Maris-Tech Ltd.

Financial Statements
as of December 31, 2022

Maris-Tech Ltd.

Financial Statements

TABLE OF CONTENTS

pwc

Report of Independent Registered Public Accounting Firm

To the board of directors and shareholders of Maris-Tech Ltd.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Maris-Tech Ltd. (the “Company”) as of December 31, 2022 and 2021, and the related statements of operations, changes in shareholders’ equity (capital deficiency) and cash flows for each of the three years in the period ended December 31, 2022 including the related notes (collectively referred to as the financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2W to the financial statements, the Company changed the manner in which it accounts for leases in 2022.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

Tel Aviv, Israel
March 6, 2023

We have served as the Company’s auditor since 2021.

Maris-Tech Ltd.
Balance Sheets
(U.S. dollars)

	December 31, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 221,961	$ 785
Short-term bank deposits	9,084,082	-
Trade receivables	1,606,495	571,482
Other receivables	359,591	2,873
Inventories	981,729	391,484
Total current assets	$ 12,253,858	$ 966,624
NON-CURRENT ASSETS		
Restricted deposits	$ 33,569	$ 48,341
Deferred issuance costs	-	871,171
Property, plant and equipment, net	283,790	16,511
Severance pay deposits	156,723	136,620
Operating lease right-of-use assets	635,976	-
Total non-current assets	$ 1,110,058	$ 1,072,643
Total Assets	$ 13,363,916	$ 2,039,267
LIABILITIES AND EQUITY (NET OF CAPITAL DEFICIENCY)		
CURRENT LIABILITIES:		
Short-term bank credit and current maturities of long-term bank loans	$ -	$ 410,324
Trade payables	1,083,345	463,653
Other current liabilities	727,560	791,038
Short-term liabilities due to a shareholder and a related party	-	296,459
Total current liabilities	$ 1,810,905	$ 1,961,474
LONG-TEM LIABILITIES:		
Long-term loans, net of current maturities	$ -	$ 744,769
Long-term loans from related party	1,088,250	1,088,250
Warrants to purchase ordinary shares	-	351,845
Non-current operating lease liabilities	442,166	-
Accrued severance pay	425,742	272,509
Total long-term liabilities	$ 1,956,158	$ 2,457,373
Total Liabilities	$ 3,767,063	$ 4,418,847
COMMITMENT AND CONTINGENCIES (note 9)		
SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)		
Ordinary shares, no par value: Authorized - 100,000,000 and 12,500,000 shares as of December 31, 2022 and December 31, 2021, respectively; issued and outstanding: 7,999,216 and 3,085,000 shares as of December 31, 2022 and December 31, 2021, respectively	-	-
Preferred shares, no par value: Authorized - no shares and 1,250,000 shares as of December 31, 2022 and December 31, 2021, respectively; issued and outstanding: no shares and 489,812 shares as of December 31, 2022 and December 31, 2021, respectively	-	-
Additional paid-in capital	17,789,380	2,124,601
Accumulated deficit	(8,192,527)	(4,504,181)
Total Shareholders' equity (capital deficiency)	9,596,853	(2,379,580)
Total Liabilities and equity (net of capital deficiency)	$ 13,363,916	$ 2,039,267

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

Maris-Tech Ltd.
Statements of Operations
(U.S. dollars)

	Year ended December 31		
	2022	**2021**	**2020**
Revenues	$ 2,504,896	$ 2,075,755	$ 987,883
Cost of revenues	1,722,104	1,106,447	500,696
Gross profit	782,792	969,308	487,187
Operating expenses			
Research and development, net	1,021,869	706,021	781,417
Sales and marketing	604,114	241,114	22,551
General and administrative	2,840,660	595,074	74,169
Total operating expenses	4,466,643	1,542,209	878,138
Loss from operations	3,683,851	572,901	390,951
Financial expenses, net	4,495	251,323	249,392
Net loss	$ 3,688,346	$ 824,224	$ 640,343
Basic and diluted net loss attributable to shareholders per ordinary share	$ 0.49	$ 0.24	$ 0.26
Weighted average number of ordinary shares used in computing loss per ordinary share	7,528,038	3,464,470	2,483,988

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

Maris-Tech Ltd.
Statements of Changes in Shareholders' equity (capital deficiency)
(U.S. dollars)

	Number of Shares issued	Number of Preferred Shares issued	Share capital	Additional paid in capital	Accumulated deficit	Total Shareholders' capital deficiency
Balance as of January 1, 2020	**309**	-	-	-	**$ (2,491,370)**	**$ (2,491,370)**
Changes during the year ended December 31, 2020:						
Conversion of shareholders' loans to shareholders' equity	3,084,691	-	-	$ 1,078,808	-	$ 1,078,808
Net loss	-	-	-	-	(640,343)	(640,343)
Balance as of December 31, 2020	**3,085,000**	**-**	**-**	**$ 1,078,808**	**$ (3,679,957)**	**$ (2,601,149)**
Changes during the year ended December 31, 2021:						
Issuance of Capital, net of issuance costs	-	489,812	-	1,045,793	-	1,045,793
Net loss	-	-	-	-	(824,224)	(824,224)
Balance as of December 31, 2021	**3,085,000**	**489,812**	**-**	**$ 2,124,601**	**$ (4,504,181)**	**$ (2,379,580)**
Changes during the year ended December 31, 2022:						
Issuance of ordinary shares and warrants upon IPO, net of issuance costs	4,244,048	-	-	15,176,584	-	15,176,584
Exercise of warrants	180,356	-	*	-	-	*
Conversion of preferred shares into ordinary shares	489,812	(489,812)	-	-	-	-
Reclassification of warrants to purchase ordinary shares from liability to equity	-	-	-	412,299	-	412,299
Share-based compensation	-	-	-	75,896	-	75,896
Net loss	-	-	-	-	(3,688,346)	(3,688,346)
Balance as of December 31, 2022	**7,999,216**	**-**	**-**	**$ 17,789,380**	**$ (8,192,527)**	**$ 9,596,853**

* Less than $1

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

Maris-Tech Ltd.
Statements of Cash Flows
(U.S. dollars)

	Year ended December 31, 2022	2021	2020
Cash flows from operating activities			
Net loss from operations	$ (3,688,346)	$ (824,224)	$ (640,343)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Depreciation	17,211	5,056	3,525
Change in fair value of Warrants	60,454	77,551	-
Share-based compensation	75,896	-	-
Financial expenses (income)	(133,816)	(39,731)	47,055
Interest on shareholders' loan	-	-	1,700
Changes in operating assets and liabilities:			
Increase in accrued severance pay	153,233	55,052	41,179
Decrease (increase) in trade receivables, net	(1,035,013)	(443,944)	108,319
Decrease (increase) in other receivables	(356,718)	(95)	4,632
Decrease (increase) in inventories	(590,245)	(140,417)	102,711
Increase (decrease) in trade payables	619,692	213,859	(61,368)
Increase (decrease) in other current liabilities	20,625	221,891	(25,900)
Net cash used in operating activities	(4,857,027)	(875,002)	(418,490)
Cash flows from investing activities			
Investment in short-term bank deposits, net	(12,500,000)	-	-
Proceeds from sale of short-term deposits	3,500,000	-	-
Investment in severance funds	(20,103)	(21,457)	(27,502)
Purchase of property and equipment	(284,490)	(7,967)	(6,041)
Net cash used in investing activities	(9,304,593)	(29,424)	(33,543)
Cash flows from financing activities			
Repayment of short-term bank credit	(410,324)	(56,638)	353,138
loan received from shareholders	-	199,547	250,853
Issuance of shares and warrants	17,824,992	1,500,000	-
Issuance costs paid	(2,101,875)	(179,913)	-
Long-term bank loans received	-	183,038	-
Early repayment of long-term bank loans	(744,769)	(125,247)	(148,631)
Repayment of loan from shareholder	(200,000)	-	-
Deferred issuance costs	-	(621,607)	-
Net cash provided by financing activities	14,368,024	899,180	455,360
Increase (decrease) in cash, cash equivalents and restricted cash	206,404	(5,245)	3,327
Cash, cash equivalents and restricted deposits at the beginning of the year	49,126	54,371	51,044
Cash, cash equivalents and restricted deposits at the end of the year	$ 255,530	$ 49,126	$ 54,371

	Year ended December 31, 2022	2021	2020
Supplementary disclosure on cash flows:			
Interest paid	16,882	15,372	56,148
Interest received	8,686	154	4
Supplemental disclosures of non-cash flow information			
Conversion of Long-term liabilities to shareholders to ordinary shares	$ -	$ -	$ 1,078,808
Non-cash deferred issuance costs	$ -	$ 249,564	$ -
Reclassification of warrants to purchase ordinary shares from liability to equity	$ 412,299	$ -	$ -

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

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 1 - General

A. Introduction

Maris-Tech Ltd. (the "Company") was incorporated in 2008, in Israel. The Company develops, designs and manufactures high-end digital video and audio products and solutions for the professional as well as the civilian and home security markets, which can be sold off the shelf or fully customized to meet customers' requirements.

On February 4, 2022, the Company closed an initial public offering ("IPO"). In connection with the IPO (including over-allotment and exercise of pre-funded warrants issued and sold in the IPO), the Company issued and sold 4,244,048 ordinary shares, no par value per share ("Ordinary Shares"), and warrants ("Warrants") to purchase up to 4,244,048 Ordinary Shares. The Ordinary Shares and Warrants were approved for listing on the Nasdaq Capital Market ("Nasdaq") and commenced trading under the symbol "MTEK" and "MTEKW," respectively, on February 2, 2022. For further information see Note 12.

The Company operates in Israel and sells to customers in other countries, including the United States, United Kingdom and Switzerland.

B. Liquidity and Capital Resources

The Company has experienced net losses and negative cash flows from operations since its inception and has relied on its ability to fund its operations primarily through proceeds from sales of Ordinary Shares, preferred shares no par value per share ("Preferred Shares"), warrants, credit lines and long-term loans from banks and shareholders. As of December 31, 2022 and 2021, the Company had working capital of $10.4 million and a working capital deficit of $1 million, respectively, an accumulated deficit of $8.2 million and $4.5 million, respectively, and negative cash flow from operating activity of $4.9 million and $0.9 million for the twelve months ended December 31, 2022 and 2021, respectively. The Company anticipates such losses will continue until its products reach commercial profitability.

On February 4, 2022, in connection with the IPO (including over-allotment and exercise of pre-funded warrants issued and sold in the IPO), the Company issued and sold 4,244,048 Ordinary Shares and Warrants to purchase up to 4,244,048 Ordinary Shares (and received aggregate gross proceeds of $17.8 million before deducting underwriting discounts and commissions and before offering expenses ($15.1 million net proceeds after deducting approximately $1.35 million of underwriting discounts and commissions and approximately $1.35 million of other offering costs).

During February and May 2022, the Company repaid its liabilities to banks and one of the Company's shareholders, Yaad Consulting and Management Services (1995) Ltd. ("Yaad"), in the total amount of approximately $1.4 million. As a result, personal guarantees, debenture and collateral securing certain of those loans were released.

Therefore, based on management's projections of the business results for the next twelve months, management concluded that the Company has sufficient liquidity to satisfy its obligations over the next twelve months from the date of issuance of these financial statements.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 1 – General (Continued)

In connection with the outbreak of COVID-19, the Company has taken steps to protect its workforce in Israel. Such steps include work from home where possible, minimizing face-to-face meetings and utilizing video conference as much as possible, social distancing at facilities and elimination of all international travel. The Company continues to comply with all local health directives.

Another impact of the COVID-19 pandemic has been on product delivery, where the lead time to procure component parts is longer and a shortage in supply of component parts has increased as the duration of the COVID-19 pandemic has continued. As long as the COVID-19 pandemic continues, the lead time to obtain component parts may be longer than normal and shortage in supply of component parts may continue or worsen. Therefore, the Company maintains a comprehensive network of world-wide suppliers. In addition, in cases where certain components are purchased from single source manufacturers, the Company has adjusted and modified its designs based on different components from different suppliers, to allow for more versatility and flexibility.

Note 2 - Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis, except as noted in Note 2W for the change in the manner in which the Company accounts for leases, are as follows:

A. Functional Currency

Most of the Company’s revenues are denominated in U.S. dollars. A main portion of purchases of materials, component parts and sales costs are denominated in U.S. dollars. Therefore, both the functional and reporting currency of the Company is the U.S. dollar.

Transactions and balances denominated in U.S. dollars are presented at their original amounts.

Monetary balances denominated in currencies other than the U.S dollar are converted into U.S dollars in accordance with Statements of the Accounting Standards Codification (“ASC”) Topic 830, *Foreign Currency Matters*. All transaction gain and losses of the converted monetary balance sheet items are reflected in the statements of operations, among ‘financial expenses, net’, as appropriate.

B. Estimates and assumptions

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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during reported period. Actual results may differ from those estimates. As applicable for these financial statements, the most significant estimates and assumptions related to revenue recognition, and valuation of inventories.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 2 - Significant Accounting Policies (continued)

C. Cash equivalents

Cash equivalents are short-term, highly liquid investments and debt instruments that are readily convertible to cash with original maturities of three months or less from the date of purchase.

D. Bank deposits

Bank deposits with original maturities of more than three months, or specific deposits that are intended to be held as bank deposits for more than three months, and which will mature within one year, are classified as short-term investments.

E. Trade receivables

Trade receivables are recorded at the invoiced amount and do not bear interest. The financial statements include an allowance for doubtful accounts for which collection of the receivable is not probable and as of December 31, 2022, the provision for allowance for doubtful accounts was negligible. In determining the adequacy of the allowance, consideration is given to each trade receivable historical experience, aging of the receivable, adjusted to take into account current market conditions and information available about specific debtors, including their financial condition, current payment patterns, the volume of their operations, and evaluation of the security received from them or their guarantors.

F. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by calculating raw materials, work in process and finished products on a weighted average cost basis. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Inventory write-offs are provided to cover risks arising from slow moving items or technological obsolescence. Such write-offs have been included in cost of revenues. Reserves for potentially excess and obsolete inventory are made based on management's analysis of inventory levels, future sales forecasts. Once established, the original cost of inventory less the related inventory reserve represents the new cost basis of such products.

G. Property, plant and equipment, net

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Computers and manufacturing equipment	3-7
Office furniture and equipment	17
Leasehold improvements	Shorter of economic life or lease term

H. Revenue recognition

The Company generates revenues from sales of products manufactured based on the Company's technology. The Company develops, design and manufactures both standard and customizable high-end digital Video & Audio products. The Company's products include proprietary software (firmware) embedded into the tangible products and is not sold separately. The Company only sells its products to end customers with no right of return.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 2 - Significant Accounting Policies (continued)

The Company applies ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services.

In accordance with ASC 606, the entity performs the following five steps:

(1) Identify the contract(s) with a customer,

(2) Identify the performance obligations in the contract,

(3) Determine the transaction price,

(4) Allocate the transaction price to the performance obligations in the contract, and

(5) Recognize revenue when (or as) the entity satisfies a performance obligation.

Identifying the contract with a customer:

The Company accounts for a contract with a customer when it has approval and commitment from both parties, the rights of the parties and payment terms are identified and agreed upon, the contract has commercial substance and collectability of consideration is probable.

For each contract, the Company exercises judgement to identify separate performance obligations and to evaluate, at the inception of the contract, if each distinct performance obligation within the contract is satisfied at a point in time or over time.

Identifying the performance obligations in the contract:

The Company's sales transactions include a single performance obligation which is the delivery of the product to the customer. The Company is not obligated and does not provide the customer with an updated version of the products' embedded software following the initial transaction. Therefore, the Company's transactions do not include any performance obligation relating to potential upgrades or updates for the software or product.

In certain cases, the Company customizes its products based on its customers' requirements (Proof of Concept ("POC") transactions). In addition, commencing 2021, the Company also enters into several transactions in which it develops a specialized product, based on the Costumer's requirements (Non-Recuring Engineering ("NRE") transactions). In these transactions, the Company has determined that the development or the customization and the delivery of these products are not distinct within the context of the contract, since the nature of the Company's promise is to transfer a combined output to which each of these components is an input. Therefore, these transactions include a single performance obligation which is the customized product.

Determining the transaction price:

Revenue is measured based on the consideration specified in the contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties (such as sales tax). The Company's transaction does not include a significant financing component as all amounts are due within few months from transfer of Control.

Recognize revenue when (or as) the entity satisfies a performance obligation:

The Company recognizes revenue when it satisfies a performance obligation by transferring control over its product to a customer based on the shipment terms. In most cases, control is transferred at Company's premises (Ex-work terms).

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 2 - Significant Accounting Policies (continued)

As for the POC and NRE transactions, the Company analyzed the criteria in ASC 606 to determine whether control over products sold under the contracts is transferred over time. Mainly, whether the Company's performance does not create an asset with an alternative use to the Company, and if it has an enforceable right to payment for performance completed to date. In its POC transactions, the Company has an enforceable right to payment for performance completed through the term of the contract with its customers. However, the customized product has an alternative use for the Company, therefore, none of the conditions stipulated in ASC 606 are met for recognizing revenue over time. Accordingly, revenue from POC transactions is recognized at a point in time, upon delivery of the product to the customer usually on EX-Works terms.

In the NRE transactions the Company determines that the specialized product does not have an alternative use for the Company, and it has an enforceable right to payment for performance completed through the term of the contract. Therefore, in these transactions, revenue is recognized over time using the cost-to-cost method. The Company uses significant judgment when it determines the costs expected to be incurred upon satisfying the identified performance obligation.

See also Note 10 for further information regarding the Company's revenue transactions.

I. Deferred issuance costs

The Company capitalized certain legal, professional accounting and other third-party fees that were directly associated with the IPO, as deferred costs until the IPO was consummated. Following the completion of the IPO, these fees were recorded in the stockholders' equity as a reduction of additional paid-in capital generated as a result of the activity. The deferred issuance costs in the amount of $871,171 which were capitalized as of December 31, 2021 in long term assets were charged to equity during 2022 in conjunction with the IPO.

J. Warrant classification

When the Company issues freestanding instruments, it first analyzes the provisions of the Financial Accounting Standards Board ("FASB") ASC Topic 480, *distinguishing liabilities from equity* ("ASC 480") in order to determine whether the instrument should be classified as a liability, with subsequent changes in fair value recognized in the statements of operations in each period. If the instrument is not within the scope of ASC 480, the Company further analyzes the provisions of FASB ASC Topic 815, *derivatives and hedging* ("ASC 815-10") in order to determine whether the instrument is considered indexed to the entity's own stock, and qualifies for classification within equity. If the provisions of ASC 815-10 for equity classification are not met, the instrument is classified as a liability, with subsequent changes in fair value recognized in the statements of operations in each period.

K. Warranty reserve

The Company provides a one-year standard warranty for its products. The Company records a provision for the estimated cost to repair or replace products under warranty at the time of sale. Factors that affect the Company's warranty reserve include the number of units sold, historical and anticipated rates of warranty repairs and the cost per repair. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 2 - Significant Accounting Policies (continued)

The following table sets forth activity in the Company's accrued warranty account for each of the years ended December 31, 2022, 2021 and 2020 respectively:

	2022	2021	2020
Balance at beginning of the year	20,758	9,879	8,930
Cost incurred	(3,220)	(5,850)	-
Expense recognized	7,511	16,729	949
Balance at end of year	25,049	20,758	9,879

L. Research, development costs and intangible assets

Research and development costs, which consist mainly of labor costs, materials and subcontractor costs, are charged to operations as incurred.

According to ASC Topic 350, *Intangibles - Goodwill and Other*, software that is part of a product or process to be sold to a customer shall be accounted for under ASC subtopic 985-20. The Company's products contain embedded software which is an integral part of these products because it allows the various components of the products to communicate with each other and the products are clearly unable to function without this coding. Based on the Company's product development process, the Company does not incur material costs after the point in time at which the product as a whole reaches technological feasibility. Therefore, research and development costs are charged to the statement of operations as incurred.

Participation by government departments and from research foundations for development of approved projects is recognized as a reduction of expense as the related costs are incurred.

M. Basic and diluted net loss per share

Basic and diluted net loss per Ordinary Share is computed based on the weighted average number of Ordinary Shares outstanding during each year. Shares issuable are considered outstanding Ordinary Shares, including the Preferred Shares (prior to their conversion into Ordinary Shares), and included in the computation of basic net loss per Ordinary Share as of the date that all necessary conditions have been satisfied.

The denominator for diluted net loss per share is a computation of the weighted-average number of Ordinary Shares and the potential dilutive Ordinary Shares outstanding during the period. Potential dilutive shares outstanding include the dilutive effect of in-the-money options and warrants using the treasury stock method.

N. Fair value of financial instruments

The Company's financial instruments consist mainly of cash and cash equivalents, short-term deposits, trade receivables, restricted deposits including deposits for employee benefits, trade payable, and long-term loans.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 2 - Significant Accounting Policies (continued)

Fair value for the measurement of financial assets and liabilities is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company utilizes a valuation hierarchy for disclosure of the inputs for fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

By distinguishing between inputs that are observable in the market place, and therefore more objective, and those that are unobservable and therefore more subjective, the hierarchy is designed to indicate the relative reliability of the fair value measurements. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company, in estimating fair value for financial instruments, determined that the carrying amounts of cash and cash equivalents, short-term deposits, trade receivables, restricted deposits including deposits for employee benefits and trade payables are equivalent to, or approximate their fair value due to the short-term maturity of these instruments. The carrying amounts of variable interest rate long-term loans are equivalent or approximate to their fair value as they bear interest at approximate market rates. The liabilities include long-term loans from shareholders that have no maturity dates, bear no interest and are not linked to any index.

O. Segments

The Company operates in one segment. Management does not segregate its business for internal reporting. The Company's chief operating decision maker ("CODM"), who is the Chief Executive Officer, evaluates the performance of its business based on financial data consistent with the presentation in the accompanying financial statements. The Company concluded that its unified business is conducted globally and accordingly represents one operating segment.

P. Income taxes

The Company accounts for taxes on income in accordance with ASC Topic 740, *Income Taxes*, which prescribes the use of the asset and liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and 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, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that a portion or all of the deferred tax assets will not be realized, based on the weight of available positive and negative evidence. Deferred tax liabilities and assets are classified as non-current in accordance with ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* .

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 2 - Significant Accounting Policies (continued)

The Company accounts for uncertain tax positions in accordance with ASC 740-10. ASC 740-10 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative probability) likely to be realized upon ultimate settlement.

The Company accounts for interest and penalties as a component of income tax expense.

Q. Severance pay

The Company's liability for severance pay for some of its Israeli employees is calculated pursuant to Israeli Severance Pay Law, 1963 (the "Israeli Severance Pay Law") based on the most recent salary of the employee multiplied by the number of years of employment until June 30, 2022. Those employees are entitled to one month's salary for each year of employment or a portion thereof. The Company records the liability as if it were payable at each balance sheet date on an undiscounted basis.

The Company's liability for those Israeli employees is provided for by monthly deposits funded for insurance policies until June 30, 2022 and the remainder by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.
The deposited funds include profits and losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the Israeli Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies.

In accordance with the current employment agreements with certain employees, and for the period commencing July 1, 2022 for the employees mentioned above, the Company makes regular deposits with certain insurance companies for accounts controlled by each applicable employee in order to secure the employee's rights upon retirement. Pursuant to applicable Israeli law, the Company is fully relieved from any severance pay liability with respect to each such employee if it makes such payments on behalf of the employee. The liability accrued in respect of such employees and the amounts funded, as of the respective agreement dates, are not reflected in the Company's balance sheets, since the Company does not control or manage the funds and the pension or severance pay risks are irrevocably transferred to the applicable insurance companies.

Severance pay expenses for the years ended December 31, 2022, 2021 and 2020 amounted to $61,169 , $ 31,356 and $22,247, respectively.

R. Concentrations of credit or business risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, bank deposits, trade receivables and trade payables.

Cash equivalents and bank deposits are invested mainly in NIS and U.S. dollars with major banks in Israel. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

Most of the Company's trade receivables are derived from sales to large and financially secure organizations. In determining the adequacy of the allowance, management bases its opinion, inter alia, on the estimated risks, current market conditions and in reliance on available information with respect to the debtor's financial position. See Note 10 for a discussion of the Company's major customers.

The Company acquires certain component parts for its products from market leading suppliers that are single source manufacturers. In order to mitigate the risk and as a redundant solution, the Company designs similar products based on component parts from different suppliers.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 2 - Significant Accounting Policies (continued)

S. Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigations, fines and penalties and other sources are recognized when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Gain contingencies are recognized when they are realized or when all related contingencies have been resolved.

T. Cash and cash equivalents in Statement of Cash Flows

The Company implements the Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires amounts generally described as restricted cash and restricted cash equivalents to be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash and cash equivalents reported within the accompanying balance sheets that sum to the total of the same such amounts presented in the accompanying statements of cash flows:

	December 31,	
	2022	2021
Cash and cash equivalents	$ 221,961	$ 785
Restricted deposits	33,569	48,341
Total cash, cash equivalents and restricted deposits presented in the statements of cash flows	$ 255,530	$ 49,126

U. Leases

The Company adopted ASC 842, *Leases* ("ASC 842") on January 1, 2022, using a modified retrospective basis and applied the practical expedients related to the transition, see also Note 2W. The Company determines whether an arrangement is a lease for accounting purposes at contract inception. Operating leases are recorded as right-of-use ("ROU") assets, which are included in right-of-use assets, and lease liabilities, which are included in other payable and non-current operating lease liabilities on the balance sheets, respectively. As of December 31, 2022, the Company did not have any finance leases.

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 present value of lease payments over the lease term. The Company's leases do not provide an implicit rate; the Company uses an incremental borrowing rate for specific terms on a collateralized basis based on the information available on either ASC 842, transition date or commencement date, as applicable in determining the present value of lease payments.

The ROU asset calculation includes lease payments to be made. The ROU asset and lease liability may include amounts attributed to options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term. In addition, upon transition the Company has elected the practical expedients related to lease classification and hindsight.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 2 - Significant Accounting Policies (continued)

V. Share based compensation

The Company applies ASC 718, *Share-based Payment* ("ASC 718"). ASC 718 requires awards classified as equity awards to be accounted for using the grant-date fair value method. The fair value of share-based payment transactions is recognized as expense over the requisite service period. Forfeitures are accounted for as they occur.

The Company measures the compensation cost related to the options awarded on the grant date and recognize the cost on a straight-line method over the requisite service period of the awards, including awards with graded vesting and no additional conditions for vesting other than service conditions.

Fair value of the equity instrument issued to a non-employee is measured as of the grant date. The fair value of the awards is recognized over the vesting period, which coincides with the period that the counter-party is providing services to the Company.

W. Recently issued accounting pronouncements adopted

In February 2016, the FASB issued ASU 2016-02 regarding FASB ASC 842. The new guidance requires lessees to recognize lease assets and lease liabilities for those leases classified as operating leases under previous FASB guidance. The Company adopted ASC 842 on January 1, 2022, using a modified retrospective basis and applied the practical expedients related to the transition. Consequently, financial information was not updated and the disclosures required under the standard are not provided for dates and periods before January 1, 2022. The adoption resulted in an increase of approximately $530,444 for the right of use lease assets against lease liabilities. See also note 2U above.

In August 2020, the FASB issued ASU 2020-06, *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815 – 40* ("ASU 2020-06"). This guidance simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The amendments to this guidance are effective for fiscal years beginning on or after December 15, 2021, and interim periods within those fiscal years. The Company decided to early adopt ASU 2020-06 as of January 1, 2021. The adoption of this standard did not have an impact on the Company's financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832)*, which requires annual disclosures that increase the transparency of transactions involving government grants, including (1) the types of transactions, (2) the accounting for those transactions, and (3) the effect of those transactions on an entity's financial statements. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2021. See note 9C.

X. Recently issued accounting pronouncements not yet adopted

As an emerging growth company, the Jumpstart Our Business Startup Act of 2012 (the "JOBS Act") allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. The Company has elected to use this extended transition period under the JOBS Act. The adoption dates discussed below reflect this election.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The guidance will be effective for fiscal years beginning on or after January 1, 2023, and interim periods therein. Early adoption is permitted. The Company is currently evaluating the effect that ASU 2016-13 will have on its financial statements and related disclosures.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 3 - Restricted Deposits

Balances at December 31, 2022 and 2021 consisted of bank deposits. The bank deposits bore annual interest of 1.1% and 0.3% as of December 31, 2022 and 2021, accordingly. Restricted deposits, as of December 31, 2022, are restricted due to guarantees made with regards to lease payments for the Company's office space. See Note 9A for additional information regarding this lease.

Note 4 - Inventories

	December 31, 2022	December 31, 2021
Raw materials	$ 551,774	$ 212,736
In process and finished products	429,955	178,748
	$ 981,729	$ 391,484

During the years ended December 31, 2022, 2021 and 2020, the Company recorded expenses approximately $11,856, $0 and $22,957, respectively, for write-down of inventory under cost of revenues.

Note 5 - Property, Plant and Equipment, net

A. Consist of:

	December 31, 2022	December 31, 2021
Cost		
Computers, software and manufacturing equipment	$ 43,089	$ 14,916
Leasehold improvement	148,712	-
Office furniture and equipment	125,282	17,684
Total cost	317,083	32,600
Total accumulated depreciation	33,293	16,089
Property, Plant and Equipment, net	$ 283,790	$ 16,511

B. Depreciation expenses amounted to $17,211, $5,056 and $3,525 for the years ended December 31, 2022, 2021 and 2020, respectively.

Note 6 - Other Current Liabilities

	December 31, 2022	December 31, 2021
Employees and related expenses	$ 357,188	$ 191,004
Provision for warranty	25,049	20,758
Accrued expenses (due to professional fees)	172,818	533,673
Current maturities of operating leases	144,076	-
Government Authorities	28,429	45,603
	$ 727,560	$ 791,038

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 7 - Short-term liability due to a shareholder:

On December 23, 2021, the Company entered into a Loan Agreement with Yaad, one of Company's minority shareholders, pursuant to which it loaned to the Company $200,000, at an annual interest rate equal to 4% and such loan with any accrued interest was due and payable (i) in full two business days following the receipt of funds in Israel from the closing of an initial public offering of the Company or (ii) if no initial public offering is closed by December 31, 2024, in three (3) equal annual installments beginning January 1, 2025. The loan was classified as a short-term liability due to shareholders in the financial statements as of December 31, 2021. The loan was repaid during February 2022.

Note 8 - Bank Loans

A. Breakdown of long-term loans:

	December 31, 2021
Long-term loan from bank Mizrachi (1)	$ 367,753
Long-term loan from bank Mizrachi (2)	68,212
Long-term loan from bank Leumi (3)	79,789
State-guaranteed loan from bank Mizrachi (4)	106,053
Long-term loans from bank Mizrachi (5)	483,631
Long-term loan from bank Leumi (6)	-,-
	1,105,438
Less - current maturities	(360,669)
	$ 744,769

(1) During the year ended December 31, 2018, the Company received a long term loan from Bank Mizrachi in the amount of NIS 1.85 million ($0.49 million), which loan carries an annual interest of 5.35%, matures in December 2025 and shall be due and payable in 84 equal monthly payments.

(2) During the year ended December 31, 2019, the Company received a long term loan from Bank Mizrachi in the amount of NIS 0.4 million ($0.12 million), which loan carries an annual interest of 5.80%, matures in December 2023 and shall be due and payable in 48 equal monthly payments.

(3) During the year ended December 31, 2020, the Company received a long term loan from Bank Leumi in the amount of NIS 0.3 million ($0.08 million), which carries an annual interest of 3.1%, matures on April 2025 and shall be due and payable in 48 equal monthly payments.

(4) During the year ended December 31, 2020, the Company received a long term loan from Bank Mizrachi in the amount of NIS 0.35 million ($0.1 million), which carries an annual interest of 3.1%, matures on October 2025 and shall be due and payable in 60 equal monthly payments.

(5) During the year ended December 31, 2021, the Company received loans from Bank Mizrachi in the total amount of NIS 1.5 million (approximately $0.46 million), which carry an annual interest of 5.2%-5.8%%, matures till January 2023.

(6) During the year ended December 31, 2016, the Company received a long term loan from Bank Leumi in the amount of NIS 0.5 million ($0.13 million), which loan carries an annual interest of 5.25%, matures in June 2021 and shall be due and payable in 60 equal monthly payments.

Total finance expenses recorded with respect to those loans during the years ended December 31, 2022, 2021 and 2020 were $11,244, $50,582 and $47,560, respectively.

During February and May 2022, the Company repaid its short-term and long-term liabilities to banks in the total amount of approximately $1.2 million. As a result, personal guarantees and collateral securing certain of those loans were released (see Note 9B).

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 8 - Bank Loans (continued)

B. Breakdown of short-term loans, bank credit and current maturities of long-term loans:

	December 31, 2021	
	%	
Bank credit	5.05%	$ 49,655
Current maturities of long-term loans	3.1%-5.8%	360,669
		$ 410,324

In June 2021, the Company's executed a credit line in the aggregate amount of up to NIS 400,000 (approximately $121,501) from Bank Mizrahi Tefahot. Mr. Israel Bar, Company's Chief Executive Officer and Director provided a personal guarantee to the Credit Line that was released during 2022. As of December 31, 2022 and 2021, NIS 0 and NIS 154,427 ($ 49,655) respectively, was borrowed under the Credit Line.

C. Liens for long-term loans – see Note 9A.

Note 9 - Commitments and Contingencies

A. Liens

The Company recorded floating charges on all of its tangible assets in favor of banks.

During 2022, the Company repaid its liabilities to banks and Yaad and released all the collateral it provided to the banks and all of its floating charges.

The Company's long-term restricted deposits in the amounts of $33,569 has been pledged as security in respect of guarantees granted to the Company's landlords as part of the office lease agreement. Such deposit cannot be pledged to others or withdrawn without the consent of the lender.

B. Guarantees

As of December 31, 2021, the shareholders granted a guarantee to the Company's lenders in the amount of $1.6 million, with no specific date of expiration. During 2022, the Company repaid its liabilities to banks and Yaad and released of personal guarantees securing certain of those loans.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 9 - Commitments and Contingencies (continued)

C. Israeli Innovation Authority Grants

The Company has entered into several research and development programs, pursuant to which the Company received grants from the Israeli Innovation Authority ("IIA"), and are therefore in some cases obligated to pay royalties to the IIA at a rate of 3% to 5% on sales proceeds from products that were developed under IIA programs up to the total amount of grants received (linked to the U.S. dollar with annual interest at LIBOR as of the date of approval, for programs approved from January 1, 1999 and thereafter). The Company may be required to pay additional royalties upon the occurrence of certain events as determined by the IIA, that are within the control of the Company. No such events have occurred or were probable of occurrence as of the balance sheet date with respect to these royalties.

The total amount of grants received as of December 31, 2022, which the Company is obligated to pay royalties as described above, was approximately $285,204 (including accumulated interest). During the year 2012, the Company paid the IIA royalties in the amount of approximately $7,301 in connection with a single sale for pilot purposes. Since 2013, the Company did not utilize the intellectual property that was developed using the governmental grant in any of its products.

In August 2022, the Company received approval for a joint grant with Ben Gurion University, Be'er Sheva, Israel, from the IIA for the joint development of artificial intelligence (AI) and machine learning (ML) based system for detecting, diagnosing and predicting faults and malfunction in drones. This grant is not subject to royalty payments to the IIA. The total approved budget the Company received for the first year of the joint project amounts to NIS 1,314,024 (approximately $373,408). The grant represents 66% of the total budget for the project (approximately $246,449). As of December 31, 2022 the Company had received NIS 391,916 (approximately $111,371) from the IIA with respect to this program. Total research and development income recorded in the statements of operations) for the year ended December 31, 2022 was NIS 345,347 (approximately $98,138).

Note 10 - Revenues

Disaggregation of revenue

The following table disaggregates the Company's revenues based on the nature and characteristics of its contracts, for the years ended December 31, 2022, 2021 and 2020:

	Year ended December 31,		
	2022	2021	2020
Sales of products	$ 2,085,018	$ 1,719,918	$ 692,288
NRE&POC Contracts	419,878	355,837	295,595
	$ 2,504,896	$ 2,075,755	$ 987,883

Contract balances

	December 31,	
	2022	2021
Contract assets	$ 237,982	$ -

Unsatisfied performance obligation

	December 31,	
	2022	2021
Unsatisfied performance obligation	$ 90,122	$ 130,000

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 10 - Revenues (continued)

Revenues by geographical areas from external customers

	Year ended December 31,		
	2022	2021	2020
Israel	$ 1,311,524	$ 1,600,642	$ 573,121
United Kingdom	836,443	274,325	160,073
Switzerland	-	100,580	143,014
USA	301,990	44,840	40,000
Rest of the world	54,980	55,368	71,675
	$ 2,504,937	$ 2,075,755	$ 987,883

Major Customers

	Year ended December 31,		
	2022	2021	2020
	%	%	%
Major Customers by percentage from total revenues			
Customer A	33.4	13.2	15
Customer B	25.1	5.1	-
Customer C	12.0	-	-
Customer D	5.3	-	-

The Company's long-term assets are located in Israel.

Note 11 - Net loss per Share

The following table presents the computation of basic and diluted net loss per share:

	Year ended December 31,		
	2022	2021	2020
Numerator:			
Net loss	$ 3,688,346	$ 824,224	$ 640,343
Denominator:			
Weighted average shares – denominator for basic and diluted net loss per share	7,528,038	3,464,470	2,483,988
Net loss per share Basic and diluted	$ 0.49	$ 0.24	$ 0.26

The Company excluded the following potential ordinary shares, from the computation of diluted net loss per share for the periods indicated because including them would have had an anti-dilutive effect:

	Year ended December 31,		
	2022	2021	2020
Options to purchase ordinary shares	205,269	-	-
Warrants	5,001,432	379,772	-
Total potentially dilutive securities	5,206,700	379,772	-

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 12 – Equity

A. Share capital

As of December 31, 2022, the Company's share capital was composed of 7,999,216 Ordinary Shares issued and outstanding.

B. IPO

On February 4, 2022, in connection with the closing of the IPO, the Company issued and sold (i) 3,690,477 units ("Units"), each consisting of one Ordinary Share and one Warrant to purchase one Ordinary Share, and (ii) 10,000 pre-funded units ("Pre-Funded Units"), each consisting of one pre-funded warrant to purchase one Ordinary Share and one Warrant. The Units were sold at an IPO price of $4.20 per Unit and the Pre-Funded Units were sold at an IPO price of $4.199 per Pre-Funded Unit. The Warrants have an exercise price of $5.25 per Ordinary Share and may be exercised until February 4, 2027 and the Pre-Funded Warrants have an exercise price of $0.001 per Ordinary Share. In addition, the Company also issued and sold 65,247 Ordinary Shares at a price of $4.199, 478,324 Pre-Funded Warrants at a price of $4.198 per Pre-Funded Warrant and 543,571 Warrants at a price of $0.001 per Warrant pursuant to the partial exercise of the over-allotment option and issued 488,324 Ordinary Shares pursuant to the exercise of the 488,324 Pre-Funded Warrants issued in the IPO at an exercise price of $0.001 per Ordinary Share. The Company also issued warrants to purchase up to 185,023 Ordinary Shares to the representative of the underwriters in the IPO, or the Representative's Warrants. The Representative's Warrants have an exercise price equal to $5.25, were exercisable beginning on August 3, 2022, and will expire on February 4, 2027. In connection with the IPO, the Company received gross proceeds of approximately $17.8 million before deducting underwriting discounts and commissions and before offering expenses ($15.1 million net proceeds after deducting approximately $1.35 million of underwriting discounts and commissions and approximately $1.35 million of other offering costs). The Ordinary Shares and warrants were approved for listing on the Nasdaq and commenced trading under the symbol "MTEK" and "MTEKW," respectively, on February 2, 2022.

Certain actions were completed in connection with the closing of the IPO, including:

1) The 489,812 Preferred Shares issued and outstanding were automatically converted into 489,812 Ordinary Shares.

2) The Company issued 185,023 warrants to the underwriters for the IPO to purchase up to 185,023 Ordinary Shares at an exercise price of $5.25. The warrants expire five years from the day of issuance and were exercisable beginning August 1, 2022. The fair value of the warrants issued to the underwriters of $199,825 was recorded as an issuance cost.

3) The Company issued to two of its advisors (the "Advisors") warrants to purchase up to 180,409 Ordinary Shares, exercisable until April 21, 2026, at an exercise price of $0.0004 per Ordinary Share and warrants to purchase up to 400,472 Ordinary Shares at an exercise price of $4.20 per Ordinary Share. The warrants are exercisable for a period of five years from the date of issuance (February 4, 2027). The fair value of the warrants of $695,685 was recorded as an issuance cost. In connection with the agreement between the parties, the Company recognized during 2021 a provision of $75,000 which was classified into shareholders' equity upon the IPO. During August 2022, 180,409 warrants had been exercised by the Advisors to 180,356 shares (cashless method). The intrinsic value of the warrants at exercise date was $118.

4) The Company issued to its legal advisor for the IPO warrants to purchase up to 145,506 Ordinary Shares, exercisable until February 4, 2027, at an exercise price of $4.20 per Ordinary Share. The fair value of the warrants of $183,338 was recorded as an issuance cost.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 12 - Equity (continued)

C. Private Placement

On March 24, 2021, the Company entered into a share purchase agreement, which was amended and restated on April 27, 2021 and August 4, 2021, as amended and restated (as amended and restated, the “March 2021 SPA”), pursuant to which the Company issued, in a private placement offering (the “March 2021 Private Placement”), an aggregate of 489,812 Preferred Shares to certain investors (the “March 2021 Investors”) for aggregate gross proceeds of $1.5 million. The Preferred Shares have rights identical to those attached to the Ordinary Shares, except that the Preferred Shares have customary anti-dilution protection for a period of 18 months from March 24, 2021 in the event of certain issuances of Ordinary Shares, and are automatically convertible into Ordinary Shares in case that an initial public offering is consummated. Following the closing of the IPO, all Preferred Shares were automatically be converted into 489,812 Ordinary Shares.

Each of the March 2021 Investors also received one warrant to purchase one Ordinary Share for each Preferred Share issued to such investor. Such warrants were exercisable pursuant to the following terms: (i) if an initial public offering of the Ordinary Shares is consummated by the Company during a period of 15 months from the issuance date of the warrant, the warrants will be exercisable until March 24, 2026, at an exercise price of $6.1248 per Ordinary Share; or (ii) if no initial public offering of the Ordinary Shares is consummated by the Company during such 15 month period, the warrants will be exercisable until September 24, 2023, at an exercise price of $7.9888 per Ordinary Share. Prior to the IPO, the warrants issued in the March 2021 Private Placement were classified as liabilities and upon the closing of the IPO, those warrants were classified into shareholders’ equity, see also Note 13.

The Preferred Shares issued in the March 2021Private Placement were qualified to be recognized within permeant equity. Therefore, the consideration in the amount of $274,294 was allocated to the warrants (see Note 13), and the rest of the consideration was allocated to the Preferred Shares within equity.

Issuance costs were allocated to profit or loss and equity based on the proportion of the allocated consideration described above.

In connection with the March 2021 SPA, the Company entered into a Placement Agent Agreement with respect to the March 21 SPA, pursuant to which the Company paid to the placement agent a fee equal to 5.0% of the gross proceeds received in the March 2021 Private Placement and issued to the Placement Agent warrants to purchase 24,491 Ordinary Shares, at an exercise price equal to the March 2021 Private Placement price per Ordinary Share ($3.06), which warrants were exercisable until the earlier of the date of consummation of an initial public offering or March 24, 2026.

The consideration paid to the Placement Agent in the total amount of $75,000 in cash and the value of the warrants issued in the total amount of $28,194 represent issuance costs and were allocated to profit or loss and equity based on the proportion of the allocated consideration described above.

On December 10, 2021, the Company and the Placement Agent entered into a Warrant Cancellation Agreement pursuant to which the Company agreed to cancel the warrants issued to the Placement Agent effective as of such date, and as a result, such warrants are no longer outstanding as of December 31, 2022. No portion of the warrant had been exercised prior to such cancellation.

D. On August 25, 2021, the Company’s general meeting of shareholders approved a reverse share split of the Ordinary Shares and the Preferred Shares, at a ratio of 4:1 (four-to-one), so that holders of Ordinary Shares and Preferred Shares will receive one Ordinary Share and one Preferred Share, respectively, for every four Ordinary Shares and Preferred Shares held as of such date rounded to the nearest number (with 0.5 share rounded up), and to adopt an amendment to the Company’s Articles of Association to effectuate such reverse stock split.

E. During the year ended December 31, 2020, the Company issued an aggregate of 3,084,691 Ordinary Shares to certain shareholders following the conversion of loan in the amount of $1.079 million due to such shareholders. The conversion of these loan payables to Ordinary Shares was recorded as paid in capital.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 12 - Equity (continued)

F. On June 1, 2022, the Company announced that its board of directors has authorized a share repurchase plan (the "Repurchase Plan") allowing the Company to invest up to $1 million to repurchase its Ordinary Shares.

The Repurchase Plan authorizes the Company's management to repurchase Ordinary Shares, from time to time, in open market transactions, and/or in privately negotiated transactions or in any other legally permissible ways, depending on market conditions, share price, trading volume and other factors. Such repurchases will be made in accordance with applicable U.S. securities laws and regulations, under the U.S. Securities Exchange Act of 1934, as amended, and applicable Israeli law, and was subject to the approval of the Israeli court, which ensured that the Company has enough resources for the Repurchase Plan without affecting its other on-going obligations and commitments. The Repurchase Plan does not obligate the Company to repurchase any specific number of the Ordinary Shares and may be suspended or terminated at any time at management's discretion. As of December 31, 2022, no shares have been repurchased under the Repurchase Plan.

Note 13 - Warrants

As part of the March 2021 SPA each of the investors received one warrant to purchase one ordinary share for each Preferred Share issue to such investor, see Note 12(C). The terms of the warrants issued preclude them from being considered indexed to the Company's own stock as long as the exercise price was subject to a change upon the occurrence of an initial public offering, therefore, they were classified as liabilities with changes in fair value recognized in profit or loss.

The fair value of the warrants issued in the March 2021 Private Placement at the time of the initial closing, which took place on March 24, 2021, was calculated by an independent valuation expert, preforming numerous iterations using the Black–Scholes option price model, based on the following assumptions:

	Merger and Acquisition ("M&A") Scenario	IPO Scenario
Expected volatility (%)	63.2	55.81
Risk-free interest rate (%)	0.24	0.81
Expected Life (years)	2.5	5
Value per share	0.45	1.32
Exercise price (U.S. dollars per share)	6.1248	7.9888

In addition, based on management's expectations for the M&A scenario, the value was calculated by performing numerous iterations based on the latest transaction with a probability assigned to this case of 80 percent, and for initial public offering the probability assigned to was 20 percent. The total value of the warrants was calculated using a weighted average calculation using the above-mentioned percentage.

The fair value of the warrants issued in the March 2021 Private Placement as of March 24, 2021 was $274,294.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 13 - Warrants (continued)

The fair value of the warrants as of as of December 31, 2021 was calculated by independent valuation expert using the Black–Scholes option price model based on the following assumptions:

	Merger and Acquisition ("M&A") Scenario	IPO Scenario
Expected volatility (%)	54.96	56.21
Risk-free interest rate (%)	0.66	1.26
Expected Life (years)	1.79	4.29
Value per share	0.17	0.85
Exercise price (U.S. dollars per share)	7.9888	6.1248

In addition, based on management's expectations for the M&A scenario, the value was calculated by performing numerous iterations based on the latest transaction with a probability assigned to this case of 20 percent, and for initial public offering the probability assigned to was 80 percent. The total value of the warrants was calculated using a weighted average calculation using the above-mentioned percentage.

The fair value of the warrants as of December 31, 2021 was $351,845 and the warrants' fair value revaluation amounted to $77,551 and is classified within finance expenses item in the Company's statement of operation for the year ended December 31, 2021.

The fair value of the warrants issued in March 2021, classified as a liability, as of February 4, 2022, was calculated using the Black–Scholes option price model based on the following assumptions:

Expected volatility (%)	55.82
Risk-free interest rate (%)	1.69
Expected Life (years)	4.19
Value per share	3.12
Exercise price (U.S. dollars per share)	6.1248

The fair value of the warrants as of February 4, 2022 was $412,299. The warrants were classified into shareholders' equity upon the closing of the IPO, see Note 12. The warrants' fair value revaluation was $60,454 and is recorded in finance expenses in the statement of operation for the period ended December 31, 2022.

Note 14 - Share based compensations

In June and July 2021, the Company's board of directors approved the issuance of options to purchase an aggregate of 285,422 Ordinary Shares, to be granted under the Company's 2021 Share Option Plan (the "SOP") to certain employees, directors and consultants, upon the successful completion of an initial public offering. Out of the total amount of 285,422, options to purchase an aggregate of 201,427 Ordinary Shares were approved on June 27, 2021 and options to purchase an aggregate of 83,995 Ordinary Shares were approved during July 2021. The options were granted in accordance with the "capital gains" under section 102 and section 3(i) of the Israeli Income Tax Ordinance.

Upon the completion of the IPO, on February 4, 2022, the Company issued the following options under the SOP: (i) options to purchase an aggregate of 71,496 Ordinary Shares to the former chairman of the Company's board of directors, which options were exercisable for a period of five years from their date of issuance, at a price of $4.20 per Ordinary Share, and vest 8.33% at the end of each three month period of continuous services to the Company. The fair value of this grant was $90,085 calculated using the Black Scholes model; (ii) options to purchase an aggregate of 10,000 Ordinary Shares and options to purchase an aggregate of 2,500 Ordinary Shares to two of the Company's directors, which options are exercisable for a period of five years from their date of issuance, at a price of $4.20 per Ordinary Share, and vest 6.25% at the end of each three month period of continuous services to the Company. The fair value of this grant was $15,750 calculated using the Black Scholes model; and (iii) options to purchase an aggregate of 169,588 Ordinary Shares to certain employees and consultants, which options are exercisable for a period of five years from their date of issuance, at a price of $4.20 per Ordinary Share, and will vest 50% on February 4, 2024 and thereafter 6.25% every three months period of continuous services to the Company. The fair value of this grant was $191,634 calculated using the Black Scholes model. Upon the end of term of the service agreement with Mr. Joseph Weiss in December 2022, options to purchase an aggregate of 53,622 Ordinary Shares were forfeited and returned to the pool.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 14 - Share based compensations (continued)

On April 3, 2022, the Company issued options to purchase up to 31,838 Ordinary Shares under the SOP, to the Company's Chief Financial Officer. The options are exercisable for a period of five years from their date of issuance, at a price of $4.20 per Ordinary Share, and vest 50% on April 3, 2024 and 6.25% every three months thereafter. The fair value of this grant was $10,204 calculated based on the Black Scholes model.

On December 28, 2022, the Company issued options to purchase up to 2,500 Ordinary Shares under the SOP, to one of the Company's directors. The options are exercisable for a period of five years from their date of issuance, at a price of $4.20 per Ordinary Share, and will vest 50% on December 28, 2024 and 6.25% every three months thereafter. The exercise price of the options is $4.2 per Ordinary Share. The fair value of this grant was $188 calculated using the Black Scholes model.

A summary of the stock option activity for the year ended December 31, 2022 is as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding as of December 31, 2021	-	
Granted	287,922	$ 4.2
Forfeited	(53,622)	4.2
Options outstanding as of December 31, 2022	234,300	$ 4.2
Options exercisable as of December 31, 2022	20,218	$ 4.2

As of December 31, 2022, the weighted-average remaining contractual life of the outstanding and exercisable options were 3.8 and 0.7 years.

The Company used the Black-Scholes option-pricing model to determine the fair value of options granted during 2022. The following assumptions were applied in determining the options' fair value on their grant date:

	2022
Risk-free interest rate	4.5%-1.6%
Expected option term (years)	3.5-6.5
Expected share price volatility	36.1%-58.7%
Dividend yield	-
Weighted average grant date fair value	$ 1.07

As of December 31, 2022, the Company had 214,082 unvested options. As of December 31, 2022, the unrecognized compensation cost related to all unvested options of $168,893 is expected to be recognized as an expense on a straight-line basis over a weighted-average period of 3.25 years.

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 15 - Income Taxes

A. Corporate tax rate

The standard tax rate in Israel was 23% during the years ended December 31, 2022 and 2021.

Under the Economic Policy Law for 2011 and 2012 (Legislation Amendments), 2011, which amended the Israel Capital Investments Encouragement Law, 1959 and under the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year) was published and added, under Amendment 73, such that the income of companies with enterprises “preferred enterprise” and companies with knowledge intensive industries – “preferred technologic enterprise” and “special preferred technologic enterprise” will receive tax benefits. Detailed rules apply under amendment 73 of the Capital Investments Law.

The Company has a balance of carryforward losses and will consider its qualification for the 2017 amendment and the term and degree to which it may be qualified as a Preferred Technology Enterprise or Special Preferred Technology Enterprise upon profitability.

B. Deferred tax assets and liabilities:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred taxes are computed using the standard tax rates of 23%. The expected tax rate can be lower as a preferred technologic enterprise and depends on the fulfillment of conditions set forth in the law. Significant components of the Company deferred tax assets and liabilities are as follows:

	December 31,	
	2022	2021
In Respect of:		
Net Operating Loss Carry forward	$ 1,218,869	$ 675,604
Research and development expenses	189,856	181,964
Provision for warranty	5,761	4,774
Provision for vacation and convalescence	49,850	20,575
Provision for Severance, net	62,060	31,254
Operating lease right of use assets	(134,836)	-
Issuance cost	381,090	
Operating lease liabilities	134,836	-
Less - valuation allowance	(1,907,486)	(914,171)
Net deferred tax assets	$ -	$ -

The net changes in the total valuation allowance for each of the years ended December 31, 2022 and 2021, are comprised as follows:

	Year ended December 31,	
	2022	2021
Balance at beginning of year	$ 914,171	$ 636,462
Additions during the year	993,315	277,709
Balance at the end of year	$ 1,907,486	$ 914,171

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences or carry-forwards are deductible. Based on the level of historical taxable losses, management has reduced the deferred tax assets with a valuation allowance to the full amount to be realized.

C. As of December 31, 2022 and December 31, 2021, the operating loss carry-forwards amounted to $5.2 million and $2.4 million, respectively. Operating losses in Israel may be carried forward indefinitely to offset against future taxable operational income.

D. Reconciliation of the theoretical tax expense to actual tax expense

The main reconciling item between the statutory tax rate of the Company and the effective rate is the provision for a full valuation allowance in respect of tax benefits from carry forward tax losses due to the uncertainty of the realization of such tax benefits (see above).

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 16 - Leases

The Company is a party to two lease agreements for its facilities in Israel until October 2024. The Company has the option to extend the agreements for additional periods until October 2027. In addition, the company also leases vehicles for its employees.

The Company's operating lease expenses are recognized on a straight-line basis. The Company's lease expense was as follows:

	Year ended December 31, 2022
Lease expense	$ 126,169

Cash flow and other information related to operating leases as follows:

	December 31, 2022
Cash paid for amounts included in the measurement of lease liabilities	$ 114,749
Right-of-use assets obtained in exchange for new operating lease liabilities	205,593
Weighted-average remaining lease term — operating leases (years)	4.7
Weighted-average discount rate — operating leases	5.08%

The following table sets forth a maturity analysis of the Company's operating lease liabilities under ASC 842:

	December 31, 2022
2023	$ 147,338
2024	$ 134,701
2025	$ 132,174
2026	$ 132,174
2027	$ 110,145
Total undiscounted cash flows	$ 656,532
Less: imputed interest	$ 70,290
Present value of operating lease liabilities	$ 586,242

The following table sets forth a maturity analysis of the Company's operating lease contingencies under ASC 840:

	December 31, 2021
2022	$ 114,085
2023	$ 114,085
2024	$ 99,786
2025	$ 96,926
2026	$ 96,926
2027	$ 80,772

Maris-Tech Ltd.
Notes to the Financial Statements
(U.S. dollars)

Note 17 - Related party transactions

A. Related party transactions

1. As of December 31, 2020, the Company held loans from its current shareholders, Israel Bar, the Company's Chief Executive Officer, director and largest shareholder, and Joseph Gottlieb, another director of the Company, which do not carry interest or stated maturity date in the amount of $1,088,703. On May 9, 2021, the Company entered into a loan facility agreement (as amended on June 30, 2021 the "Loan Facility Agreement"), effective as of January 1, 2021, with Mr. Bar and Mr. Gottlieb. Pursuant to the Loan Facility Agreement, the outstanding amount under the Loan Facility Agreement to be paid to Mr. Bar in a total amount of approximately NIS 2,459,959 (approximately $770,879) and to Mr. Gottlieb, in a total amount of approximately NIS 1,020,347 (approximately $317,371), bear no interest and shall be due and payable in 24 equal monthly payments, commencing on the second anniversary following completion of an initial public offering. Pursuant to the Loan Facility Agreement, if an initial public offering is not completed by December 31, 2021, then the outstanding amount shall be repaid pursuant to the available free cash of the Company, taking into account expected expenditures in the three months following partial or full payment, and in any event not prior to December 31, 2022. The Company also agreed to reimburse Mr. Bar and Mr. Gottlieb for any costs and expenses incurred in connection with the enforcement of the Loan Facility Agreement, if required. The agreement was accounted for as a modification with no change to the book value of the loan. As of December 31, 2022 the outstanding amount under the Loan Facility Agreement is $1,088,250. The loans were classified within long term liabilities. See also Note 18 for a subsequent event.

2. From its inception through December 31, 2018, the Company purchased electronic component parts from a supplier owned by one of the Company's shareholders. The purchases were made at market prices. The outstanding balance of $0 and 96,320 as of December 31, 2022 and 2021, respectively, is presented in the short-term liabilities due to a related party.

B. Related party balances and transactions

	December 31, 2022	December 31, 2021
Balances with related parties -		
Short-term liability due to a related party		$ 96,320
Short-term liability due to a shareholder	$ -	$ 200,000
Long-term loans due to related parties	$ 1,088,250	$ 1,088,250
Related parties' transactions -		
Share-based compensation expenses to Board Members	$ 30,684	$ -
Management and consulting fees to Board Members	$ 258,397	$ -
Purchases	$ -	$ 1,501

Note 18 - Subsequent event

On March 2, 2023, the Company entered into an amendment (the "Amendment") to the Loan Facility Agreement, pursuant to which the Company (i) amended the repayment terms set in the Loan Facility Agreement to provide that the amounts outstanding under the Loan Facility Agreement shall be due and payable in 24 equal monthly payments, commencing on February 4, 2024, subject to availability of available free cash (as defined in the Amendment) of the Company and (ii) clarified the total amount due to Mr. Gottlieb under the Loan Agreement is NIS 1,020,347 (approximately $317,371). Pursuant to the Amendment, the total outstanding amount under the Loan Facility Agreement after giving effect to the Amendment was NIS 3,480,305.88 (approximately $1,088,250).