement are for reference purposes only and do not affect in any way the meaning or interpretation of this Agreement;
- (c) whenever the words “include”, “includes” or “including” are used in this Agreement, they are deemed to be followed by the words “without limitation”;
- (d) the words “hereof”, “herein” and “hereunder” and words of similar import, when used in this Agreement, refer to this Agreement as a whole and not to any particular provision of this Agreement;
- (e) all terms defined in this Agreement have the defined meanings when used in any certificate or other document made or delivered pursuant hereto, unless otherwise defined therein;
- (f) the definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms;

- (g) any law defined or referred to herein or in any Agreement or instrument that is referred to herein means such Law or statute as from time to time amended, modified, or supplemented, including by succession of comparable successor Laws;
- (h) references to a Person are also to its permitted successors and assigns; and
- (i) the use of “or” is not intended to be exclusive unless expressly indicated otherwise.

2. SUPPLY AND PURCHASE

- 2.1 Seller agrees to sell Parts to Buyer for distribution in accordance with the information provided in the Questionnaire attached as **Exhibit 1**. Buyer understands that this Agreement is limited to the purchase of Products approved by Seller and for the types of customers and applications authorized by Seller as set forth in **Exhibit 2**, as may be modified from time to time with approval of Seller. To seek preapproval, Buyer shall provide Seller with a completed Questionnaire, included as **Exhibit 1**, for review. Following submission, Seller will review the Questionnaire, and, if approved, add the third party/use case to **Exhibit 2**. Sales of Products not approved by Seller, or sale of Products to customer not authorized by Seller, shall allow Seller, in its sole discretion, to immediately terminate this Agreement.
- 2.2 During the term of this Agreement and subject to its terms and conditions, Seller will sell to Buyer the Products as described in **Exhibit 2.1**, as may be amended from time-to-time, only for use in off-highway electrification applications.
- 2.3 The operational and communication requirements between the Parties for the supply and purchase of the Products will be set forth in each Pricing Package, each of which will become part of this Agreement. Model Year 2022 Pricing Package is attached hereto as **Exhibit 2.2**. Each Pricing Package is fixed for the applicable model year and shall govern until the Pricing Package for the following model year becomes effective.
- 2.4 No later than (6) six months prior to the start of production of each model year, Buyer will provide Seller an estimated, non-binding forecast for the upcoming and remaining model years under this Agreement. Buyer will provide Seller forecast updates in accordance with the Pricing Package.
- 2.5 It is anticipated that the annual volume of Products to be supplied and purchased under this Contract will not exceed the units per year indicated in the **Exhibit 2.3**. Should Purchaser request to purchase units in addition to quantity per year indicated in the **Exhibit 2.3**, the Parties will separately discuss potential capacity increases.
- 2.6 All Freight Cost is incurred by the customer. The customer selects the mode of transportation (truck carrier of choice or Federal Express). GM has the capability to expedite at the customer expense.
- 2.7 The Products will meet the specifications as attached in **Exhibit 2.1**.
- 2.8 Buyer will be responsible for the integration of Products into the off-highway electrification applications; and Seller will have no responsibility or liability with respect to the integration of the Products into the off-highway electrification applications.
- 2.9 Buyer will provide Seller with the connectivity/telematic information set forth in **Exhibit 2.1** to monitor the performance of the Products.
- 2.10 Seller reserves the right, in its sole discretion, to cancel production of the Products to be supplied to Buyer under this Agreement based on market conditions. Seller will provide Buyer reasonably advanced notice of a planned production cancellation. Such notice will be made, in writing, no later than six (6) months prior to planned production cancellation.

- 2.11 The Parties will execute an amendment to this Agreement with each specific anticipated use case Buyer intends for Connected Products. In advance of the Amendment, the Parties agree to the Product principles and data collection requirements set forth in **Exhibit 2.10**, to be articulated in more detail in each use case amendment. “**Connected Product**” means any Product that may connect to, communicate with and transmit data to other systems (including Seller’s hardware and software systems).

3. MANUFACTURE

- 3.1 The Products will be manufactured using Seller’s manufacturing system, validation requirements, and quality systems. Notwithstanding the foregoing, any obligations with respect to quality, disruption of supply, and damages will be in accordance with the specific terms of this Agreement.
- 3.2 Seller will perform quality control of Products in accordance with its currently established quality control procedures. The Parties will work together on details surrounding quality assurance aimed at improving overall quality.
- 3.3 Seller will be solely responsible for determining manufacturing location and providing the floor space, equipment, personnel, and working capital required to manufacture the Products. In case of a planned change of the manufacturing location Seller will provide Buyer reasonably advanced notice and execution thereof will be managed through the NOC Process.
- 3.4 Seller may, upon reasonable notice to Buyer, subcontract its manufacturing and assembly requirements for the Products. Seller will remain responsible for its obligations under this Agreement.
- 3.5 Unless otherwise agreed in writing, Buyer will not become the owner of any production equipment or tooling used in the manufacture of the Products.

4. AFTERSALES

If applicable, the purchase of Service Parts and Customer Care and Aftersales (“CCA”) engineering services shall be governed by a separate Aftersales Supply/ Service Agreement between the Parties and/or their Affiliates.

5. FORECAST AND ORDERING PROCEDURE

- 5.1 The Parties will follow the forecast and ordering requirements for the Products, as set forth in each Pricing Package.
- 5.2 Buyer and Seller’s manufacturing facility sourcing the Products will establish respective single points of contact for scheduling communication and coordination of the Products.
- 5.3 Seller and Buyer will use manual or electronic Purchase Orders to communicate with respect to the Products, including ship-based schedules, order forecast information and shipping notification (unless alternative process as agreed by the Parties is in place).
- 5.4 No pre-printed or standardized terms and conditions of purchase or sale used by Buyer or Seller will be applicable, unless specifically and expressly agreed to in writing by the Parties with a specific reference to this Agreement and the Parties’ intent to modify this Agreement. In case of any conflict between the terms of a purchase order and the terms of this Agreement, the terms of this Agreement will prevail.

6. TITLE AND RISK OF LOSS; LABELING, PACKAGING AND DELIVERY/SHIPPING

- 6.1 Except as provided herein or otherwise agreed in writing, all deliveries under this Agreement will be FCA (as defined in Incoterms 2020 as published by the International Chamber of Commerce) Seller’s manufacturing location. Title to the Products will pass to Buyer and responsibility of Seller for loss or damage to the Products will cease upon FCA delivery.

- 6.2 Seller will prepare packing specifications for the Products. Such packing will be suitable for transportation, loading and unloading so as to prevent the Products from rust condition and damage for delivery to Seller. Seller will be the owner of all packaging (including returnable racks and containers) unless otherwise agreed by the Parties.
- 6.3 Periodically Buyer and Seller will cooperate to schedule and implement an inventory of all containers. Buyer is responsible for any damage or loss related to packaging incurred while the packaging is in the possession of the Buyer or its carrier or any of its other service providers.
- 6.4 If returnable racks and containers are used, Buyer is responsible for all freight and any other costs to return racks, and containers to the location Seller delivered them to the Buyer and to manage the returned racks and containers of Seller consistent with Seller's schedules for production of the Products.
- 6.5 The Party responsible for returnable rack and container procurement will be responsible for repair and replacement of damaged or lost containers and racks; however, the responsible Party will be reimbursed by the other Party when the damage or loss occurred when in the possession or control of such other Party or any of its service providers. Buyer will bear any cost of maintaining the racks and containers in good condition.
- 6.6 If Buyer cannot return the containers or racks to Seller within a reasonable time period after shipment of the Products, Buyer will notify Seller of such delay, the cause and corrective actions, and the estimated date of return, and will be responsible for any related costs, including, but not limited to, storage fee, incurred by Seller due to the delay.
- 6.7 Labeling of containers will be in accordance with GM 1724 Shipping & Parts Identification Standard (A, B, C), such standard being available on GM Supply Power, unless otherwise agreed upon by the Parties. Any unique labeling requirements driven by local regulations must be followed after review by the Parties. If the local regulations requiring unique labeling are a result of requirements attributable solely to Buyer, Buyer will be responsible for all related costs to provide labels that deviate from, or in addition to, the GM Standard. Otherwise, the costs of any unique labeling will be borne equally by both Parties.
- 6.8 Labeling of product (for example engraving or bar code identification or emission parts type number identification for certification) will be in accordance with the GM 1738 Global Transport Label Standard unless otherwise agreed by the Parties. The Parties will agree on the best method for implementing any unique labeling requirements. If the local regulations requiring unique labeling are a result of requirements attributable solely to Buyer, then any additional costs will be met at Buyer's expense and will be agreed by the Parties. Otherwise, the costs of any unique labeling will be borne equally by both Parties.

7. PRICING

- 7.1 Buyer will pay the Product prices specified in **Exhibit 7.1**. The Parties agree that the prices set forth in **Exhibit 7.1** are the base pricing for the Products as of the date of this Agreement. Pricing changes will be communicated to Buyer in revised Pricing Packages on an annual basis.
- 7.2 Prices will be exclusive of any applicable sales or other similar tax, if any, that is required by law to be added to the sales price.
- 7.3 Buyer will be responsible for the installation and any vehicle adaptation charges directly with End Customer.

8. PAYMENT

- 8.1 Buyer will pay for the Products in US dollars. Buyer's payment for the products shall be net 25th proximo. Payment of invoices dated the 1st through the end of the month are due on the 25th of the following month. One invoice and one delivery note will be issued for each shipment of Products. Payment terms and trade credit limit are subject to Buyer meeting Seller's regular credit standards.
- 8.2 Banking information and applicable contact information will be as set forth in the Pricing Package.

9. PRODUCT CHANGES

- 9.1 The Parties agree that the Products are supplied as-is and Seller will be under no obligation to make any changes to the Products for Buyer. Buyer is buying the Products as manufactured by Seller.
- 9.2 Any component changes to the Products from Seller will be communicated to Buyer in accordance with Seller's applicable Notice of Change Process ("NOC Process").
- 9.3 Breakpoints for any requested change will be coordinated between the Parties, including appropriate consideration of the impact on inventory and scrapping cost.
- 9.4 In the event Seller discontinues the manufacture or production of Product components, Seller shall provide Buyer with prompt written notice of such decision and will provide Buyer with the opportunity to affect a one-time or all-time purchase of a reasonable quantity of such components.

10. EXPORT CONTROL AND ENVIRONMENTAL LAWS

- 10.1 Buyer will comply with all federal, state, and local laws, regulations, and standards in performance of rights and obligations under this Agreement and Buyer is solely responsible for ensuring—and will ensure—the compliance of the end-product Modified Vehicles with all federal, state, and local laws, regulations and standards. Buyer is solely responsible for acquiring any certifications for the Modified Vehicles, if needed, to satisfy any requirements set forth by the U.S. National Highway Traffic Safety Administration ("NHTSA") and the Federal Motor Vehicle Safety Standards ("FMVSS").
- 10.2 The products, services and/or technical data (collectively "Items") delivered under this Agreement may be subject to U.S. and other applicable export control and economic sanctions laws and regulations (collectively "Export Laws"), including, but not limited to, the International Traffic in Arms Regulations or the Export Administration Regulations and/or other relevant country laws and regulations. The Parties shall, at their own cost, comply with all applicable Export Laws and shall not export, re-export, release or otherwise transfer Items without first obtaining, at their own cost, all required licenses and approvals. Without limiting the foregoing, if Buyer intends to export any Items, it is solely responsible for all expenses, including but not limited to securing a freight forwarder and customs broker services, associated with shipping the Items outside of the United States. Seller will not be responsible for any expenses associated with shipping the Items outside of the United States. Seller is committed to comply with export control laws and regulations of all countries in which it does business. Export Compliance controls govern Seller's activities globally and, in some instances, may prohibit the export of certain products (which includes equipment, machinery, vehicles, materials, components and any other hardware item), software, technology and services to specific countries, entities, or individuals. As a U.S. company and in compliance with U.S. law, it is Seller's policy not to conduct any business, directly or indirectly, with Cuba, Iran, Syria, North Korea, and the Crimea, Donetsk, or Luhansk regions of Ukraine, unless the transactions are permitted under applicable laws and regulations. The violation of export control laws and regulations can subject Seller and individual employees to both civil and criminal penalties.
- 10.3 Buyer shall be solely responsible for evaluating and ensuring Products supplied under this Agreement are compliant with all applicable environmental laws in all regions in which the Products will be distributed, including but not limited to, REACH (EC 1907/2006), the End-of-Life Vehicles Directive (Directive 2000/53/EC), and the Restriction of the Use of Hazardous Substances in Electrical Equipment Directive (Directive 2011/65/EU), as adopted and amended. Seller shall have no obligation to provide chemical or material identification information or assessments to Buyer for Products. As a non-EU manufacturer, Seller shall have no REACH obligations under this Agreement, and is neither an importer nor an "only representative" for purposes of REACH.
- 10.4 Buyer shall be solely responsible for ensuring environmental certification and/or type approval of Products and/or the vehicle applications to which they are being integrated, in accordance with applicable laws in the region where the Products supplied and/or vehicle applications to which they are being integrated under this agreement will be distributed. Buyer shall certify or type approve Products and/or corresponding vehicle applications through its own actions, or by requiring its customers to certify or type approve Products and/or corresponding vehicle applications in accordance with all applicable laws.

- 10.5 Seller may provide, in its discretion, technical or other information about the Products to assist Buyer, but Buyer will control and bear full responsibility for the integration of the Products into the Modified Vehicles.
- 10.6 Buyer is solely responsible for any warranties it may provide End Customers regarding its work and/or the Modified Vehicles. Seller is not responsible for any such End Customer warranties, nor is it responsible for the safety or quality of design features, materials, or workmanship of Buyer.

11. WARRANTIES; LIMITATION OF LIABILITY

- 11.1 Seller warrants that the Products supplied under this Agreement will (a) be free from defects in materials or workmanship; (b) comply with the applicable Product specifications set forth in **Exhibit 2.1**, for each Product purchased hereunder; and (c) be free and clear of any liens or encumbrances. [***] Buyer's exclusive remedies for breach of warranty are those outlined in Article 12. The warranty will not apply to any Products that were (i) improperly integrated into the off-highway electrification application system applications; by or on behalf of Buyer, (ii) damaged through misuse, negligence, accident, or improper handling, maintenance, or application after delivery to Buyer under this Agreement, (iii) lost or damaged during transportation from place of delivery to Buyer's manufacturing facility, or (iv) repaired or altered by or on behalf of Buyer without Seller's prior written consent.
- 11.2 EXCEPT AS OTHERWISE PROVIDED EXPRESSLY IN THIS AGREEMENT, THERE ARE NO WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND SELLER WILL NOT BE LIABLE TO BUYER ON ANY CLAIM OF NEGLIGENCE OR MANUFACTURER'S STRICT LIABILITY ON PRODUCTS OR PARTS THEREOF SOLD TO BUYER EXCEPT IN CASE OF SELLER WILLFUL MISCONDUCT. EXCEPT AS OTHERWISE SET FORTH HEREIN, SELLER ASSUMES NO OBLIGATIONS OR LIABILITIES, AND SELLER HAS AUTHORIZED NO OTHER PERSON OR PARTY TO ASSUME FOR IT ANY OBLIGATIONS OR LIABILITIES, IN CONNECTION WITH SUCH PRODUCTS OR PARTS THEREOF.

12. CLAIMS

- 12.1 Buyer will submit to Seller a claim in writing for any Products that (i) have been incorrectly included in a shipment by Seller, (ii) have been omitted from a shipment as a result of a short delivery by Seller, or (iii) fail to meet the standards set forth in Section 11.1.
- 12.2 Claims under Sections 12.1(i) and 12.1(ii) must be submitted to Seller within forty-five (45) days of Buyer taking ownership of the Products. Claims under Section 12.1(iii) must be submitted to Seller within one year of Buyer taking ownership of the Products. Any claim not submitted within the periods stated above is barred from any remedy, except that if the submission of a claim is delayed due to an event of Force Majeure, the period of submitting such claim is extended for the duration of such event of Force Majeure.
- 12.3 To the extent that Seller accepts a particular claim, Seller will authorize repair, replacement, or provide credit to Buyer's account for such defective, short shipped, wrongly shipped or damaged Products. Seller's only obligation under this Agreement is to provide a credit or repair or replace the part(s), at Seller's reasonably exercised option and expense, including the cost of the Products or parts and transportation, including freight, insurance, and customs duty to the warehouse designated by Buyer.
- 12.4 If Seller reasonably decides to authorize the repair of the Products by Buyer, then (i) Seller's quality standard for such parts will apply, and (ii) repair rates at currency per hour and labor times will be mutually agreed upon before commencement of the repair work. Rework by Buyer on defective Products will be carried out in accordance with the following procedure:
- (a) Seller gives official rework authorization (by model) to Buyer, and Buyer will perform or assign the third parties to perform the rework subject to the authorization;
 - (b) Seller provides the instruction and any necessary training of Buyer's technicians for rework;
 - (c) Seller provides the list of necessary repair parts; and
 - (d) Seller gives a clear definition of the scope of rework to be carried out by Buyer (including which parts are authorized).

- 12.5 If Seller reasonably decides to replace defective Products or component parts, then Seller will be responsible only for the cost of the Products or parts and transportation, including insurance, freight and customs duty to the warehouse designated by Buyer.
- 12.6 Buyer will contact its assigned OEM Sales Quality Representative to report and resolve problems.
13. FIELD ACTIONS; PRODUCT LIABILITY; INDEMNIFICATION AND INSURANCE
- 13.1 The Parties recognize that, as a result of integration, for which Buyer will be solely responsible as well as other issues, the Products may perform differently in the off-highway application environments than in other vehicles and applications. As a result, a Field Issue may exist on Products used in some applications that may not exist in other applications. Each Party will have the right, at its sole discretion, to institute any Field Action investigation and Buyer will have the right, at its sole discretion, to institute any Field Action in relation to the Products it purchases under this Agreement that are incorporated into the off-highway applications. The Parties agree to put into place internal policies, procedures and practices for the investigation and resolution of Product quality issues that could lead to a Field Action. If a Party elects to institute a Field Action investigation which may lead to a Field Action decision, then the instituting Party will notify the other Party as soon as possible prior to instituting any Field Action, but not less than three business days prior to that Party's anticipated Field Action decision.
- 13.2 The Parties agree to cooperate with respect to any Field Action investigation, including, but not limited to, exchanging relevant field and other information, at the discretion of the Parties acting in good faith. Notwithstanding this Section 13.2, either Party can require the Parties to enter into a confidentiality agreement before sharing such field and other information.
- 13.3 Buyer will be responsible for all costs associated with a Buyer Field Action. In the event Buyer decides to institute a Field Action on Products but Seller decides not to conduct such Field Action on its Product not otherwise sold to Buyer under this Agreement ("**Seller's Product**"), Buyer shall be responsible for all costs associated with any Buyer Field Action. In the event Seller decides to institute a Field Action on Seller's Products but Buyer decides not to conduct such Field Action on its Product, Seller shall be responsible for all costs associated with any Seller Field Action performed on Seller's Product. Buyer shall be responsible for and bear all costs associated with its decision not to carry out a Field Action on Products.
- 13.4 Buyer will be responsible for the defense and all costs of product liability claims and litigation involving or brought against either Party involving the Products supplied to Buyer hereunder, whether based on negligence, strict liability or any other legal theory for (i) damage to property (ii) personal injury or (iii) death.
- 13.5 With respect to any actual, potential, or threatened claim described in Section 13.4 above, the Parties hereby agree to (i) communicate and cooperate with each other and, if required, with the appropriate insurance carrier, to the fullest extent reasonably possible in investigating the facts and circumstances surrounding the claim and in litigating the matter; (ii) refrain to the fullest extent reasonably possible from taking positions adverse to the interests of each other; and (iii) not, except in enforcement of any rights under this Agreement, institute any claim, action or proceeding, whether by cross claim, third party claim, interpleader or otherwise, against each other.
- 13.6 With respect to field product quality issues, the Parties agree to work together to resolve the quality issues.
- 13.7 Buyer will defend, indemnify and hold harmless Seller and its Affiliates, directors, officers, employees and agents (collectively, the "**Indemnified Party**") from and against any and all suits, actions, enforcement actions, claims, judgments, debts, obligations or rights of action of any nature or description, including product liability and recall claims, and all costs, including attorneys' fees, incurred by Seller and its Affiliates in connection therewith, arising out of or relating to Products purchased by Buyer for Buyer's development, assembly, manufacture, preparation, promotion, marketing, distribution, sale and servicing of Products and/or integration of Products into the off-highway electrification applications or parts thereof, or any acts, omissions, statements or representations of any employee, agent, officer or director of Buyer relating thereto. Seller will notify Buyer of any such suit, action, claim, judgment, debt, obligation or right of action, promptly upon receiving notice or being informed of the existence thereof. Upon such notice from Seller, Buyer will promptly take such action as may be necessary to protect and defend the Indemnified Party against such suit, action, claim, judgment, debt, obligation or right of action, and will indemnify the Indemnified Party against any loss, costs or expenses incurred in connection therewith.

13.8 Buyer will obtain and maintain pursuant to the terms of this Agreement, at its sole expense, the following types of insurance coverage, with minimum limits as set forth below:

- (a) Commercial General Liability covering liability arising from premises, operations, independent contractors, products-completed operations, personal and advertising injury, and contractual liability – [***] each occurrence.
- (b) Commercial Product Liability insurance – [***] each occurrence.
- (c) Compulsory road traffic insurance in accordance with the Buyer's Country Laws for all vehicles registered on Buyer.
- (d) Workers Compensation – statutory limits for all states of operation.
- (e) Employers Liability – all of Buyer's employees are subject to the Workers Insurance foreseen in the Buyer Country, including its provisions on occupational injury compensation.

If any coverage is written on a Claims-made basis, the retroactive date, if any, must precede the commencement of the performance of this Agreement. In addition, Buyer will purchase an extended reporting period if the retroactive date is advanced or if the policy is canceled or not renewed and not replaced by another claims-made policy with the same (or an earlier) retroactive date either during the term of the Agreement or within 3 years after completion of the Agreement.

All policies of insurance procured by Buyer herein will be written as primary policies, not contributing with nor in excess of coverage that Seller may carry. If Buyer's liability policies do not contain the standard separation of insured's provision, or a substantially similar clause, they must be endorsed to provide cross-liability coverage.

Buyer will provide Seller with a certificate of insurance evidencing compliance with the insurance requirements set forth above. Certificate(s) will provide that Seller will be named an additional insured on all liability policies (except Workers' Compensation and Employers Liability). The certificate(s) will provide that Seller will receive thirty (30) days' prior written notice from the insurer of any termination or material reduction in the amount or scope of coverage.

Such certificates must be in a form acceptable to and underwritten by insurance company (ies) reasonably satisfactory to Seller. By requiring insurance herein, Seller does not represent that coverage and limits will necessarily be adequate to protect Buyer. The purchase of appropriate insurance coverage by Buyer or the furnishing of certificate(s) of insurance will not release Buyer from its respective obligations or liabilities under this Agreement.

14. FORCE MAJEURE

- 14.1 An "**Event of Force Majeure**" means with respect to a Party any event beyond the reasonable control of such Party, including (i) any act of God, natural disaster, or war, (ii) any strike, lockout, or labor dispute at the plant of such Party or its relevant suppliers, (iii) any shortage of electrical power at the facilities of such Party or its relevant suppliers which materially affects the production of Products or Service Parts (iv) any act or omission of any government authority (including failure to approve Agreements within a commercially reasonable time period), which materially affects the production of Products or Service Parts; (v) any shortages of raw materials beyond Seller's control; or (vi) any other event beyond the reasonable control of such Party or its suppliers.
- 14.2 If one Party is wholly or partially prevented from performing its responsibilities stipulated in this Agreement by reason of an Event of Force Majeure, it will (i) notify the other Party in writing as soon as reasonably practicable after the occurrence of such Event of Force Majeure, (ii) during the duration of an event of Force Majeure the Parties will use reasonable efforts to mitigate damages, to the extent possible and (iii) the affected party will take appropriate means to minimize or remove the effects of the Event of Force Majeure and, within the shortest practicable time, attempt to resume performance of the obligation affected by the Event of Force Majeure. If an Event of Force Majeure occurs, the affected party will not be obligated to perform the affected obligations during such period and the other Party will not be obligated to pay for any services or products not delivered.

14.3 In case of an Event of Force Majeure, the allocation of Products in short supply during the time of such Event of Force Majeure, or the allocation of capacity as production recovers from the Event of Force Majeure, will be the subject of good faith negotiations between the Parties, and could include temporary arrangements for Buyer to purchase comparable Product from another party while the Force Majeure continues.

15. TERM AND TERMINATION

15.1 This Agreement will have an Effective Date of August 3, 2022, and will continue in force through December 31, 2025 (the “**Term**”).

15.2 Either Party may terminate this Agreement in the event of the happening of a material breach by the other Party of performance of material obligations under this Agreement, which breach has not been remedied or waived within sixty (60) days following receipt of written notification of the breach. For the avoidance of doubt, undisputed payment obligations will be considered to be material obligations under this Agreement.

15.3 Either Party may terminate this Agreement immediately if (a) the other Party voluntarily enters into bankruptcy or similar proceedings, or (b) the other party involuntarily enters into bankruptcy or similar proceedings and such involuntary proceedings are not vacated or nullified within fifteen (15) days after being instituted.

15.4 Termination of this Agreement will not affect any liability, which (i) has arisen prior to such termination, or (ii) may arise after such termination, based on transactions made prior to such termination, or any obligations which, from the context hereof, are intended to survive termination. Upon any termination Buyer shall be responsible to pay any demonstrated costs incurred by Seller, unless terminated because of Seller’s breach under Section 15.1. Buyer shall also be responsible for the costs arising from any commitments made by Seller on behalf of Buyer prior to receipt of the termination notice that cannot be mitigated or reversed.

15.5 Seller shall fulfill all orders of Buyer which were placed by Buyer and accepted by Seller prior to the notice of termination, unless such termination is by Seller in accordance with Section 15.1 due to Buyer’s failure to pay undisputed amounts due from Buyer to Seller pursuant to this Agreement, or Buyer’s bankruptcy or similar proceeding under Section 15.2.

16. TRADEMARKS, INTELLECTUAL PROPERTY RIGHTS

16.1 Except as may be provided in a separate written agreement, neither Seller nor Buyer will use or authorize the use of any trademarks or trade names or other distinctive marks or signs owned by the other or its Affiliates or any mark, name, word, or sign which so nearly resembles any of the foregoing marks, names, words, or signs as to be likely to cause confusion or mistake or to deceive the public.

16.2 Buyer is aware, understands and fully accepts that, through this Agreement, it will not acquire any Intellectual Property rights in the Products.

16.3 Buyer may not, and may not permit any of its agents or consultants to, modify, decompile, copy, disassemble, translate, or reverse engineer the Products, Seller processes, or Confidential Information related to the Products.

17. CONFIDENTIALITY AND DATA PRIVACY

17.1 Confidential Information.

(i) “**Confidential Information**” means any information that the disclosing party would reasonably expect the receiving party to keep confidential, including (i) technical information, including patent, copyright, trade secret and other proprietary information, techniques, sketches, drawings, models, inventions, know-how, processes, apparatus, equipment, algorithms, software programs, software source documents, and formulae related to the current, future and proposed Products and services of Seller or its Affiliates, or (ii) non-technical information relating to the Products including, without limitation, pricing, margins, merchandising plans and strategies, finances, financial and accounting data and information, suppliers, customers, customer lists, purchasing data, sales and marketing plans, future business plans. Seller’s Confidential Information includes, but is not limited to, the mapping of data in the Product, messaging protocols, OnStar architecture, OnStar product design, Seller’s institutional knowledge, or any process or processes to interact with Product or related components, firmware or software. Confidential Information further includes, but is not limited to, all data and information conveyed by Seller or its Affiliates as part of providing technical assistance to Buyer;

- (ii) regardless of whether transmitted orally, in writing, or in any other tangible or machine readable form, and whether or not labeled “confidential”, which is hereafter disclosed to either Party or its directors, officers employees, or other agents by or on behalf of each Party or each Party’s Affiliates, or any of their respective directors, officers, employees, or other agents; and
 - (iii) including, without limitation, any information or data of whatever kind generated by either Party, its directors, officers, employees to the extent that it is generated from information or data referred to in 17.1(i) above.
- 17.2 The obligations with respect to the Confidential Information will not apply if the Confidential Information:
- (i) becomes public through no action of the receiving Party or its Affiliates;
 - (ii) is known or independently developed by each Party independent of its receipt of the Confidential Information;
 - (iii) becomes known to the receiving party from a source other than the disclosing party without breach of this Agreement by the receiving party;
 - (iv) is disclosed by each Party to a third party without similar restrictions on disclosure;
 - (v) is disclosed with the written approval of the other Party; or
 - (vi) is required to be disclosed pursuant to a governmental or judicial process, provided that notice of any such process is promptly provided to the other Party, to the extent allowable, in order that the other Party may have reasonably opportunity to intercede in such process to contest such disclosure by any appropriate means, including seeking a protective order.
- 17.3 Each Party will request, receive and use the Confidential Information only for the purposes described under this Agreement, and both Party will not otherwise use or attempt to use the Confidential Information or any part of it for its own advantage or gain, or the advantage or gain of any other Person, directly or indirectly other than what has been specified in this Agreement. Neither this Agreement nor any activities contemplated herein affects the continued ownership of, or the right to use, the Confidential Information by the owner of the Confidential Information.
- 17.4 Each Party will keep the Confidential Information in safe custody and maintain it as secret and confidential, and may not, without the prior written consent of an officer of the other Party disclose or divulge or cause or permit to be disclosed or divulged the Confidential Information received from the other Party or from the other Party’s Affiliates (in whole or in part) to any third party except as specifically set forth in this Agreement.
- 17.5 Each Party will only allow access to the Confidential Information to persons in the other Party’s organization with a need-to-know and only to the extent bona fide necessary to complete the activities contemplated within this Agreement, and only if they are under a similar obligation of confidentiality.
- 17.6 Upon written demand by either Party at any time, each Party will return to the other Party the Confidential Information as well as any copies or duplicates thereof, or provide the other Party with an officer’s certificate to confirm that any documents, data, duplicates, tangible copies of the Confidential Information disclosed have been retrieved from all recipients and storage locations, destroyed, removed or deleted without retaining any copies of such. Notwithstanding the foregoing, the Recipient may retain copies of Confidential Information stored on electronic back-up media automatically generated in the routine course of business by the Recipient until such automatically generated backups are destroyed in the routine course of its business. Such automatically generated backup copies of Confidential Information shall be subject to the terms of this Agreement until destruction.

- 17.7 Each Party must advise the other Party in writing promptly after discovering, or having cause to suspect, any breach of this Article 17 and will assist in investigating and prosecuting any such breach including but not limited to:
- (i) providing any information of the breach to the other Party;
 - (ii) reporting (only with the consent of the other Party), or assisting the other Party in reporting such activities to the administrative and judicial authorities with competent jurisdiction;
 - (iii) issuing (only with the consent of the other Party), any statements and affidavits regarding any such breach; and
 - (iv) causing its directors, officers, employees, and agents to provide assistance for each Party to gather necessary information or evidence.
- 17.8 The obligation of confidentiality and non-disclosure contained in this Agreement will not apply to the extent that disclosure is required by a valid subpoena, order or regulation of a governmental agency or a court of competent jurisdiction or arbitral panel with jurisdiction, provided that such required disclosure will, to the extent practicable, only be made after the other Party has been given a reasonable opportunity to review and challenge such disclosure and after taking into account the reasonable requirements of the other Party as to the timing, content and matter of such disclosure.
- 17.9 Buyer acknowledges and understands that any Buyer employee or agent that is to be granted access to any Confidential Information or data shall first sign an Individual Confidentiality and Data Protection Agreement (attached hereto as **Exhibit 17.9**).

18. INFORMATION SECURITY AND PRIVACY

Buyer is solely responsible for the information technology infrastructure, including all computers, software, databases, electronic systems (including database management systems) and networks used by or for Buyer to access Seller systems or Seller's Confidential Information or otherwise in connection with the provision of Products and shall prevent unauthorized access to Seller systems or Confidential Information through Buyer's systems. Throughout the Term, and at all times in connection with its actual or required performance hereunder, Buyer will maintain and enforce an information security program including safety and physical and technical security policies and procedures with respect to its processing of Seller's Confidential Information that meet or exceed the requirements of Seller's Third Party Information Security Requirements set forth in **Exhibit 18.1**.

19. NOTICES

Any notice required to be given by either Party to the other in connection with this Agreement will be made in writing and will be sent by prepaid registered mail to such Party's address set forth in **Exhibit 19**. Notices pertaining to matters other than termination or modification of this Agreement may instead be transmitted by means of facsimile or email.

20. AMENDMENTS

Any amendment or modification to this Agreement must be made in writing and signed by an authorized representative of the Parties. This applies also to amendments to this Article 20.

21. ASSIGNMENT

No Party may assign its rights or interests under this Agreement or delegate its duties hereunder without the prior written consent of the other Party. Any purported assignment or transfer of this Agreement without such consent, or any substantial change in the ownership of the capital stock of either Party shall entitle the other Party to terminate this Agreement upon 30 days' written notice, subject to a final accounting for goods sold and received. "Substantial", for purposes of this Article 21, is defined as fifty percent (50%) or more ownership interest. The foregoing does not apply to assignments to successors in interest, upon which this Agreement shall be binding.

22. SEVERABILITY

Invalidity of any provision of this Agreement will not affect any other provision and, in the event of a judicial finding of such invalidity, this Agreement will remain in force in all other respects. The Parties will in good faith attempt to agree a valid substitute clause that will preserve as near as possible the original intent of this Agreement; in the absence of such agreement Michigan law will apply as substitute for the invalid provision.

23. NO IMPLIED WAIVERS

Failure of Buyer or Seller at any time to require performance by the other of any provision hereof will in no way affect the full right to require such performance at any time thereafter. Waiver by either Buyer or Seller of a breach of any obligation hereunder will not constitute a waiver of any succeeding breach of the same obligation itself. Failure of either Buyer or Seller to exercise any of its rights provided under this Agreement will not constitute a waiver of such right.

24. NO AGENCY

24.1 Nothing in this Agreement will give rise to an agency or partner relationship or otherwise create any rights in either Party to act as a legal representative of the other Party for any purpose. Neither is granted any express or implied right or authority to assume or to create any obligation on behalf of or in the name of the other or its Affiliates, or to bind them in any manner whatsoever.

24.2 Unless otherwise agreed herein, Buyer and Seller will each be solely responsible for any and all expenditures, obligations or responsibilities made, incurred or assumed by it in preparation for performance or in the performance of its obligations under this Agreement.

25. GOVERNMENT APPROVALS

25.1 The Parties will cooperate in securing any government approvals or permits required to affect the transactions contemplated by this Agreement.

25.2 Unless otherwise agreed by the Parties, Seller will be responsible for securing any licenses or permits and paying any duties or fees required to export Products from their country of manufacture. Buyer will be responsible for securing any licenses or permits and paying any duties or fees required to import Products into the country of Buyer or to import Products into any other country or jurisdiction. Failure of Buyer to fulfill any such responsibility will not relieve Buyer of any obligations to Seller in connection with any such Products purchased by Buyer.

25.3 Buyer will present this Agreement to appropriate government agencies for registration, if required. Buyer will pay all costs and expenses incidental to such presentation, and to the preparation, execution and stamping, if any of this Agreement.

26. SET OFF

Neither Party will be entitled to set off any claims against any claims of the other Party resulting from this Agreement unless by means of a final and binding judgment of court or arbitration panel.

27. ENTIRE AGREEMENT

27.1 There are no other agreements or understandings, either oral or written, between the Parties affecting this Agreement or relating to the supply of the Products, except as otherwise specifically provided or referred to in this Agreement. For the purpose of clarification, it is expressly agreed that no general terms and conditions will apply to the sale of the Products hereunder.

27.2 Except as otherwise provided in this Agreement, no agreement between the Parties which is at variance with any of the provisions of this Agreement or which imposes definite obligations upon either Party not specifically imposed by this Agreement or which is intended to be effective or performed following the expiration or other termination of this Agreement and imposes obligations or extends the time for performance thereof other than as provided in this Agreement will be binding upon either Party unless it is in writing and is executed by a duly authorized representative of each of the Parties.

28. GOVERNING LAW, JURISDICTION; DISPUTE RESOLUTION

28.1 This Agreement, including, but not limited to, its validity, interpretation, performance, effects, derivatives and consequences, is governed by the laws of the Michigan, USA, without reference to the conflict of laws principles thereof. Each Party consents, for purposes of enforcing this Agreement, to personal jurisdiction, service of process and venue in any state or federal court within the Michigan having jurisdiction over the subject matter. Both Parties acknowledge that the United Nations Convention on Agreements for the International Sale of Goods does not apply to the transaction contemplated under this Agreement.

28.2 EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY PROCEEDINGS RELATING TO THIS AGREEMENT.

28.3 Before the filing of any claim in any court (except in cases where a Party is threatened with irreparable harm and seeks injunctive relief), a Party will serve on the other (a) written notice of the claim, specifying the exact amount claimed and the provision of this Agreement or other authority for the claim; and (b) a copy of all supporting documents.

Within 10 business days after service, the Responding Party will serve on the serving Party (a) a written response, setting out its position and specifying the provision of this Agreement relied on; and (b) a copy of all supporting documents.

Within 10 days after service of the response, the Parties will meet to discuss resolution of the claim. Each Party may bring up to three people to this negotiation, at least one of whom is an executive who is not involved in the performance of this Agreement. The written claim notice and response and the documents produced, but not the subsequent discussion, are admissible in any court proceeding.

29. COUNTERPARTS

This Agreement may be executed simultaneously in counterparts (and may be delivered by facsimile), each of which will be deemed an original, but all of which together will constitute a single agreement.

IN WITNESS WHEREOF, this Agreement has been executed on behalf of the Parties by their duly authorized representatives.

General Motors LLC

By: /s/ John Roth

Name: John Roth
Title: Global Vice President
Date: August 9, 2022

Volcon, Inc.

By: /s/ Jordan Davis

Name: Jordan Davis
Title: CEO
Date: 8/3/2022

Exhibits
[***]

*Certain portions of this exhibit have been omitted pursuant to Rule 601(b)(10) of Regulation S-K. The omitted information is (i) not material and (ii) the type that the registrant treats as private or confidential. Information that has been omitted has been noted in this document with a placeholder identified by the mark “[***]”.*

SUPPLIER AGREEMENT

This Supplier Agreement (“Agreement”) is made as of August 11, 2022 (“Effective Date”), by and between Volcon, Inc., a Delaware corporation, of 2590 Oakmont Dr., STE 520, Round Rock, Texas 78665 (“Company”), and GLV Ventures, of 417 E 2nd ST, Rochester, Michigan 48307, (GLV), (“Supplier”) (mutually, the “Parties”).

Company desires to have Supplier perform services and manufacturing of the Volcon Stag throughout its production life and as identified in the attached Exhibits, and in accordance with the terms and conditions of this Agreement.

NOW THEREFORE, the parties agree as follows:

1. SERVICES

- 1.1. **Statement of Work.** Company and Supplier have executed a statement of work, substantially in the form attached hereto as Exhibit A, which describes the specific services to be performed by Supplier (as executed, the “Statement of Work”). The Statement of Work will expressly refer to this Agreement, will form a part of this Agreement, and will be subject to the terms and conditions contained herein. The Statement of Work may be amended only by written agreement of the parties.
- 1.2. **Performance of Services.** Supplier will perform the services described in the Statement of Work (the “Services”) in accordance with the terms and conditions set forth in the Statement of Work and this Agreement.
- 1.3. **Delivery.** Supplier will deliver to Company any company owned deliverables, designs, modules, software, products, documentation and other materials specified in the Statement of Work (individually or collectively, “Deliverables”) in accordance with the delivery schedule and other terms and conditions set forth in the Statement of Work.
- 1.4. **Consideration.** As Supplier’s sole compensation for the performance of the Services and the rights granted hereunder, Company will provide Supplier the consideration set forth in the Statement of Work, on the terms and in the manner set forth in the Statement of Work. Without limiting the generality of the foregoing, Supplier acknowledges and agrees that, if specified in the Statement of Work, Company’s payment obligations will be expressly subject to Supplier’s completion or achievement of certain milestones to Company’s reasonable satisfaction.
- 1.5. **Expenses.** Unless otherwise specified in the Statement of Work, Company will not reimburse Supplier for any expenses incurred by Supplier in connection with performing Services and any expenses incurred by Supplier in performing the Services will be the sole responsibility of Supplier. Any specialty software licenses needed for projects, other than general design software, will be approved by Company and provided at Company’s expense.
- 1.6. **Payment Terms.** All fees and other amounts payable set forth in the Statement of Work, if any, are stated in and are payable in U.S. dollars. Unless otherwise provided in the Statement of Work, Supplier will invoice Company upon completion of the list of deliverables identified below for all fees and expenses payable to Supplier, and Company will pay the full amount of each such invoice within thirty (30) days following issuance of invoice except for any amounts that Company disputes in good faith. The parties will use their respective commercially reasonable efforts to promptly resolve any such payment disputes. All past due amounts shall bear finance charges at a rate of the lesser of 1.5% per month (18% annual percentage rate) or the maximum rate permitted by law.

1.7. Schedule of Deliverables for Invoicing:

- 1.7.1. Production Tooling Kickoff – beginning [***] as required and approved by Volcon
- 1.7.2. Production Kickoff [***]

1.8. Manufacturing Deliverables for the Invoicing of Finished Goods:

- 1.8.1. [***]
- 1.8.2. FOB: South Texas
- 1.8.3. Payment terms: Net 30 at shipment of product from Supplier Facility
- 1.8.4. Motor, [***], Controller, and Harness based on existing BOM pricing as quoted by Powertrain Control Solutions (PCS)

1.9. Company Forecast and Purchase Order Requirements. The Company shall provide the Supplier with a twelve-week (12) rolling forecast, each week, delivered to the Supplier no later than the end of the day, each Monday. Purchase Order Releases shall be placed 30 days in advance of expected delivery and shall request four (4) weeks' worth of delivery volume, scheduled weekly. Volumes set forth in said Purchase Orders shall substantially match the volumes represented in the most recent forecast's first four-week (4) period, however, the Supplier will make commercially reasonable efforts to accommodate additional demand up to 20%. In addition, the Company shall provide a 90-day material forecast for planning purposes. The Company will be responsible for all costs associated with materials and finished goods within the forecast period in the event the Company terminates production, delays production due to design changes, or terminates this agreement. In the event production is terminated, delayed, or this Agreement is terminated for cause related to a material breach or non-performance, the Company will not be liable for costs associated with materials and/or finished goods within the most recent forecast period. Supplier will reserve production capacity of up to 30% increases year over year during the term of this agreement to accommodate annual increases in demand forecasts.

1.10. Service and Warranty Parts. Supplier shall maintain a commercially reasonable level of replacement part inventory during the term of the agreement. At any given time, the level of aggregate inventory should be no less than [***]. Supplier shall sell to Company parts at [***] cost of the part(s), FOB South Texas.

1.11. Supplier Personnel. Supplier will perform all Services only through its regular, full-time employees and through subcontractors to the extent that any Supplier Personnel are required to perform Services at a Company facility, Supplier will first ensure that such Supplier Personnel have been informed of Company's workplace, computer and security policies and procedures, and will comply with such policies and procedures at all times.

1.12. Company Personnel. Supplier shall permit Company personnel to work with Supplier personnel at the Supplier's site(s) to assist in the identification of engineering, manufacturing, or quality issues, including designs, specifications, prototypes, verifications, compliance, and regulatory issues. Company personnel shall be permitted to observe the manufacturing of the goods during the manufacturing process, provided the Company's personnel do not interfere with the manufacturing of the vehicle(s). Company personnel shall be permitted to communicate quality control issues and concerns with Supplier during the manufacturing of the vehicle(s).

1.13. End of Line Testing. The Parties shall collaborate on end of line testing. Seller shall provide appropriate diagnostic tools for end of line testing. The Parties shall mutually agree on pass/fail criteria for end of line testing. The Goods shall be compatible with On-Board Diagnostics II systems, or component manufactured specific and diagnostic tool will be provided for end of line testing

1.14. Labeling and Packaging. Supplier shall provide Company with documentation showing Supplier's identification number for each unit (including each unit's Vehicle Identification Number), the quantity of units in each delivery, the bill of lading number and the country of origin. Supplier shall maintain a record of such documents for ten (10) years after delivery. In the event labeling and/or packaging are necessary, labeling and packaging requirements will be specified in writing by Company and all costs associated with labeling and/or packaging will be the responsibility of the Company.

1.15. **End of Life and Wind Down.** Following the expiration or termination of this Agreement, the Supplier shall offer to the company the right of first refusal to purchase any and all tooling applicable to the production of the Goods (excluding production conveyor). Supplier shall cooperate with Company and provide reasonable assistance to affect the orderly and efficient transfer of the manufacturing from Supplier to Company or a third party designated by the Company and without disruption to the Company's business. This assistance shall include:

- 1.15.1. the continued manufacture of the Goods by Seller after the termination or expiration date for a transition period and on terms mutually agreeable to the Parties and contingent on the availability of Third Party Products;
- 1.15.2. the transfer of all inventories of Goods and works in process (upon payment for such Goods); and,
- 1.15.3. the transfer of any Tooling for which Company has fully paid

1.16. **Discontinuation of Production.** Supplier agrees to make available for purchase replacement parts to the Company for a period of [***] years after the end of mass production for the contracted product and subcomponents. Supplier agrees in the case of termination of supply a lifetime forecast and buy is conducted with both parties in agreement. The parts and components are to be exclusively used to supply the Company. In the event Supplier is unable to procure and sell components, sub-assemblies, or replacement parts to Buyer, Supplier will use commercial best efforts to transfer supply chain points relationships to Buyer and to assist in establishing a flow of parts, sub-assemblies and replacement parts to ensure after sale service continuity.

2. **TOOLING.**

2.1. **Supplier Responsibility.** Supplier assumes all responsibility for cost of applicable tooling and fixturing regarding any and all items sourced to or provided by Supplier. This includes all design and engineering required for tools, fixtures, and parts pertaining to the assembly or construction of these products and all items, including tooling and fixtures and all equipment and fixtures paid for by the supplier will be owned by Supplier. Supplier is responsible for any and all tool maintenance and repair including any associated expenses.

3. **RELATIONSHIP OF THE PARTIES**

3.1. **Independent Contractor.** Supplier is an independent contractor and nothing in this Agreement will be construed as establishing an employment or agency relationship between Company and Supplier or any Supplier Personnel. Supplier has no authority to bind Company by contract or otherwise. Supplier will perform Services under the general direction of Company, but Supplier will determine, in Supplier's sole discretion, the manner and means by which Services are accomplished, subject to the requirement that Supplier will at all times comply with applicable law.

3.2. **Taxes and Employee Benefits.** Supplier will report to all applicable government agencies as income all compensation received by Supplier pursuant to this Agreement. Supplier will be solely responsible for the payment of all compensation to all Supplier Personnel as well as for the payment of all withholding taxes, social security, workers' compensation, unemployment and disability insurance or similar items required by any government agency. Supplier Personnel will not be entitled to any benefits paid or made available by Company to its employees, including, without limitation, any vacation or illness payments, or to participate in any plans, arrangements or distributions made by Company pertaining to any bonus, stock option, profit sharing, insurance or similar benefits. Supplier will indemnify and hold Company harmless from and against all damages, liabilities, losses, penalties, fines, expenses and costs (including reasonable fees and expenses of attorneys and other professionals) arising out of or relating to any obligation imposed by law on Company to pay any withholding taxes, social security, unemployment or disability insurance or similar items in connection with compensation received by Supplier pursuant to this Agreement.

3.3. **Liability Insurance.** Supplier acknowledges that Company will not carry any liability insurance on behalf of Supplier. Supplier will maintain in force adequate liability insurance to protect Supplier from (i) claims under workers' compensation and state disability acts, and (ii) claims of personal injury (or death) or tangible or intangible property damage (including loss of use) that arise out of any act or omission of Supplier or any Supplier Personnel. Supplier will carry general insurance coverage for manufacturing facilities and inventory valid throughout any country where the Supplier maintains operations applicable to the manufacture of the Goods in the amount of \$1,000,000.00 per occurrence, and \$2,000,000.00 in aggregate during the term of this Agreement and for 1 years following the termination or expiration of the Agreement.

- 3.4. **Force Majeure.** In the event either party is unable to fully perform its obligations hereunder (except for Company's obligation to pay for Goods ordered) due to events beyond its reasonable control including but not limited to acts of God, action by any governmental authority (whether valid or invalid), fires, floods, windstorms, explosions, riots, natural disasters, wars, pandemics, epidemics, sabotage, inability to obtain power, material, equipment or transportation, or court injunction or order, that party shall be relieved of its obligations to the extent it is unable to perform. Timely notice of such inability to perform shall be given to the other party.
- 3.5. **Compliance with Laws.** Each Party shall at all times comply with all local, regional, national, and international Laws applicable to this Agreement, the Party's performance of its obligations hereunder, and the Party's use or sale of the Goods. Without limiting the generality of the foregoing, each Party shall (a) at its own expense, maintain all certifications, credentials, licenses, and permits necessary to conduct its business relating to the purchase, use or resale of the Goods and (b) not engage in any activity or transaction involving the Goods, by way of resale, lease, shipment, use or otherwise, that violates any Law.

4. OWNERSHIP.

- 4.1. **Disclosure of Work Product.** Supplier will, as an integral part of the performance of Services, disclose in writing to Company (if applicable) all inventions, products, designs, drawings, notes, documents, information, test data, documentation, improvements, works of authorship, processes, techniques, know-how, algorithms, specifications, biological or chemical specimens or samples, hardware, circuits, computer programs, databases, user interfaces, encoding techniques, and other materials of any kind that Supplier may make, conceive, develop or reduce to practice, alone or jointly with others, in connection with performing Services, before or after the Effective Date, or that result from or that are related to such Services, whether or not they are eligible for patent, copyright, mask work, trade secret, trademark or other legal protection (collectively, "Supplier Work Product"). Supplier Work Product includes, without limitation, any Deliverables that Supplier delivers to Company pursuant to Section 1.3
- 4.2. **Ownership of Supplier Work Product.** Supplier and Company agree that, to the fullest extent permitted by applicable law, and if applicable, each item of Supplier Work Product, if applicable and owned by company, will be a work made for hire owned exclusively by Company. Supplier agrees that, regardless of whether an item of Supplier Work Product is a work made for hire, all Supplier Work Product will be the sole and exclusive property of Company. Supplier hereby irrevocably transfers and assigns to Company, and agrees to irrevocably transfer and assign to Company, all right, title and interest in and to the Supplier Work Product, including all worldwide patent rights (including patent applications and disclosures), copyright rights, mask work rights, trade secret rights, know-how, and any and applicable intellectual property or proprietary rights (collectively, "Intellectual Property Rights") therein. At Company's request and expense, during and 90 days after the term of this Agreement, Supplier will assist and cooperate with Company in all respects and will cause all Supplier Personnel to assist and cooperate with Company in all respects, and will execute documents and will cause all Supplier Personnel to execute documents, and, subject to the reasonable availability of Supplier, give testimony and take such further acts reasonably requested by Company to enable Company to acquire, transfer, maintain, perfect and enforce its Intellectual Property Rights and other legal protections for the Supplier Work Product. Nothing in this Agreement grants or confers or shall be construed to grant or confer to Supplier, expressly or impliedly, any right or license to any Intellectual Property Rights or to any application for any Intellectual Property Rights (including patent applications or patents) that are transferred to, assigned to, held by and/or that are in the name of Company.
- 4.3. **Moral Rights.** To the fullest extent permitted by applicable law, Supplier also hereby irrevocably transfers and assigns to Company, and agrees to irrevocably transfer and assign to Company, and waives and agrees never to assert, any and all Moral Rights (as defined below) that Supplier or any Supplier Personnel may have in or with respect to any Supplier Work Product, during and after the term of this Agreement. "Moral Rights" mean any rights to claim authorship of a work, to object to or prevent the modification or destruction of a work, to withdraw from circulation or control the publication or distribution of a work, and any similar right, existing under judicial or statutory law of any country in the world, or under any treaty, regardless of whether or not such right is called or generally referred to as a "moral right."
- 4.4. **Related Rights.** To the extent that Supplier owns or controls (presently or in the future) any patent rights, copyright rights, mask work rights, trade secret rights, or any other intellectual property or proprietary rights that may block or interfere with, or may otherwise be required for, the exercise by Company of the rights assigned to Company under this Agreement (collectively, "Related Rights"), Supplier hereby grants or will cause to be granted to Company (as applicable) a non-exclusive, royalty-free, irrevocable, perpetual, transferable, worldwide license (with the right to sublicense) to make, have made, use, offer to sell, sell, import, copy, modify, create derivative works based upon, distribute, sublicense, display, perform and transmit any products, software, hardware, methods or materials of any kind that are covered by such Related Rights, to the extent necessary to enable Company to exercise all of the rights assigned to Company under this Agreement.

4.5. **Excluded Inventions.** Attached hereto as Exhibit B is a list describing all existing inventions, if any, that may relate to Company's business or actual or demonstrably anticipated research or development and that were made by Supplier or acquired by Supplier prior to the Effective Date, and which are not to be assigned to Company ("Excluded Inventions"). For purposes of this Agreement, "Other Inventions" means inventions, if any, in which Supplier has or may have an interest, as of the Effective Date or thereafter, other than Supplier Work Product and the Excluded Inventions. As applicable, supplier shall not use the Excluded Inventions or any Other Inventions in any Supplier Work Product without Company's prior written consent. Supplier acknowledges and agrees that if, in the scope of providing the Services contemplated by this Agreement, Supplier desires to use any Excluded Inventions or any Other Inventions, or if Supplier desires to include any Excluded Inventions or Other Inventions in any product or service of Company or if Supplier's rights in any Excluded Inventions or Other Inventions may block or interfere with, or may otherwise be required for, the exercise by Company of any rights assigned to Company under this Agreement, Supplier will first immediately so notify Company in writing. Unless Company and Supplier agree otherwise in writing as to particular Excluded Inventions or Other Inventions, Supplier hereby agrees to grant, and hereby does grant, to Company, in such circumstances (whether or not Supplier gives Company notice as required above), a perpetual, irrevocable, nonexclusive, transferable, world-wide, royalty-free license to use, disclose, make, sell, offer for sale, import, copy, distribute, modify and create works based on, perform, and display such Excluded Inventions and Other Inventions, and to sublicense third parties in one or more tiers of sublicensees with the same rights. This excludes any data or components that are not in the control of the Supplier including but not limited to: Powertrain Control Systems ("PCS") and General Motors ("GM").

5. CONFIDENTIAL INFORMATION

5.1. For purposes of this Agreement, "Confidential Information" means and will include: (i) any information, materials or knowledge regarding Company and its business, financial condition, products, programming techniques, customers, suppliers, technology or research and development that is disclosed to Supplier or to which Supplier has access in connection with performing Services; (ii) the Supplier Work Product; and (iii) the terms and conditions of this Agreement. Confidential Information will not include any information that: (a) is or becomes part of the public domain through no fault of Supplier; (b) was rightfully in Supplier's possession at the time of disclosure, without restriction as to use or disclosure; or (c) Supplier rightfully receives from a third party who has the right to disclose it and who provides it without restriction as to use or disclosure. At all times, both during Supplier's engagement by Company as an independent contractor and after, and to the fullest extent permitted by law, Supplier agrees to hold all Confidential Information in strict confidence, not to use it in any way, commercially or otherwise, except in performing Services, and not to disclose it to others. Supplier further agrees to take all actions reasonably necessary to protect the confidentiality of all Confidential Information, including, without limitation, implementing and enforcing procedures to minimize the possibility of unauthorized use or disclosure of Confidential Information. No disclosure of Confidential Information by Company to Supplier will in any way be deemed a license (except for the limited purpose of performing Services) or other grant of proprietary interest in Confidential Information. In reference to Volcon and Company mutual NDA.

6. WARRANTIES

- 6.1. **No Pre-existing Obligations.** Supplier represents and warrants that Supplier has no pre-existing obligations or commitments (and will not assume or otherwise undertake any obligations or commitments) that would be in conflict or inconsistent with or that would hinder Supplier's performance of its obligations under this Agreement.
- 6.2. **Performance Standard.** Supplier represents and warrants that the Services will be performed in a thorough and professional manner, consistent with high professional and industry standards by individuals with the requisite training, background, experience, technical knowledge and skills to perform the Services.
- 6.3. **Non-infringement.** Supplier represents and warrants that the Supplier Work Product will not infringe, misappropriate, or violate the rights of any third party, including, without limitation, any Intellectual Property Rights or any rights of privacy or rights of publicity, except to the extent any portion of the Supplier Work Product is created, developed or supplied by Company or by a third party on behalf of Company.

- 6.4. **Competitive Activities.** During the term of this Agreement, Supplier will not, directly or indirectly, in any individual or representative capacity, engage or participate in or provide services to any business that is competitive directly, as it pertains to current products at the commencement of this agreement, with the types and kinds of business being conducted by Company.
- 6.5. **Non-Solicitation of Personnel.** During the term of this Agreement and for a period of three (3) years thereafter, Supplier will not directly or indirectly solicit the services of any Company employee or Supplier for Supplier's own benefit or for the benefit of any other person or entity.
- 6.6. **Agreements with Supplier Personnel.** Supplier represents and warrants that all Supplier Personnel who perform Services are and will be bound by written agreements with Supplier under which: (i) Supplier owns or is assigned exclusive ownership of all Supplier Work Product, including all Intellectual Property Rights therein; and (ii) Supplier Personnel agree to limitations on the use and disclosure of Confidential Information no less restrictive than those provided in Section 5.

7. **MUTUAL INDEMNIFICATION.**

- 7.1. Parties will defend, indemnify and hold harmless its Parties and its representatives, officers, directors, employees, agents, affiliates, successors, and assigns from and against all claims, damages, liabilities, losses, expenses and costs (including reasonable fees and expenses of attorneys and other professionals) arising out of or resulting from: (i) any action by a third party against Parties that is based on a claim that any Services performed under this Agreement, or the results of such Services (including any Supplier Work Product), or Company's use thereof, infringe, misappropriate or violate such third party's Intellectual Property Rights; and (ii) any action by a third party against Company that is based on any act or omission of Supplier or any Supplier Personnel and that results in: (i) personal injury (or death) or tangible or intangible property damage (including loss of use); or (ii) the violation of any statute, ordinance, or regulation.

8. **TERM AND TERMINATION.**

- 8.1. **Term.** This Agreement will commence on the Effective Date and, unless terminated earlier in accordance with the terms of this Agreement, will remain in force and effect for as long as Supplier is performing Services pursuant to the Statement of Work.
- 8.2. **Termination for Breach.** Either party may terminate this Agreement (including the Statement of Work) if the other party breaches any material term of this Agreement and fails to cure such breach within sixty (60) days following written notice thereof from the non-breaching party.
- 8.3. **Effect of Termination.** (a) Upon the expiration and payment to Supplier in full, and if applicable and owned by Company, Supplier will promptly deliver to Company all Supplier Work Product, software licenses, equipment provided by Company to Supplier, including all work in progress on any Supplier Work Product not previously delivered to Company, if any. (b) Upon the expiration, Company will pay Supplier any amounts that are due and payable under Section 1.2 for Services performed by Supplier prior to the effective date of expiration. (c) Upon the expiration of this Agreement, Supplier will promptly notify Company of all Confidential Information in Supplier's possession or control and will promptly deliver all such Confidential Information to Company.
- 8.4. **Survival.** The rights and obligations of the parties under Sections 3, 4, 5, 6, 7, 8 and 9 will survive the expiration or termination of this Agreement.

9. **LIMITATION OF LIABILITY.**

- 9.1. IF A CONDITION ARISES BASED ON THE ACTIONS OF COMPANY, COMPANY WILL BE LIABLE FOR ANY SPECIAL, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES OF ANY KIND IN CONNECTION WITH THIS AGREEMENT, EVEN IF COMPANY HAS BEEN INFORMED IN ADVANCE OF THE POSSIBILITY OF SUCH DAMAGES.

10. GENERAL.

- 10.1. **Assignment.** Supplier may not assign or transfer this Agreement, in whole or in part, without Company's express prior written consent. Any attempt to assign this Agreement, without such consent, will be void. Subject to the foregoing, this Agreement will bind and benefit the parties and their respective successors and assigns. The Company may assign or transfer this Agreement, in whole or in part, without Supplier's consent, as long as this agreement stays in effect.
- 10.2. **No Election of Remedies.** Except as expressly set forth in this Agreement, the exercise by Company of any of its remedies under this Agreement will not be deemed an election of remedies and will be without prejudice to its other remedies under this Agreement or available at law or in equity or otherwise.
- 10.3. **Equitable Remedies.** Because the Services are personal and unique and because Supplier will have access to Confidential Information of Company, Company will have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief. Company must post a bond or other consideration, in addition to all other remedies that Company may have for a breach of this Agreement at law or otherwise.
- 10.4. **Attorneys' Fees.** If any action is necessary to enforce the terms of this Agreement, the substantially prevailing party will be entitled to reasonable attorneys' fees, costs and expenses in addition to any other relief to which such prevailing party may be entitled.
- 10.5. **Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the State of Texas, excluding its body of law controlling conflict of laws. Any legal action or proceeding arising under this Agreement will be brought exclusively in the federal or state courts located in Williamson County, Texas and the parties hereby irrevocably consent to the personal jurisdiction and venue therein.
- 10.6. **Severability.** If any provision of this Agreement is held invalid or unenforceable by a court of competent jurisdiction, the remaining provisions of this Agreement will remain in full force and effect, and the provision affected will be construed so as to be enforceable to the maximum extent permissible by law.
- 10.7. **Waiver.** The failure by either party to enforce any provision of this Agreement will not constitute a waiver of future enforcement of that or any other provision.
- 10.8. **Notices.** All notices required or permitted under this Agreement will be in writing, will reference this Agreement, and will be deemed given: (i) when delivered personally; (ii) when delivered by confirmed electronic transmission (including email); (iii) one (1) business day after deposit with a nationally recognized express courier, with written confirmation of receipt; or (iv) three (3) business days after having been sent by registered or certified mail, return receipt requested, postage prepaid. All such notices will be sent to the addresses set forth above or to such other addresses as may be specified by either party to the other party in accordance with this Section.
- 10.9. **Performance Consequential Damages.** If Supplier has not achieved the performance deliverable pursuant to Exhibit A, Section 4.1(c) - Production Ramp (First Customer Shipments "FCS") – Week of June 5, 2023, or earlier as agreed to by Company and the Supplier, the Supplier shall be notified as identified in Supplier Agreement, Section 10.9. Upon receipt of written notice of default, the Supplier will have ten (10) calendar days to provide a written explanation of any justification that may be applicable to the Consequential damages being considered and a corrective action plan for bringing the operations within the standards specified. Company will have the right to approve and make changes to the corrective action plan submitted by Supplier. The corrective action plan must be implemented by Supplier at no cost to and upon approval by Company. Consequential damages will not be assessed during the specified cure period for the activity in question. Supplier's failure to achieve the approved corrective action plan may be deemed by Company as a breach of this Agreement. If otherwise a corrective action plan is not provided by Supplier, Consequential damages shall be assessed at up to [***] per calendar day. Consequential damages shall be deducted from future payments to Supplier until remedied. If the company makes changes to the product or the schedule that disrupts continuous production and causes production delays, Consequential damages shall be assessed at up to [***] per calendar day.

10.10. **Entire Agreement.** This Agreement, together with the Statement of Work, constitutes the complete and exclusive understanding and agreement of the parties with respect to the subject matter hereof and supersedes all prior or contemporaneous understandings and agreements, whether written or oral, with respect to the subject matter hereof. In the event of a conflict, the terms and conditions of the Statement of Work will take precedence over the terms and conditions of this Agreement. Any waiver, modification, or amendment of any provision of this Agreement will be effective only if in writing and signed by the parties hereto.

10.11. **Interpretation.** The titles, captions and headings of this Agreement are included for ease of reference only and will be disregarded in interpreting or construing this Agreement. Unless otherwise specifically stated, (a) all references herein to “sections” and “exhibits” will mean “sections” and “exhibits” to this Agreement; (b) all references herein to “days” will refer to “calendar days”; and (c) all references to “including” will mean “including without limitation.”

10.12. **Counterparts; Signatures.** This Agreement may be executed in any number of counterparts, each of which when so executed and delivered will be deemed an original, and all of which together shall constitute one and the same agreement. Counterparts may be delivered via electronic mail (including pdf or any electronic signature complying with the U.S. federal ESIGN Act of 2000, e.g., www.docusign.com) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

COMPANY: Volcon Inc.

SUPPLIER: GLV Ventures

By: Jordan Davis

By: Gilbert Villarreal

Name: /s/ Jordan Davis

Name: /s/ Gilbert Villarreal

Title: CEO

Title: CEO

Address: 2590 Oakmont Dr, STE 520, Round Rock

Address: 417 E. 2nd St, Rochester MI 48307 78665

ATTACHMENTS

Exhibit A: Volcon Stag Production Launch Proposal-SOW

Exhibit B: Preexisting Inventions

Exhibit C: RASIC

Exhibit D: Product Specifications

EXHIBIT A
VOLCON STAG PRODUCTION LAUNCH SOW

1. PROJECT SUMMARY AND SCOPE

1.1. Summary. This plan details the Volcon Stag Production project, which commences after the PVT build. GLV will support of Volcon, and their partners, as outlined in the RASIC included in this proposal.

1.2. Project Duration. The effective date of this Agreement and continuing through Stag production life

1.3. Location of Service.

Company Name:	GLV, LLC
Contact Name:	[***]
Address:	417 E. 2nd Street, Rochester, MI 48307
Project Director:	[***]
Other Company Personnel:	[***]
Permitted Subcontractors:	As required (with NDA on file)

1.4. Goals and Objectives.

1.4.1. Production Tooling Launch

1.4.2. Production Vehicle Launch

2. RASIC. See Exhibit C

3. SCOPE OF PROJECT

3.1. GM Battery Pack, [***]

3.2. Powertrain Control Solutions (PCS) – [***]

3.3. Chassis, Body Panels, Suspension, Remaining BOM Target = [***]

3.4. Manufacturing Cost = [***]

3.5. Sale Package to Volcon = [*]**

3.6. Estimated Volumes:

3.6.1. MY 2024 (June 2023 to June 2024) [***]

3.6.2. MY 2025 (June 2024 to June 2025) [***]

3.6.3. MY 2026 (June 2025 to June 2026) [***]

3.7. Coordinate selection of components and hardware for the Stag, with Volcon

3.8. As required, includes PPAP Qualifications, GD&T, DFMEA, Analysis, and 2D Drawings on all newly designed components

4. PROJECT SCHEDULE

4.1. Deliverables.

4.1.1. Production System Fill – [***]

4.1.2. Production Kickoff – [***]

4.1.3. Production Ramp (First Customer Shipments (“FCS”)) – [***], or earlier as mutually agreed to by Company and Supplier

5. TERMS AND CONDITIONS

5.1. Product Conformance.

5.1.1. All product shall conform to product requirements including, but not limited to released drawings, FAI samples, specifications, ECOs (Engineering Change Orders), PPAP Qualifications, approved deviations and any general quality agreements or logistics/ purchasing agreements. Any product found to be in nonconformance shall not be eligible for payment until such nonconformance is cured in agreement with the Company. Company has final approval on all design requirements, material selections, and approval of production processes.

5.2. Product Cost.

5.2.1. Supplier agrees to make available at request all product related cost structures, bill of materials and any costs associated with the product overall cost including direct labor, freights, tariffs, directly assigned to the product or the procurement and manufacturing of the product and its subcomponents.

5.2.2. Supplier further agrees that cost savings realized through manufacturing improvements, design changes, sourcing and negotiations shall be shared between the Parties equally.

5.3. Program Improvements.

5.3.1. Supplier agrees cooperate fully in conjunction with cost and quality initiatives, value analysis, and other improvement projects at the supplier site or that of the sub suppliers. These activities will be coordinated closely with the Parties.

5.4. Product Changes.

5.4.1. All changes to released products will be handled via an ECO process or deviation process. All changes must be documented, and written approval granted prior to implementing any changes to the product.

5.4.2. Company has the right to refuse deviation requests. Supplier is responsible for all costs associated with the test, validation, and approval of deviation requests and assumes liability for any service and warranty costs associated with deviations to the required specifications.

5.4.3. All ECOs on the behalf of the Company shall be evaluated in good faith and implemented immediately. Supplier is required to evaluate and support all change orders. All costs impacts will be evaluated and agreed upon and as such Supplier agrees to provide fully documented cost impacts. Costs associated with Company directed Supplier changes will be the liability of the Company.

5.5. Product Cost.

- 5.5.1. Supplier agrees to maintain pricing per contract on a yearly basis and agrees to participate in good faith to achieve further cost reductions below the maximum price set forth in the above contract. If no improvements are made or price changes are agreed to, the pricing set forth from the previous year will remain as the prevailing agreed upon price.
- 5.5.2. Supplier agrees to participate in alternative sourcing, value analysis, and lean manufacturing activities in conjunction with the Company and any cost savings identified shall be shared mutually between the Parties.

5.6. Sub Supplier Decisions.

- 5.6.1. Directed suppliers as identified by the Company will be the responsibility of the Company for cost, quality, and timing. The Supplier may also offer alternative sub suppliers in which case they would manage and take responsibility for. Any supplier that is defined as a directed supplier shall be documented in writing as such and acknowledged by both Parties.
- 5.6.2. Company reserves the right to select and make final determination on alternate sub suppliers based on cost, quality, and delivery performance.

5.7. Tooling and Equipment.

- 5.7.1. Parties agree to transfer the legal ownership of initial and all replacement tooling paid for by Company upon completion of the PPAP qualification and final tooling payment made to Supplier. Company shall possess sole title to tooling. Supplier agrees to permanently identify tooling with Company name and permanent ID tag. Supplier agrees to provide on request updated list of all owned tooling including location, condition, and contact for any sub supplier in possession of tooling.
- 5.7.2. Company has the right to inspect and verify any tooling, manufacturing, or assembly facility during the normal business hours of the facility.
- 5.7.3. Supplier agrees to provide Company with capacity checks, tooling audits and all required technical documents related to tooling to support the analysis of production or alternate supply decisions including technical documents and drawings.
- 5.7.4. All issues with tooling for capacity, defects, quality, or life shall be immediately communicated to the Company that have impact or potential impact to quality or delivery of finished goods. Supplier agrees to maintain at their cost the tooling ensuring the same level of performance and quality demonstrated during the PPAP qualification.
- 5.7.5. Tooling is for the exclusive use to manufacture products on behalf of Company and in no instance shall be used for the production of product for any party other than the Company.
- 5.7.6. In the event of insolvency, breach, or termination of manufacturing agreements the Company will have the exclusive right to purchase the specified tooling and production fixtures at the Supplier or their contracted sub suppliers that has not already been paid for by the Company.
- 5.7.7. Tooling shall not be scrapped without the written permission of the Company.
- 5.7.8. Supplier is required to store tooling for a period of 1.5 years beyond the end of production at their expense and support the Company with mutually agreed terms and pricing for any small production runs to support the service and warranty period, or end of life purchases.

5.7.9. Company has the right to withdraw tooling with the termination of this agreement, Supplier inability to supply product, Supplier is delayed, cannot meet quality requirements or is unwilling to supply product at the agreed upon terms. Supplier agrees to make readily available tooling without damage to Company upon written request from Company.

5.8. Warranty.

5.8.1. Suppliers guarantees that all supplied products will be free from defect in materials, workmanship and will conform to all applicable product specifications and drawings.

5.8.2. The warranty period of the products shall be a [***] period commencing when the vehicle is registered or is put into use at the time of retail sale, else [***] from the time of factory exit of Supplier at the FOB point of Texas.

5.8.3. Warranty shall cover all manufactured and purchased components contained within the purchased products including vehicles as well as any service, warranty, or accessory components.

5.8.4. In the event of defective Product, the Supplier shall promptly sort, and repair or replace at Company's direction, the defective Product at the Supplier's expense.

5.8.5. In the event the defective Product is discovered in the field, the supplier agrees to provide support and necessary materials to promptly address any warranty, recall, or service type event with the Company's dealer network and reimburse the Company for the expenses incurred to resolve the event.

5.8.6. Company reserves the right to cancel or retain a partial payment in the event the defect is unable to be resolved or the product fails.

5.8.7. Suppliers agrees to reimburse cost associated with warranty events including but not limited to, reasonable and industry standard Dealer service fees, component costs, travel, labor, storage or other associated costs to repair or replace the defective product. Supplier shall have the first right to perform such task.

5.8.8. Supplier agrees to reimburse all damages, losses and costs associated with recalls, field safety measures, defect service events, or other product related events that call for repair or replacement of vehicles in service upon Supplier and Company mutual concurrence

5.8.9. Supplier agrees to share any information of known risks without delay that could present a possible safety or quality concern to the Product. Parties agree to work together to address and resolve such instances.

5.9. This agreement does not include the Supplier Agreement dated March 11, 2022, established and in place, between GLV and Volcon for the development and launch of the Volcon Stag.

6. PRODUCT SPECIFICATIONS. Attached hereto as Exhibit D.

EXHIBITS
[***]

CERTIFICATION BY CHIEF EXECUTIVE OFFICER

I, Jordan Davis, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2022 of Volcon, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [intentionally omitted];
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 15, 2022

By: /s/ Jordan Davis
Jordan Davis
Chief Executive Officer
(Principal executive officer)

CERTIFICATION BY CHIEF FINANCIAL OFFICER

I, Greg Endo, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2022 of Volcon, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [intentionally omitted];
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 15, 2022

By: /s/ Greg Endo
Greg Endo
Chief Financial Officer
(Principal financial and accounting officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Volcon, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly report on Form 10-Q for the quarter ended June 30, 2022 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 15, 2022

By: /s/ Jordan Davis
Jordan Davis
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Volcon, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly report on Form 10-Q for the quarter ended June 30, 2022 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 15, 2022

By: /s/ Greg Endo
Greg Endo
Chief Financial Officer
(Principal financial and accounting officer)