MARIS-TECH LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2023

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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 sheet of Maris-Tech Ltd. (the "Company") as of December 31, 2023, the related statements of operation, changes in shareholders' equity and cash flow for the year then ended December 31, 2023, and 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 at December 31, 2023, and the results of its operation and its cash flow for the year ended December 31, 2023, in conformity with U.S. generally accepted accounting principles.

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 audit. 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 audit 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 audit 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 audit 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 audit 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 audit provide a reasonable basis for our opinion.

/s/ KOST FORER GABBAY & KASIERER
A Member of EY Global
We have served as the Company's auditor since 2023.
Tel-Aviv, Israel
March 21, 2024

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 the related statements of operations, changes in shareholders' equity (capital deficiency) and cash flows for each of the two 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 the results of its operations and its cash flows for each of the two 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 2i 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 served as the Company's auditor from 2021 to 2022.

MARIS-TECH LTD.

BALANCE SHEETS
U.S. dollars

	December 31,	
	2023	**2022**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,050,494	$ 221,961
Short-term bank deposits	3,148,746	9,084,082
Trade receivables, net	2,990,305	1,606,495
Other current assets and prepaid expenses	172,809	359,591
Inventories	1,959,651	981,729
Total current assets	10,322,005	12,253,858
NON-CURRENT ASSETS:		
Restricted deposits	32,692	33,569
Property and equipment, net	313,649	283,790
Severance pay fund	162,053	156,723
Operating lease right-of-use assets	503,507	635,976
Total non-current assets	1,011,901	1,110,058
Total assets	$ 11,333,906	$ 13,363,916

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

BALANCE SHEETS
U.S. dollars (except share data)

	December 31,	
	2023	**2022**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 1,214,621	$ 1,083,345
Other current liabilities	1,344,284	727,560
Current maturity of loans from related parties	498,781	-
Total current liabilities	3,057,686	1,810,905
LONG-TEM LIABILITIES:		
Long-term loans from related parties	589,468	1,088,250
Non-current operating lease liabilities	323,071	442,166
Accrued severance pay	469,191	425,742
Total long-term liabilities	1,381,730	1,956,158
Total liabilities	4,439,416	3,767,063
COMMITMENT AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Ordinary Shares, no par value - Authorized: 100,000,000 shares at December 31, 2023 and 2022; Issued: 7,999,216 shares at December 31, 2023 and 2022; Outstanding: 7,878,501 and 7,999,216 shares at December 31, 2023 and 2022, respectively	-	-
Treasury shares at cost (120,715 and nil shares of ordinary shares at December 31, 2023 and 2022, respectively)	(119,536)	-
Additional paid-in capital	17,916,149	17,789,380
Accumulated deficit	(10,902,123)	(8,192,527)
Total shareholders' equity	6,894,490	9,596,853
Total liabilities and shareholders' equity	$ 11,333,906	$ 13,363,916

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

MARIS-TECH LTD.

STATEMENTS OF OPERATIONS

U.S. dollars (except share and per data)

	Year ended December 31, 2023	2022	2021
Revenues	$ 4,031,103	$ 2,504,896	$ 2,075,755
Cost of revenues	2,103,707	1,722,104	1,106,447
Gross profit	1,927,396	782,792	969,308
Operating expenses:			
Research and development, net	1,054,895	1,021,869	706,021
Sales and marketing	874,793	604,114	241,114
General and administrative	2,927,310	2,840,660	595,074
Total operating expenses	4,856,998	4,466,643	1,542,209
Loss from operations	2,929,602	3,683,851	572,901
Financial expenses (income), net	(220,006)	4,495	251,323
Net loss and other comprehensive loss	$ 2,709,596	$ 3,688,346	$ 824,224
Basic and diluted net loss attributable to shareholders per Ordinary share	$ (0.34)	$ (0.49)	$ (0.24)
Weighted average number of ordinary shares used in computing loss per ordinary share	7,908,266	7,528,038	3,464,470

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars (except share and per data)

	Number of shares issued	Number of Preferred Shares issued	Treasury shares	Share capital	Additional paid-in capital	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2021	3,085,000	$ -	$ -	$ -	$ 1,078,808	$ (3, 679,957)	$ (2,601,149)
Issuance of capital, net of issuance costs	-	489,812	-	-	1,045,793	-	1,045,793
Net loss and other comprehensive 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)
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 and other comprehensive 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
Share-based compensation	-	-	-	-	126,769	-	126,769
Repurchase of treasury shares	(120,715)	-	(119,536)	-	-	-	(119,536)
Net loss and other comprehensive loss	-	-	-	-	-	(2,709,596)	(2,709,596)
Balance as of December 31, 2023	7,878,501	-	$ (119,536)	$ (*	$ 17,916,149	$ (10,902,123)	$ 6,894,490

*) Less than $1.

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

MARIS-TECH LTD.

STATEMENTS OF CASH FLOWS
U.S. dollars

	Year ended December 31,		
	2023	**2022**	**2021**
Cash flows from operating activities:			
Net loss from operations	$ (2,709,596)	$ (3,688,346)	$ (824,224)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Depreciation	60,649	17,211	5,056
Change in fair value of warrants	-	60,454	77,551
Share-based compensation	126,769	75,896	-
Financial expense (income)	18,237	(133,816)	(39,731)
Increase in accrued severance pay	43,449	153,233	55,052
Increase in trade receivables, net	(1,383,810)	(1,035,013)	(443,944)
Decrease (increase) in other current assets and prepaid expenses	186,782	(356,718)	(95)
Increase in inventories	(977,922)	(590,245)	(140,417)
Increase in trade payables	131,276	619,692	213,859
Increase in other current liabilities	633,009	20,625	221,891
Net cash used in operating activities	(3,871,157)	(4,857,027)	(875,002)
Cash flows from investing activities:			
Investment in short-term bank deposits	(6,000,000)	(12,500,000)	-
Proceeds from short-term bank deposits	12,000,000	3,500,000	-
Investment in severance funds	-	(20,103)	(21,457)
Investment in marketable equity securities	(200,000)	-	-
Proceeds from marketable equity securities	108,857	-	-
Purchase of property and equipment	(90,508)	(284,490)	(7,967)
Net cash provided by (used in) investing activities	5,818,349	(9,304,593)	(29,424)
Cash flows from financing activities:			
Repayment of short-term bank credit	-	(410,324)	(56,638)
loan received from related party	-	-	199,547
Repurchase of treasury shares	(119,536)	-	-
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)
Repayment of loan from shareholder	-	(200,000)	-
Deferred issuance costs	-	-	(621,607)
Net cash provided by (used in) financing activities	(119,536)	14,368,024	899,180
Increase (decrease) in cash, cash equivalents and restricted cash	1,827,656	206,404	(5,245)

Cash, cash equivalents and restricted deposits at the beginning of the year	255,530	49,126	54,371
Cash, cash equivalents and restricted deposits at the end of the year	2,083,186	$ 255,530	$ 49,126

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

STATEMENTS OF CASH FLOWS
U.S. dollars

	Year ended December 31,		
	2023	**2022**	**2021**
Supplementary disclosure on cash flows:			
Interest paid	$ 5,934	$ 16,882	$ 15,372
Interest received	$ 157,627	$ 8,686	$ 154
Supplemental disclosures of non-cash flow information:			
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 the financial statements.

NOTE 1:- GENERAL

a. Introduction:

Maris-Tech Ltd. (the “Company”) was incorporated in 2008, in Israel. The Company develops, designs, manufactures and markets high-end digital video and audio products and solutions, including AI functionality, for the professional as well as the civilian and home security markets, defense and homeland 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 12b.

The Company operates in Israel and sells to customers in other countries, including the United States, Australia, United Kingdom, India 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 and long-term loans from related party. As of December 31, 2023 and 2022, the Company had working capital of $7,264,319 and $10,442,953, respectively, an accumulated deficit of $10,902,123 and $8,192,527, respectively, and negative cash flow from operating activity of $3,871,157 and $4,857,027 for the twelve months ended December 31, 2023 and 2022, 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 $17,824,992 before deducting underwriting discounts and commissions and before offering expenses ($15,101,508 net proceeds after deducting approximately $1,336,875 of underwriting discounts and commissions and approximately $1,386,608 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 $1,355,093. As a result, personal guarantees, debenture and collateral securing certain of those loans were released.

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.

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").

a. Functional currency:

A majority of the Company's customer orders are indexed to United States dollars ("dollar" or "U.S. dollars"). In addition, a substantial portion of the Company's purchase orders are indexed to the dollar. The Company's management believes that the dollar is the primary currency of the economic environment in which the Company operates. Thus, the functional and reporting currency of the Company is the dollar. Accordingly, monetary accounts maintained in currencies other than the dollar are re-measured into dollars in accordance with Accounting Standards Codification ("ASC") No. 830 "Foreign Currency Matters". All transaction gains and losses from the re-measured monetary balance sheet items are reflected in the statements of operations as financial income or expenses, as appropriate.

b. 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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during reported periods. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. Actual results could differ from those estimates.

c. Cash equivalents:

Cash equivalents are short-term, highly liquid investments that are readily convertible to cash with original maturities of three months or less, at acquisition.

d. Bank deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term bank deposits. Such short-term bank deposits are stated at cost, which approximate market values.

Bank deposits with maturities of more than one year are included in long-term bank deposits. Long-term bank deposits are stated at cost, which approximates market values.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Trade receivables:

Trade receivables are recorded at the invoiced amount less an allowance for any potential uncollectible amounts and do not bear interest. The financial statements include an allowance for credit losses for which collection of the receivable is not probable in total amount of $324,960 and nil on December 31, 2023 and 2022, respectively. In determining the adequacy of the allowance, consideration is given to each trade receivable historical experience, the age of the trade 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. Inventory write-off is provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories and discontinued products. Inventory write-offs totaled $78,485, $11,856 and nil in 2023, 2022 and 2021, respectively, and have been included in cost of revenues in the Company’s statements of operations.

Cost is determined as follows:

Raw materials and components - using the “first-in, first-out” method.

Work-in-progress and finished products - raw materials as above with the addition of subcontracting costs, calculated on the basis of direct subcontractors costs and with direct overhead costs.

The Company assesses the carrying value of its inventory for each reporting period to ensure inventory is reported at the lower of cost or net realizable value in accordance with ASC No. 330-10-35, “Inventory”. Charges for obsolete and slow-moving inventories are recorded based upon an analysis of specific identification of obsolete inventory items and quantification of slow-moving inventory items. These assessments consider various factors, including historical usage rate, technological obsolescence, estimated current and future market values and new product introduction. In cases when there is evidence that the anticipated utility of goods, in their disposal in the ordinary course of business, will be less than the historical cost of the inventory, the Company recognizes the difference as a current period charge to earnings and carries the inventory at the reduced cost basis until it is sold or disposed of.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Property and equipment, net:

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

	%
Computers and manufacturing equipment	33
Office furniture and equipment	6 - 15
Leasehold improvements	Over the shorter of the term of the lease or the useful life of the asset

h. Impairment of long-lived assets:

Property and equipment and right-of-use asset for leases subject to depreciation are reviewed for impairment in accordance with ASC No. 360, “Accounting for the Impairment or Disposal of Long-Lived Assets,” whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. Recoverability of assets (asset group) to be held and used is measured by a comparison of the carrying amount of an asset (asset group) to the future undiscounted cash flows expected to be generated by the assets (asset group). If such assets (asset group) are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets (asset group) exceeds the fair value of the assets (asset group). During 2023, 2022 and 2021, no impairment losses were recorded.

i. 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. The Company determines if an arrangement is a lease and the classification of that lease at inception based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether the Company obtains the right to substantially all the economic benefits from the use of the asset throughout the period, and (3) whether the Company has a right to direct the use of the asset. The Company elected to not recognize a lease liability and a right-of-use (“ROU”) asset for leases with a term of twelve months or less. Lastly, the Company also elected the practical expedient to not separate lease and non-lease components for its leases.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

ROU assets and lease liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. ROU assets are initially measured at amounts, which represents the discounted present value of the lease payments over the lease, plus any initial direct costs incurred. The lease liability is initially measured based on the discounted present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. The implicit rate within the operating leases is generally not determinable, therefore the Company uses the Incremental Borrowing Rate (“IBR”) based on the information available at commencement date in determining the present value of lease payments. The Company’s IBR is estimated to approximate the interest rate for collateralized borrowing with similar terms and payments and in economic environments where the leased asset is located.

An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain that the Company will exercise that option. An option to terminate the lease is considered unless it is reasonably certain that the Company will not exercise the option.

j. 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 has elected to apply the practical expedient for financing component for transactions in which the difference between the payment date and the revenue recognition timing is up to 12 months.

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).

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 because it best depicts the transfer of control to the customer, which occurs as costs are incurred on the contracts. Therefore, in these transactions, revenue is recognized over time using the cost-to-cost method. The Company determined that this method under ASC 606 is the best measure of progress towards satisfying the performance obligation and reflects a faithful depiction of the transfer of goods and services. The Company uses significant judgment when it determines the costs expected to be incurred upon satisfying the identified performance obligation.

k. 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.

l. 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.

m. 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 revenues are recognized based on the Company’s historical experience. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following table sets forth activity in the Company's accrued warranty account for each of the years ended December 31, 2023, 2022 and 2021, respectively:

	Year ended December 31,		
	2023	2022	2021
Balance at the beginning of the year	$ 25,049	$ 20,758	$ 9,879
Cost incurred	(15,334)	(3,220)	(5,850)
Expense recognized	30,596	7,511	16,729
Balance at the end of the year	$ 40,311	$ 25,049	$ 20,758

n. Shipping and handling fees and costs:

Shipping and handling fees charged to the Company's customers are recognized as product revenue in the period shipped and the related costs for providing these services are recorded as a cost of revenues in the statements of operations.

o. Research, development costs:

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.

p. Government grants:

The Company received non-royalty-bearing and royalty-bearing grants from the Israel Innovation Authority ("IIA") for approved research and development projects. These grants are recognized at the time the Company is entitled to such grants on the basis of the costs incurred as provided by the relevant agreement and included as a deduction from research and development expenses, net.

Research and development grants deducted from research and development expenses, net amounted to $259,473, $98,138 and nil for the years ended December 31, 2023, 2022 and 2021, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Basic and diluted net loss per share:

Basic net loss per share is computed based on the weighted average number of Ordinary Shares outstanding during each period. Diluted net loss per share is computed based on the weighted average number of Ordinary Shares outstanding during each period, plus potential dilutive Ordinary Shares considered outstanding during the period, if any, in accordance with ASC No. 260, "Earnings Per Share".

The total number of Ordinary Shares related to outstanding share options excluded from the calculation of diluted income (loss) per share as they would have been anti-dilutive was 5,685,694, 5,206,700 and 379,772 for the years ended December 31, 2023, 2022 and 2021, respectively.

o. Fair value of financial instruments:

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. 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 a liability.

A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs that are supported by little or no market activity.

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 liabilities include long-term loans from related parties bear no interest and are not linked to any index at approximate market rates.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. 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 segments.

q. 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 d eferred 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.

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 not likely to be realized upon ultimate settlement.

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

r. Severance pay:

Effective July 1, 2022, the Company's agreements with employees, are subject to Section 14 of the Severance Pay Law, 1963. Up to July 1, 2022, the liability of the Company for severance pay for employees, was calculated pursuant to Israeli severance pay law based on the most recent salary of each employee multiplied by the number of years of employment for these employee as of June 30, 2022. The Company's liability for the period until June 30, 2022, is fully provided for by monthly deposits with severance pay funds, insurance policies and an accrual. The deposited funds include profits and losses accumulated up to June 30, 2022. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of these policies is recorded as an asset on the Company's balance sheets.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Effective July 1, 2022, the Company's agreements with new employees in Israel are subject to Section 14 of the Severance Pay Law, 1963, and effective July 1, 2022, also with existing employees. The Company's contributions for severance pay have extinguished its severance obligation. Upon contribution of the full amount based on the employee's monthly salary for each year of service, no additional obligation exists regarding the matter of severance pay, and no additional payments is made by the Company to the employee. Furthermore, the related obligation and amounts deposited on behalf of the employee for such obligation are not stated on the balance sheet, as the Company is legally released from any obligation to employees once the required deposit amounts have been paid.

Severance pay expenses for the years ended December 31, 2023, 2022 and 2021 amounted to $81,212, $61,169 and $31,356, respectively.

s. 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 10b 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.

t. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Share-based compensation:

The Company applies ASC 718, Share-based Payment (“ASC 718”). ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the awards is recognized as an expense over the requisite service periods in the Company’s statements of operations.

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. The Company accounts for forfeitures as they occur.

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.

The Company used the Black-Scholes option-pricing model to determine the fair value of options granted during 2022 and the repricing on May 2023. The following assumptions were applied in determining the options’ fair value on their grant date:

	2023	2022
Risk-free interest rate (a)	3.51%-3.83%	4.5%-1.6%
Expected option term (years) (b)	2.6-4.2	3.5-6.5
Expected share price volatility (c)	55.9%-63.1%	36.1%-58.7%
Dividend yield (d)	-	-
Weighted average grant date fair value	$ 0.35	$ 1.07

These assumptions and estimates were determined as follows:

(a) Risk-Free Interest Rate: The risk-free rate for the expected term of the options is based on the Black-Scholes option-pricing model on the yields of U.S. Treasury securities with maturities appropriate for the expected term of employee share option awards.

(b) Expected Term: The expected term represents the period that options are expected to be outstanding. The Company determines the expected term using the simplified method. The simplified method deems the term to be the average of the time-to-vesting and the contractual life of the options.

(c) Expected Volatility: As the Company has a short trading history for its ordinary shares, the expected volatility is derived from the average historical share volatilities of several unrelated public companies within the Company’s industry that the Company considers to be comparable to its own business over a period equivalent to the option’s expected term.

(d) Expected Dividend Yield: The Company has never declared or paid any cash dividends and does not presently plan to pay cash dividends in the foreseeable future. As a result, an expected dividend yield of zero percent was used.

NOTES TO FINANCIAL STATEMENTS
U.S. dollars

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Treasury shares:

The Company repurchased 120,715 Ordinary Shares on the open market and holds such shares as treasury shares. The Company presents the cost to repurchase treasury shares as a reduction of shareholders' equity. Treasury shares are not entitled to vote on any matters brought before the shareholders.

w. 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,	
	2023	**2022**
Cash and cash equivalents	$ 2,050,494	$ 221,961
Restricted deposits	32,692	33,569
Total cash, cash equivalents and restricted deposits presented in the statements of cash flows	$ 2,083,186	$ 255,530

x. Recently issued accounting pronouncements adopted:

As an "Emerging Growth Company", the Jumpstart Our Business Startups Act ("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 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 is effective for the Company beginning January 1, 2023. The adoption of this standard did not have a material impact on the Company's financial statements.

y. Recently issued accounting pronouncements not yet adopted:

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures", which requires public entities to disclose information about their reportable segments' significant expenses and other segment items on an interim and annual basis. Public entities with a single reportable segment are required to apply the disclosure requirements in ASU 2023-07, as well as all existing segment disclosures and reconciliation requirements in ASC 280 on an interim and annual basis. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2023-07.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which requires entities, on an annual basis, to provide disclosure of specific categories in the rate reconciliation, as well as disclosure of income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for fiscal years beginning after December 15, 2025, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2023-09.

NOTE 3:- RESTRICTED DEPOSITS

Balances at December 31, 2023 and 2022 consisted of bank deposits. The bank deposits bore annual interest of 1.1% as of December 31, 2023 and 2022.

Restricted deposits, as of December 31, 2023, are restricted due to guarantees made with regards to lease payments for the Company's office space. See Note 6 for additional information regarding this lease.

NOTE 4:- INVENTORIES

	December 31, 2023	December 31, 2022
Raw materials	$ 1,101,957	$ 551,774
In process and finished products	857,694	429,955
	$ 1,959,651	$ 981,729

NOTE 5:- PROPERTY AND EQUIPMENT, NET

	December 31, 2023	December 31, 2022
Cost:		
Computers, software and manufacturing equipment	$ 52,977	$ 43,089
Leasehold improvement	186,494	148,712
Office furniture and equipment	168,120	125,282
Total cost	407,591	317,083
Total accumulated depreciation	93,942	33,293
Property and equipment, net	$ 313,649	$ 283,790

Depreciation expenses amounted to $60,649, $17,211 and $5,056 for the years ended December 31, 2023, 2022 and 2021, respectively.

NOTE 6:- LEASES

As of December 31, 2023 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 under various operating leases, the latest of which expires in 2024.

Aggregate lease payments for the right of use assets over the remaining lease period as of December 31, 2023, are as follows:

	December 31, 2023
2024	$ 130,690
2025	128,283
2026	128,283
2027	106,865
Total undiscounted cash flows	494,121
Less - imputed interest	43,260

Present value of operating lease liabilities	$ 450,861

NOTE 6:- LEASES (Cont.)

The weighted-average remaining lease terms and discount rates for all of operating leases were as follows as of December 31, 2023:

Weighted-average remaining lease term (years)	3.81
Weighted-average discount rate	5.08%

The weighted-average remaining lease terms and discount rates for all of operating leases were as follows as of December 31, 2022:

Weighted-average remaining lease term (years)	4.7
Weighted-average discount rate	5.08%

Total cash payments for operating leases for the years ended December 31, 2023, 2022 and 2021 were $96,910, $126,966 and $56,040, respectively.

Total rent expenses for the years ended December 31, 2023, 2022 and 2021 were $153,833, $117,314 and $78,125, respectively.

NOTE 7:- OTHER CURRENT LIABILITIES

	December 31,	
	2023	2022
Employees and related expenses	$ 760,350	$ 357,188
Provision for warranty	40,311	25,049
Accrued expenses	209,212	172,818
Current maturities of operating leases	127,790	144,076
Government authorities	206,621	28,429
	$ 1,344,284	$ 727,560

NOTE 8:- 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 $32,692 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.

NOTE 8:- COMMITMENTS AND CONTINGENCIES (Cont.)

b. Guarantees:

As of December 31, 2021, the shareholders granted a guarantee to the Company's lenders in the amount of $1,355,306, 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.

c. Israeli Innovation Authority grants:

The Company has entered into several research and development programs, pursuant to which the Company received grants from the 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 Secured Overnight Financing Rate ("SOFR") 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, 2023, which the Company is obligated to pay royalties as described above, was approximately $450,000 (including accumulated interest).

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 $362,290). The grant represents 66% of the total budget for the project (approximately $239,111). As of December 31, 2023 the Company had received NIS 721,426 (approximately $198,904) from the IIA with respect to this program.

In June 2023, the Company received grant approval from the IIA in the amount of NIS 1,209,797 (approximately $333,553) to support the first-year development of an innovative system for onboard situation awareness for nanosatellite platforms. The grant represents 50% of the total budget for the first year of the project. As of December 31, 2023 the Company had received NIS 423,429 (approximately $116,744) from the IIA with respect to this program.

NOTE 8:- COMMITMENTS AND CONTINGENCIES (Cont.)

In November 2023, the Company received grant approval for the second year of the joint project with Ben Gurion University, Be'er Sheva, Israel, from the IIA. The total approved budget the Company received for the second year of the joint project amounts to NIS 935,544 (approximately $257,939). The grant represents 66% of the total budget for the project (approximately $170,240). As of December 31, 2023 the Company had received NIS 216,111 (approximately $59,584) 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, 2023 was NIS 941,108 (approximately $259,473).

NOTE 9:- 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, 2023, 2022 and 2021:

	Year ended December 31,		
	2023	2022	2021
Sales of products	$ 3,985,773	$ 2,085,018	$ 1,719,918
NRE&POC Contracts and related services	45,330	419,878	355,837
	$ 4,031,103	$ 2,504,896	$ 2,075,755

	December 31,	
	2023	2022
Contract balances:		
Unbilled receivables	$ 182,735	$ 237,982
Unsatisfied performance obligation:		
Unsatisfied performance obligation	$ 97,265	$ 90,122

The unsatisfied performance obligation will be recognized over the next twelve months.

NOTES TO FINANCIAL STATEMENTS
U.S. dollars

NOTE 10:- GEOGRAPHIC INFORMATION

a. Revenues by geographical areas from external customers:

	Year ended December 31,		
	2023	2022	2021
Israel	$ 3,054,021	$ 1,311,524	$ 1,600,642
United Kingdom	446,684	836,443	274,325
Australia	469,365	-	-
Switzerland	-	-	100,580
USA	950	301,990	44,840
Rest of the world	60,083	54,939	55,368
	$ 4,031,103	$ 2,504,896	$ 2,075,755

b. Major customers by percentage from total revenues:

	Year ended December 31,		
	2023	2022	2021
		%	
Customer A	11.1	33.4	13.2
Customer B	35.4	25.1	5.1
Customer C	-	12.0	-
Customer D	-	5.3	-

c. The Company's long-term assets and operating lease right-of-use 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,		
	2023	2022	2021
Numerator:			
Net loss	$ 2,709,596	$ 3,688,346	$ 824,224
Denominator:			
Weighted average shares – denominator for basic and diluted net loss per share	7,908,266	7,528,038	3,464,470

Net loss per share basic and diluted	$ 0.34	$ 0.49	$ 0.24

NOTE 12:- EQUITY

a. Share capital:

As of December 31, 2023, the Company's share capital was composed of 7,999,216 ordinary shares issued and 7,878,501 ordinary shares 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 $17,824,992 before deducting underwriting discounts and commissions and before offering expenses ($15,101,509 net proceeds after deducting approximately $1,336,875 of underwriting discounts and commissions and approximately $1,386,608 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 3, 2022. The fair value of the warrants issued to the underwriters of $199,825 was recorded as an issuance cost.

NOTE 12:- EQUITY (Cont.)

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. As part of the Repricing, as defined in Note 14, 200,236 warrants were included in the Repricing, refer to Note 14. 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 were exercised by the Advisors to 180,356 shares (cashless method).

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.

c. Treasury shares:

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 $1,000,000 to repurchase its Ordinary Shares.

The Repurchase Plan authorized 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 was received on September 30, 2022.

On March 31, 2023, the Company repurchased 120,715 of its Ordinary Shares in the aggregate amount of $119,536, representing approximately 1.5% of the issued and outstanding Ordinary Shares, at an average price of $0.987 per Ordinary Share and completed the Repurchase Plan.

NOTE 12:- EQUITY (Cont.)

d. 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 $1,500,000. 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 12b.

The Preferred Shares issued in the March 2021 Private 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 12b), 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.

As part of the Placement Agent's compensation under the Placement Agent Agreement with respect to the March 21 SPA 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 Private Placement price per Ordinary share ($3.06) in the contemplated IPO, which warrants are exercisable until the earlier of the date of consummation of such IPO 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.

NOTE 12:- EQUITY (Cont.)

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.

e. 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.

NOTE 13:- WARRANTS

The fair value of the 489,812 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 Company classifies the warrants in the Level 3 category within the fair value hierarchy. The warrants were classified into shareholders' equity upon the closing of the IPO, see Note 12b. 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 COMPENSATION

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 granted the following options under the SOP: (i) options to purchase an aggregate of 71,496 Ordinary Shares to the chairman of the Company's board of directors who served until December 28, 2022, 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.

NOTE 14:- SHARE BASED COMPENSATION (Cont.)

Options to purchase an aggregate of 53,622 Ordinary Shares were forfeited, and 17,874 were expired. (ii) options to purchase an aggregate of 12,500 Ordinary Shares to the Company's directors, 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, 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.

On April 3, 2022, the Company granted options to purchase up to 31,838 Ordinary Shares under the SOP, to the Company's Chief Financial Officer, 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, 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.

On May 15, 2023, the compensation committee of the board of directors of the Company, approved the repricing of the exercise price of the existing options to purchase Ordinary Shares of certain of the Company's officers, directors and service providers, who currently provide services to the Company, from $4.20 to $1.00 per share (the "Repricing"). Other than the exercise price, all other terms of the existing options granted to such officers and directors did not change. On June 28, 2023, the Company's shareholders approved the Repricing for board members, officers and related party. The Repricing was recognized as a modification with additional expense of $58,818.

Share-based compensation was recorded in the following items within the statements of operation:

	Year ended December 31, 2023
Cost of revenues	$ 16,642
Research and development, net	27,659
Sales and marketing	12,070
General and administrative	70,398
Total expenses	$ 126,769

NOTE 14:- SHARE BASED COMPENSATION (Cont.)

A summary of the stock option activity for the year ended December 31, 2023 is as follows:

	Number of options	Weighted average exercise price*)	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value*)
Options outstanding as of January 1, 2023	234,300	$ 1	3.89	$ -
Granted	-	-	-	-
Forfeited	(17,874)	$ 1	2.89	$ 0.05
Options outstanding as of December 31, 2023	216,426	$ 1	2.89	$ 0.05
Options exercisable as of December 31, 2023	5,468	$ 1	2.89	$ 0.05

*) Reflets the Repricing.

The weighted-average grant-date fair value of options as of December 31, 2022 was $1.09. There were no grants in years 2023 and 2021.

As of December 31, 2023, the Company had 210,958 unvested options. As of December 31, 2023, the unrecognized compensation cost related to all unvested options of $160,320 is expected to be recognized as an expense on a straight-line basis over a weighted-average period of 2.14 years.

NOTE 15:- INCOME TAXES

a. Corporate tax rate:

The standard tax rate in Israel was 23% during the years ended December 31, 2023 and 2022.

b. Law for the Encouragement of Capital Investments, 1959:

The Law for the Encouragement of Capital Investments, 1959, generally referred to as the Investment Law, provides certain incentives for capital investments in production facilities (or other eligible assets).

The Investment Law was significantly amended effective on January 1, 2011, and on January 1, 2017 under amendment 73, or the 2017 Amendment. The 2017 Amendment introduces new benefits for Technological Enterprises, alongside the existing tax benefits.

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and is effective as of January 1, 2017. The 2017 Amendment included new tax benefits for “Technological Enterprises,” as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

NOTE 15:- INCOME TAXES (Cont.)

The 2017 Amendment provides that a technology company satisfying certain conditions should qualify as a "Preferred Technology Enterprises," or PTE, granting a 12% tax rate in central Israel on income deriving from Benefited Intangible Assets, subject to a number of conditions being fulfilled, including a minimal amount or ratio of annual R&D expenditure and R&D employees, as well as having at least 25% of annual income derived from exports to large markets. PTE is defined as an enterprise which meets the aforementioned conditions and for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion.

The Company has not adopted the PTE status currently, but believe it is eligible for the PTE status in future tax years.

c. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

Management believes that the Company currently qualifies as an "industrial company" under the above law and as such, is entitled to certain tax benefits including accelerated depreciation, deduction of public offering expenses in three equal annual installments and amortization of other intangible property rights for tax purposes.

d. 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.

NOTE 15:- INCOME TAXES (Cont.)

Significant components of the Company deferred tax assets and liabilities are as follows:

	December 31, 2023	December 31, 2022
Net operating carry forward loss	$ 1,845,821	$ 1,218,869
Research and development expenses	218,728	189,856
Provision for warranty	9,584	5,761
Provision for vacation and convalescence	69,048	49,850
Provision for severance, net	70,656	62,060
Provision for credit losses	74,741	-
Issuance cost	184,781	381,090
Operating lease liabilities	103,698	134,836
Deferred tax assets before valuation allowance	2,577,057	2,042,322
Valuation allowance	(2,473,359)	(1,907,486)
Net deferred tax assets	103,698	134,836
Operating lease right of use assets	(103,698)	(134,836)
Total deferred tax liability	(103,698)	(134,836)
Net deferred tax assets	$ -	$ -

The net changes in the total valuation allowance for each of the years ended December 31, 2023 and 2022, are comprised as follows:

	December 31, 2023	December 31, 2022
Balance at beginning of year	$ 1,907,486	$ 914,171
Additions during the year	565,873	993,315
Balance at the end of year	$ 2,473,359	$ 1,907,486

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 amount to be realized.

NOTE 15:- INCOME TAXES (Cont.)

e. As of December 31, 2023 and December 31, 2022, the operating loss carry-forwards amounted to $8,025,307 and $5,128,976, respectively. Operating losses in Israel may be carried forward indefinitely to offset against future taxable operational income.

As of December 31, 2023, the open tax years, subject to review by the applicable taxing authorities for the Company, are 2019 and subsequent years.

f. 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).

NOTE 16:- 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 bear interest or stated maturity date in the amount of $1,088,703. On May 9, 2021, the Company entered into a loan facility agreement (the "Loan Facility Agreement"), effective as of January 1, 2021, with Mr. Bar and Mr. Gottlieb.

As part of the Agreement, the amount to be paid to Mr. Bar is approximately NIS 2,459,959 (approximately $770,879) and to Mr. Gottlieb, is approximately NIS 1,020,347 (approximately $317,371). The Loan Facility Agreement, bears 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, 2023 the outstanding amount under the Loan Facility Agreement is $1,088,250.

NOTE 16:- RELATED PARTY TRANSACTIONS (Cont.)

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 3,480,306 (approximately $1,088,250). The agreement was accounted for as a modification with no change to the book value of the loan.

2. On July 31, 2023, the Company entered into a service agreement (the "Service Agreement") with Parazero Technologies Ltd. ("Parazero"), pursuant to which the Company will provide to Parazero certain business development services. In consideration for the services provided by the Company, Parazero shall pay the Company $10,000 per month plus value added tax (VAT). In addition, Parazero shall pay the Company commissions, in accordance with the terms of the Service Agreement.

   In addition, in July 2023, the Company purchased 50,000 ordinary shares of Parazero (the "Investment"), at a price of $4.00 per share, for an aggregate purchase price of $200,000, in Parazero's initial public offering. The Company subsequently sold the ordinary shares they purchased in the open market for an aggregate consideration of $108,857. As of September 29, 2023, the Company does not hold any shares of Parazero. The Company recorded $91,143 financial expenses for the year ended December 31, 2023, from the remeasurement of the Investment.

   The Company determined that the Service Agreement and the purchase of shares is a related party transaction, as the chairman of the board of directors of the Company also serves as the Chairman of the board of directors of Parazero. The Company analyzed the terms of the Service Agreement and concluded that the terms represent a transaction conducted at arm's length.

3. On March 3, 2021, the Company entered into a service agreement with a relative of the Company's CEO and director (the "Service Provider"), pursuant to which the Service Provider will provide mechanical design services as requested by the Company in exchange for hourly compensation of NIS195 (approximately $54). Effective February 2022, the hourly rate under the agreement was increased to NIS350 (approximately $97). The amended terms of the Service Provider's agreement were approved on March 14, 2024, by the Audit Committee and on March 20, 2024 by the Board, and will be presented to the Company's shareholders for approval and ratification at the Company's 2024 annual general meeting of shareholders.

NOTE 16:- RELATED PARTY TRANSACTIONS (Cont.)

4. Related party transactions:

	Year ended December 31,		
	2023	2022	2021
Share-based compensation expenses to Board members	$ 4,926	$ 30,684	$ -
Management and consulting fees to Board members	$ 133,681	$ 258,397	$ -
Cost of revenues*)	$ 29,110	$ -	$ 1,501
Business development services income	$ 50,000	$ -	$ -
Development services	$ 191,170	$ 121,721	$ 29,046

*) Related to cost of products purchased from one on the Mr. Gottlieb's companies.

b. Related party balances:

	December 31,	
	2023	2022
Short-term liabilities due to a related party	$ 498,781	$ -
Long-term loans from related party	$ 589,468	$ 1,088,250

NOTE 17:- FINANCIAL EXPENSES (INCOME), NET

	Year ended December 31,		
	2023	2022	2021
Interest on bank deposits	$ (251,724)	$ 92,768	$ -
Bank charges	12,254	23,156	80,686
Warrants remeasurement	-	60,454	77,551
Remeasurement of the Investment	91,305		
Foreign currency differences, net	(71,841)	13,653	93,086

	$ (220,006)	$ 4,495	$ 251,323

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