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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of ZOOZ Power Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ZOOZ Power Ltd. (the "Company') as of December 31, 2023 and 2022, and the related consolidated statements of operations, of comprehensive loss, of redeemable convertible preferred shares and changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2023, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has net losses and has generated negative cash flows from operating activities for the years ended December 31, 2023, 2022 and 2021. Such circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated 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 consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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

Jerusalem, Israel
April 30, 2024

We have served as the Company's auditor since 2018.

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ZOOZ POWER LTD.
BALANCE SHEETS

	December 31	
	2023	2022
	U.S. dollars in thousands	
Assets		
CURRENT ASSETS:		
Cash	6,672	20,569
Prepaid expenses and other current assets	752	597
Inventory	2,848	1,767
TOTAL CURRENT ASSETS	10,272	22,933
NON-CURRENT ASSETS:		
Restricted bank deposits	224	224
Prepaid expenses	79	90
Operating lease right of use assets	1,309	1,463
Property and equipment, net	1,593	723
TOTAL NON-CURRENT ASSETS	3,205	2,500
TOTAL ASSETS	**13,477**	**25,433**
Liabilities and equity		
CURRENT LIABILITIES:		
Accounts payable	536	485
Other payables and accrued expenses	1,387	352
Short term employee benefits	788	766
Share based payment liabilities	232	996
Current maturities of operating lease liabilities	309	321
TOTAL CURRENT LIABILITIES	3,252	2,920
NON-CURRENT LIABILITIES:		
Operating lease liabilities	1,035	1,252
TOTAL NON-CURRENT LIABILITIES	1,035	1,252
TOTAL LIABILITIES	**4,287**	**4,172**
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY (*):		
Share capital - Ordinary shares of NIS 0.00286 par value - Authorized: 34,973,575 shares on December 31, 2023 and 2022; Issued and outstanding: 5,912,223 shares on December 31, 2023 and 2022	5	5
Additional paid-in capital	58,780	58,277
Accumulated other comprehensive loss	(2,414)	(1,595)
Accumulated deficit	(47,181)	(35,426)
TOTAL EQUITY	9,190	21,261
TOTAL LIABILITIES AND EQUITY	**13,477**	**25,433**

(*) Adjusted to reflect reverse stock split, see Note 11

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

ZOOZ POWER LTD.
STATEMENTS OF OPERATIONS
(U.S. dollars in thousands, except share and per share data)

	Year ended December 31		
	2023	**2022**	**2021**
Sales	764	-	-
Cost of sales	1,869	178	-
Gross loss	**(1,105)**	(178)	-
Research and development, net	5,215	4,163	1,523
Sales and marketing	3,041	1,672	987
General and administrative	2,850	2,189	2,028
Operating loss	**(12,211)**	**(8,202)**	**(4,538)**
Finance income (expenses), net	456	377	(43)
Loss before income tax	**(11,755)**	**(7,825)**	**(4,581)**
Income tax benefit	-	-	-
Net loss	**(11,755)**	**(7,825)**	**(4,581)**
Net loss per ordinary share attributable to shareholders - basic and diluted (*)	(1.99)	(1.51)	(2.27)
Weighted average ordinary shares outstanding – basic and diluted in thousands (*)	5,912	5,166	2,020

(*) Adjusted to reflect reverse stock split, see Note 11

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

ZOOZ POWER LTD.

STATEMENTS OF COMPREHENSIVE LOSS

	Year ended December 31		
	2023	**2022**	**2021**
	U.S. dollars in thousands		
Net Loss	**(11,755)**	**(7,825)**	**(4,581)**
Other Comprehensive income (loss)			
Reporting currency translation gain (loss)	(819)	(1,965)	370
Total other comprehensive income (loss)	(819)	(1,965)	370
Total comprehensive loss	**(12,574)**	**(9,790)**	**(4,211)**

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

ZOOZ POWER LTD.

STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED SHARES AND CHANGES IN SHAREHOLDERS' EQUITY

(U.S. dollars in thousands, except share and per share data)

	Share capital		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated loss	Total
	Number of Shares (**)	Amount				
BALANCE AS OF JANUARY 1, 2023	5,912,223	5	58,277	(1,595)	(35,426)	21,261
CHANGES IN 2023:						
Share-based compensation	-	-	503	-	-	503
Net loss	-	-	-	-	(11,755)	(11,755)
Other comprehensive loss	-	-	-	(819)	-	(819)
BALANCE AS OF DECEMBER 31, 2023	**5,912,223**	**5**	**58,780**	**(2,414)**	**(47,181)**	**9,190**

(**) Adjusted to reflect reverse stock split, see Note 11

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

ZOOZ POWER LTD.
STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED SHARES AND CHANGES IN SHAREHOLDERS' EQUITY
(U.S. dollars in thousands, except share and per share data)

	Share capital		Additional	Accumulated other		
	Number of Shares (**)	Amount	paid-in capital	comprehensive income (loss)	Accumulated loss	Total
BALANCE AS OF JANUARY 1, 2022	2,295,736	2	29,867	370	(27,601)	2,638
CHANGES IN 2022:						
Private placement and public offering of shares and warrants, net of issuance costs of $1,700	3,616,487	3	27,867	-	-	27,870
Share-based compensation	-	-	543	-	-	543
Net loss	-	-	-	-	(7,825)	(7,825)
Other comprehensive loss	-	-	-	(1,965)	-	(1,965)
BALANCE AS OF DECEMBER 31, 2022	**5,912,223**	**5**	**58,277**	**(1,595)**	**(35,426)**	**21,261**

(*) Represents less than $1 thousand
(**) Adjusted to reflect reverse stock split, see Note 11

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

ZOOZ POWER LTD.
STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED SHARES AND CHANGES IN SHAREHOLDERS' EQUITY
(U.S. dollars in thousands, except share and per share data)

	Redeemable Convertible Preferred Shares		**Share capital**		**Additional**	**Accumulated other**		
	Number of Shares (**)	**Amount**	**Number of Shares**	**Amount**	**paid-in capital**	**comprehensive income**	**Accumulated loss**	**Total**
BALANCE AS OF JANUARY 1, 2021	18,881,400	21,878	349,736	-	-	-	(23,020)	(23,020)
CHANGES IN 2021:								
Conversion of preferred shares into ordinary shares	(18,881,400)	(21,878)	1,650,875	(*)	21,878	-	-	21,878
Initial Public Offering of shares and warrants, net of issuance costs of $600	-	-	295,125	2	7,643	-	-	7,645
Share-based compensation	-	-	-	-	346	-	-	346
Net loss	-	-	-	-	-	-	(4,581)	(4,581)
Other comprehensive income	-	-	-	-	-	370	-	370
BALANCE AS OF DECEMBER 31, 2021	**-**	**-**	**2,295,736**	**2**	**29,867**	**370**	**(27,601)**	**2,638**

(*) Represents less than $1 thousand

(**) Adjusted to reflect reverse stock split, see Note 11

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

ZOOZ POWER LTD.
STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2023	**2022**	**2021**
	U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	(11,755)	(7,825)	(4,581)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	239	131	44
Non-cash finance expenses (income), net	(206)	(279)	43
Net changes in operating lease assets and liabilities	(148)	119	(3)
Gain from disposal of assets	-	(16)	-
Share-based compensation	(219)	(1,751)	(1,315)
Changes in operating assets and liabilities:			
Trade receivables	-	-	36
Prepaid expenses and other current assets	(163)	(74)	(132)
Inventory	(1,117)	(1,405)	(462)
Accounts payable	64	10	(28)
Other payables and accrued expenses	1,028	51	244
Short term employee benefits	45	492	78
Net cash used in operating activities	(12,232)	(10,547)	(6,085)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(1,365)	(500)	(298)
Grants received for property and equipment	250	-	-
Long term restricted deposits	(224)	-	-
Net cash used in investing activities	(1,339)	(500)	(298)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of shares and warrants, net of issuance costs	-	27,870	7,645
Net cash provided by financing activities	-	27,870	7,645
Effect of change in exchange on cash balances held in foreign currencies	(550)	(1,906)	428

Net change in cash and restricted cash equivalent	(14,121)	14,917	1,690
Cash and restricted cash equivalent at beginning of year	20,793	5,876	4,186
Cash and restricted cash equivalent at end of year	6,672	20,793	5,876
Supplemental disclosure of cash flow information			
Non-cash activity:			
Lease liabilities arising from obtaining right-of-use assets	55	319	1,496
Purchase of equipment	-	-	196
Reclassification of inventory to property and equipment	195	-	-
Conversion of preferred shares into ordinary shares	-	-	21,878

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

ZOOZ POWER LTD.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL:

ZOOZ Power Ltd. (hereinafter - “the Company”), an Israeli company, was incorporated and commenced operations in Israel on February 5, 2013. The offices of the Company are located at 4 Hamelacha St., Lod, Israel. The Company operates as one operating segment and is engaged in developing, manufacturing, marketing and selling of Energy Storage Solutions, for electric vehicles. The system is based on kinetic storage using flywheels.

In March 2021, the Company completed an initial public offering of shares and marketable warrants on the Tel Aviv Stock Exchange and became a public company and started trading on that day. In March 2022, the Company completed a public offering of shares and warrants. For more information see note 11.

In June 2023, the Company established a subsidiary in the Cayman Islands, ZOOZ Power Cayman (hereinafter - “the subsidiary"). The subsidiary is wholly owned by the Company. The subsidiary did not operate during 2023.

On July 30, 2023, the Company entered into a business combination agreement with Keyarch Acquisition Corporation, a public company incorporated in the Cayman Islands, then traded on the Nasdaq Global Market, which was issued as a Special Purpose Acquisition Company (SPAC) and additional related agreements, according to which a reverse triangular merger take effect, in which the Company recently established a subsidiary registered in the Cayman Islands with which the SPAC company will merge, such that the SPAC has become a private company fully owned (100%) by the Company, against the allocation of shares and tradable warrants of the Company to the shareholders and holders of the SPAC's tradable warrants.

The Company’s shareholders prior to the closing are entitled to additional contingent consideration of up to 4 million ordinary shares upon the Company’s achievement of the applicable earnout milestones (hereinafter - “the Earnout Rights ”) (based on share price) as set forth in the Business Combination Agreement, in the form of non-tradable, non-assignable rights, that were issued by the Company pro rata to the Pre-Closing company Shareholders on April 4, 2024. The Earnout Rights may be converted into ZOOZ ordinary shares within 5 years from the lapse of the first quarter following the Closing Upon meeting the applicable milestones.

On February 9, 2024, Keyarch and the Company entered into subscription agreements with certain investors (hereinafter - “subscription agreements”). Under the terms of the Subscription Agreements, the PIPE Investors agreed to subscribe for and purchase, an aggregate of 1,300,000 Keyarch Class A ordinary shares for a purchase price of $10.00 per share, for gross proceeds of $13,000,000. In addition, pursuant to the Subscription Agreement, the Company agreed to register the Subscription Shares and granted customary resale registration rights to PIPE Investors.

On March 21, 2024, the extraordinary general meeting of the Company’s shareholders approved a reverse share split of the Company’s ordinary Shares, effective as of March 25, 2024, at a conversion ratio of 11.43720665.

The Company accounted for the Reverse Stock Splits on a retroactive basis pursuant to ASC 260. As a result, all common stock , warrants, and options outstanding and exercisable for common stock, exercise prices and loss per share amounts have been adjusted, on a retroactive basis, for all periods presented in these financial statements and the applicable disclosures, to reflect such Reverse Stock Split.

The closing of the Merger and the Transactions took place on April 4, 2024. At the Effective Time, and upon the terms and subject to the conditions of the Business Combination Agreement, and in accordance with the

Cayman Act, Keyarch and Merger Sub consummated the Merger, pursuant to which Merger Sub was merged with and into Keyarch, with Keyarch being the surviving company, following which the separate corporate existence of Merger Sub ceased and Keyarch continued as the surviving company Pursuant to the Closing, Keyarch became a direct, wholly-owned subsidiary of the Company. As part of the merger $10,000,000 net was invested in the company.

In connection to the Closing of the Business Combination, the Company's ordinary shares and public warrants began trading on the Nasdaq Capital Market under the ticker symbols "ZOOZ" and "ZOOZW", respectively, on April 5, 2024, and became a dual Company.

Following the Issuance of Earnout rights in April 2024, the company's options and warrants conversion ratio has been adjusted, so each option or warrant will be exercisable to 1.18961 common share.

Current impact of Swords of Iron War

On October 7, 2023, following a surprise attack by the terrorist organization, Hamas, from the Gaza Strip, the Israeli government declared the "Swords of Iron" War. Following the attack from the Gaza Strip, an attack was also launched towards northern Israel by the terrorist organization, Hezbollah, from Lebanon and tensions in other sectors increased. As of the date of approval of the financial statements, the security situation in both the southern sector and the northern sector remained tense, and the uncertainty regarding the return to normalcy remains.

As part of dealing with the threats of a Swords of Iron War, the Israeli government ordered the evacuation of dozens of localities located in the south of the country, around the Gaza Strip, and in the north of the country, along the border with Lebanon, and also imposed restrictions on various gatherings, activities in workplaces and educational activities in accordance with the directives of the Home Front Command. In addition, many citizens were called to reserve service for extended periods of time.

The Company's factory is located in the city of Lod. The Company's facilities were not damaged during the war. In accordance with the guidelines of the National Emergency Authority, there is no denial of access or any restriction in the activity of the Company's facilities. As of the date of approval of the financial statements, the Company operates normally. As of the date of publication of the financial statements, there is no material impact on the Company's supply chain. However, if the security situation continues for an extended period of time, the Company's production capacity and even marketing and advertising activities outside of Israel may be affected. At this stage, the Company cannot reasonably assess the consequences of the continuation of the Swords of Iron War on the level of its activity and the results of this activity. These consequences depend, among other things, on the duration and scope of the war, on its economic effects on the entire economy in Israel and on the ability to raise capital from foreign and local investors and the industry in which the Company operates.

The Company continues regularly to monitor the development of events and considers the implications for its business activity and the measures it will take accordingly.

Current impact of the current financial markets and economic conditions

The Company's business may materially be affected by conditions in the financial markets and economic conditions in the U.S. and Europe. 2022 was characterized by steep declines and significant volatility in global markets, driven by investor concerns over inflation, rising interest rates, slowing economic growth and geopolitical uncertainty. Inflation across many key economies reached generational highs, prompting central banks to take monetary policy tightening actions that are likely to create headwinds to economic growth. Continued global supply chain disruption, including due to China's recurrent restrictions and the ongoing war between Russia and Ukraine, are also contributing to mounting inflationary pressure. In 2022, in the U.S., annual inflation rose to the highest level in over 40 years. Concurrently, Europe experienced high year-over-year inflation. In response to rising inflation, the Federal Reserve raised the federal funds target range and the European Central Bank raised rates for the first time in 11 years. Both central banks reiterated expectations for additional increases in the coming months. While several key economic factors, including employment, wage growth and household savings have demonstrated resilience, the U.S. economic contraction in 2022 has opened a debate among economists as to whether the U.S. has entered, or in the near term will enter, a recession.

Liquidity

The Company has net losses for the years ended December 31, 2023, 2022 and 2021 in the amounts of \$11,755 thousands \$7,825 thousands and \$4,581 thousands and negative cash flows from operating activities in the amounts of \$12,232 thousand \$10,547 thousand and \$6,085 thousand, respectively.

The Company has historically financed its operations over the years by raising funds from investors. On April 4, 2024, the Company finalized a merger deal with a SPAC. As part of the merger 10 million USD net, was invested in the company (for details, see above). Since the Company has just started commercial sales of its products and considering the Company's expected cash usage, the Company's cash balance as of December 31, 2023, and as of the date of approval of the financial statements is not sufficient to continue the Company's operations for at least 12 months from the date of approval of the financial statements. These circumstances raise substantial doubt about the Company's ability to continue as a going concern.

In order to continue the Company's operations, including research and development and sales and marketing, the Company is looking to secure financing from various sources, including additional investment funding.

The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation of financial statements

The financial statements of the Company have been prepared in conformity with United States generally accepted accounting principles (U.S. GAAP)

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgments, and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences may have a material impact on the Company's financial statements. As applicable to these financial statements, the most significant estimates relate to inventory net realizable value and share-based compensation.

Functional and Presentation Currency

The currency of the primary economic environment in which the operations of the Company are conducted is the New Israeli Shekel ("NIS"). Thus, the functional currency of the Company is the NIS. The Company's presentation and reporting currency is the U.S dollar.

Balances in non-NIS currencies are translated into NIS using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-NIS transactions and other items in the statements of operations (indicated below), the following exchange rates are used: (i) for transactions - exchange rates at transaction dates; and (ii) for other items (derived from non-monetary balance sheet items such as depreciation and amortization) - historical exchange rates. Currency transaction gains and losses are presented in finance income or expenses, as appropriate.

The financial statements are translated into the reporting currency, the U.S dollar, using the current rate method - equity accounts are translated using historical exchanges rates, while all other balance sheet accounts are translated using the exchanges rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the year, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, The resulting translation adjustments are reported as a component of shareholders' equity in accumulated other comprehensive income (loss). Exchange rates of NIS to U.S dollar as of December 31, 2023 and 2022 are 3.63 and 3.52, respectively.

Fair Value Measurements

Fair value 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. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

The fair value hierarchy is categorized into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. Level 2 inputs include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying amounts of other current assets, account payables and other payables and accrued expenses approximate fair value because of their generally short maturities.

Restricted long-term bank deposits

Restricted long-term bank deposits are deposits with a maturity of more than one year. The bank deposits are used as a security for the Company’s lease agreements. Long-term bank deposits are denominated in NIS. The interest on the Company’s deposits is insignificant. As of December 31, 2023 and 2022, the Company had a lien on the Company’s bank deposits in respect of bank guarantees granted in order to secure its lease agreements. The fair value of bank deposits approximates the carrying value since they bear interest at rates close to the prevailing market rates.

Concentration of credit risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, restricted long-term deposits and other receivables.

All the Company’s cash and restricted long-term bank deposits are invested in banks within Israel. The Company is exposed to credit risk in the event of default by the financial institutions to the extent of the amounts recorded on the accompanying balance sheets exceed federally insured limits. The Company places its cash and deposits with financial institutions for which management believes there is limited credit loss exposure with respect to the investments.

Inventory

Inventory consists of raw materials, work in process and finished products. Inventories are stated at the lower of cost or net realizable value. Inventory write-offs are provided to cover risks arising from slow-moving and obsolescent items.

The Company periodically evaluates the quantities on hand relative to current and historical selling prices and historical and projected sales volume. Once written-down, a new lower cost basis for that inventory is established . Cost of inventories is assigned as follows:

Raw materials - at cost of purchase represents the first in, first out method.

Work in process - on the basis of direct manufacturing costs with the addition of allocable indirect manufacturing costs.

Finished products - based on average costs of materials, contracting and manufacturing costs.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers and peripherals	33
Office furniture and equipment	7
Machines and electronic devices	15-33
Energy storage systems	20
Leasehold improvements	21-26

Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter.

The Company's property and equipment include, among other things, energy storage systems that were manufactured by the Company and transferred to a third party free of charge for the purpose of a marketing pilot. At the end of a period agreed between the parties, the systems will be returned to the Company.

Grants that relate to assets are presented in the statement of financial position by deducting the grant in order to arrive at the book value of the asset. The grant is recognized in profit or loss over the life of a depreciable asset through the imputation of reduced depreciation.

Impairment of long-lived assets

The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the long-lived asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the sum of the expected undiscounted cash flow is less than the carrying amount of the asset, the Company recognizes an impairment loss, which is the excess of the carrying amount over the fair value of the asset, using the expected future discounted cash flows.

For the years ended December 31, 2023, 2022 and 2021, the Company did not recognize an impairment loss on its long-lived assets.

Basic and diluted net loss per share

The Company's basic net loss per share is calculated by dividing net loss attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding for the period, without consideration of potentially dilutive securities. The diluted net loss per share is calculated by giving effect to all potentially dilutive securities outstanding for the period using the treasury share method or the if-converted method based on the nature of such securities. All share options, warrants and preferred shares were excluded from the calculation of diluted net loss per ordinary share because their effect would have been anti-dilutive for the years presented.

The Company computes net loss per share using the two-class method required for participating securities. The two-class method requires income available to ordinary shareholders for the period to be allocated between ordinary shares and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. These participating securities do not contractually require the holders of such shares to participate in the Company's losses. As such, a net loss for the periods presented was not allocated to the Company's participating securities.

For the year ended December 31, 2023, the Company had 834,172 options and 39,710 warrants, and for the year ended December 31 2022, the Company had 711,539 options, 39,710 warrants. These securities were not considered when calculating diluted loss per share since their effect is anti-dilutive.

Collaborative arrangements

The Company entered into collaborative arrangements with partners that fall under the scope of Topic 808, "Collaborative Arrangements" ("ASC 808"). While these arrangements are in the scope of ASC 808, the Company may analogize to ASC 606 for some aspects of the arrangements.

The terms of the Company's collaborative arrangements typically include reimbursements or cost-sharing of research and development expenses. Each of these payments results in an offset against research and development expenses.

Under certain collaborative arrangements, the Company has been reimbursed for a portion of its research and development expenses or participates in the cost-sharing of such research and development expenses. Such reimbursements and cost-sharing arrangements have been reflected as a reduction of research and development expense in the Company's statements of operations, as the Company does not consider performing research and development services for reimbursement to be a part of its ongoing major or central operations.

Revenues

The Company generates revenues from the sale of energy storage system for supporting fast chargers for electric vehicles, based on kinetic storage using flywheels.

The Company 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. To determine revenue recognition for arrangements that the Company determines are within the scope of 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;
5. Recognize revenue when (or as) the performance obligation is satisfied.

The Company accounts for a contract with customer when it has approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and collectability of consideration is probable. The Company's contract includes one type of performance obligation, which is satisfied at a point in time. The Company recognizes revenue upon transfer of control of the system to the customer in an amount that reflects the consideration the Company expects to receive in exchange for the system. Transfer of control occurs generally upon the receipt of customer acceptance or once risk of loss has transferred to the customer. The acceptance received from customers include successful installation and commissioning test of the energy storage system. The Company does not provide a right of return. The Company provide to customers a limited warranty assurance that the systems are in compliance with the applicable specifications at the time of delivery. Under the standard terms and conditions of sale, liability for certain failures of product during the stated warranty periods are limited to repair or replacement of defective items.

During the reporting period the Company delivered to its client and installed in the client's site located in Germany two energy storage systems. The Company recognized the revenues related to these two systems during the reporting period, after receiving the acceptance certificate for the systems.

The Company's trade receivable balances are driven by sale of energy storage systems. Credit is granted based on evaluation of a customer's financial condition and generally, collateral is not required. Trade receivable balances are stated at amounts due from customers net of a provision for current expected losses.

Trade receivables are reduced by an allowance for current expected losses. The Company maintains the allowance for estimated losses resulting from the inability of the Company's customers to make required payments. The allowance represents the current estimate of lifetime expected credit losses over the remaining duration of existing accounts receivable considering current market conditions and supportable forecasts when appropriate. The estimate is a result of the Company's ongoing evaluation of collectability, customer creditworthiness, historical levels of credit losses, and future expectations. As of December 31, 2023, the Company has collected all trade receivable balances.

Research and development, net

Research and development costs are expensed to the statement of operations as incurred, net of government grants which represents participations in research and development.

Research and development expenses include costs directly attributable to the conduct of research and development programs, including payroll costs, lab expenses, materials, consumables, and consulting fees. All costs associated with research and development are expensed as incurred.

The Company receives royalty-bearing grants, which represents participation of the Israel Innovation Authority (hereafter "IIA"), other governmental institutions (the Ministry of Economy and the Ministry of Energy) and the BIRD Foundation ("BIRD") in approved programs for research and development. At the time the grants were received, successful development of the related projects was not assured. Grants are recognized as a reduction of research and development expenses as the related costs are incurred. For more information see note 16a.

Sales and marketing

The Company receives royalty-bearing grants, which represents participation of the New York Power Authority (hereafter "NYPA") in approved programs for sales and marketing. These grants are recognized as a reduction of sales and marketing expenses as the related costs are incurred.

Income taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740"). ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between 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 the deferred tax assets will not be realized.

ASC 740-10, "Income Taxes" ("ASC 740-10") clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This standard contains a two-step approach to recognizing and measuring a liability for 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% likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits in its taxes on income.

The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position.

Share-based compensation

The Company accounts for options granted to employees under the fair value recognition provision of ASC 718 “stock compensation”. The Company measures all share-based awards, based on their estimated fair value on the grant date.

The Company’s employees and directors share-based payment awards are classified as equity awards, except for awards as described below. The grant date fair value of these share-based payment transactions is recognized as an expense over the requisite service period using an accelerated method, net of estimated forfeitures. The Company elected to recognize compensation costs for awards conditioned only on continued service that have a graded vesting schedule based on the multiple-option award approach. The Company accounts for its equity classified share-based payment awards to its advisors in a similar manner.

The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option- pricing model is affected by the Company’s stock price as well as assumptions regarding number of complex and subjective variables. These variables include the estimated stock price volatility over the term of the awards; actual and projected employee stock option exercise behaviors, which is referred to as expected term; risk-free interest rate and expected dividends.

The expected term is calculated using the simplified method, as the Company has concluded that its historical share option exercise experience does not provide a reasonable basis to estimate the expected option term. The Company uses an average historical stock price volatility based on a combined weighted average of the Company’s historical average volatility and that of a selected peer group of comparable public companies within the industry that were deemed to be representative of future stock price trends as the Company does not have a sufficient historical trading history of its own Common Stock. The Company will continue to apply this process until a sufficient amount of historical information regarding the volatility of its own stock price becomes available. The Company bases the risk-free interest rate used in its option-pricing models on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term to maturity of its equity awards. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero.

Liability classified share-based options

Some of the Company’s share-based awards have an exercise price denominated in USD, which is not the Company’s functional currency and not the employees’ salary currency or the currency in which the employees are paid. These awards are classified as liability awards, measured at fair value at the date of grant and re-measured at fair value at each reporting date up to and including the settlement date. The determination of the fair value of these awards is described in Note 12. The fair value of the awards is expensed over the respective vesting period of the individual awards with recognition of a corresponding liability. Changes in fair value after vesting are recognized through compensation expense in the statement of operations. Compensation expense reflects estimates of the number of awards expected to vest. The impact of forfeitures and fair value revisions, if any, are recognized in earnings such that the cumulative expense reflects the revisions, with a corresponding adjustment to the settlement liability.

Severance pay

Under Israeli law, the Company is required to pay a severance payment to its employees in Israel upon dismissal of an employee or upon termination of employment in certain other circumstances. The Company makes ongoing deposits into its Israeli employee pension plans to fund their severance liabilities. For its employees who are employed under the Section 14 of the Severance Pay Law, 1963 ("Section 14"), the Company makes deposits with certain insurance companies for accounts controlled by each applicable employee in order to secure the employee's rights upon termination. In addition, the related obligations and amounts deposited on behalf of the applicable employees for such obligations are not presented on the Company's balance sheets, as the amounts funded are not under the control of management and the Company is legally released from the obligation to pay any severance payments to the employees once the required deposit amounts have been paid. For the years ended December 31, 2023, 2022 and 2021, severance pay expenses were $375 thousand, $253 thousand and $181 thousand, respectively.

Comprehensive loss

The Company complies with ASC 220, "Comprehensive Income," which establishes rules for the reporting and display of comprehensive income (loss) and its components. The Company reports the financial impact of translating its financial statements from its functional currency to its reporting currency as a component of other comprehensive income (loss).

Leases

The Company accounts for leases in accordance with ASC 842, Leases. All of the Company's leases are classified as operating leases. The Company determines if an arrangement is a lease at inception. Lease classification is governed by five criteria in ASC 842-10-25-2. If any of these five criteria is met, the Company classifies the lease as a finance lease; otherwise, the Company classifies the lease as an operating lease.

Operating leases are included as operating lease right-of-use ("ROU") assets and operating lease liabilities on the balance sheet.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of the lease payments. The Company elected the practical expedient to not separate lease and non-lease components for all of the Company leases, and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the statements of operations on a straight-line basis over the lease term.

The Company subsequently measures the ROU asset at the present value of the remaining lease payments, adjusted for the remaining balance of any lease incentives received, any cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term and any unamortized initial direct costs. Further, the Company recognizes lease expense on a straight-line basis over the lease term.

The lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise or not exercise the option to renew or terminate the lease.

Contingent Liabilities

Certain conditions may exist as of the date of the financial statements, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is recorded as accrued expenses in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material are disclosed. As of December 31, 2023, no contingent liabilities have been recognized.

Accounting Pronouncements effective in future periods:

In December 2023, the FASB issued ASU 2023-09 Improvements to Income Tax Disclosures. The ASU improves the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. This ASU is effective for the Company for annual periods beginning after December 15, 2025. The Company is evaluating the potential impact of this guidance on its financial statements.

In November 2023, the FASB issued ASU No. 2023-07 Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The ASU improves reportable segments disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is evaluating the potential impact of this guidance on its financial statements.

NOTE 3 - FAIR VALUE MEASUREMENT:

The Company's financial instruments consist mainly of cash, restricted long-term deposits and other current assets, accounts payable and other payables. Other than the share-based payment liabilities, the recorded amounts approximate their respective fair value because of the liquidity and short period of time to maturity, receipt, or payment of these instruments.

The Company's financial instruments which are considered as a Level 3 measurement is the share-based payment liability. For more information see Note 12.

NOTE 4 - CASH AND RESTRICTED CASH EQUIVALENT:

The following table provides a reconciliation of cash and restricted deposits reported on the balance sheets that sum to the same total amount as shown in the statements of cash flows:

	December 31	
	2023	**2022**
	U.S. dollars in thousands	
Cash	6,672	20,569
Restricted deposits (1)	-	224
Total cash and restricted cash equivalent shown in the statement of cash flows	6,672	20,793

(1) As of December 31, 2022, the Company's restricted deposits consisted of bank deposits that were denominated in New Israeli Shekel. Restricted deposits are presented at cost including accrued interest. These bank deposits are used as security for collateralizing the Company's lease contracts.

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NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS:

	December 31	
	2023	2022
	U.S. dollars in thousands	
Prepaid expenses	203	66
Institutions	117	216
Advances to suppliers	304	16
Other	128	299
	752	597

NOTE 6 – INVENTORY:

	December 31	
	2023	2022
	U.S. dollars in thousands	
Raw materials	955	558
Work in process	425	904
Finished goods	1,468	305
	2,848	1,767

The Company recorded an inventory write-off of $1,123 thousand and $178 thousand in 2023 and 2022, respectively, which is presented within cost of sales in the statement of operations. In addition, the Company recorded an inventory write off of $144 thousand in 2023 related to raw materials which are not expected to be used during the future production process. Inventory write-offs were recorded to reflect anticipated net realizable value on disposition of existing inventory assets.

NOTE 7 - PROPERTY AND EQUIPMENT:

	December 31	
	2023	2022
	U.S. dollars in thousands	
Cost:		
Computers and peripheral equipment	254	115
Office furniture and equipment	170	163
Machines and equipment	652	550
Leasehold improvements	264	252
Energy storage systems	844	-
	2,184	1,080
Accumulated depreciation:	(591)	(357)
Depreciated cost	1,593	723

For the years ended December 31, 2023, 2022 and 2021, depreciation expenses amounted to $239 thousand, $131 thousand, and $44 thousand, respectively.

NOTE 8 - OTHER PAYABLES AND ACCRUED EXPENSES:

	December 31	
	2023	2022
	U.S. dollars in thousands	
Accrued expenses	975	252
Grants in advance	268	90
Others	144	10
	1,387	352

NOTE 9 - OPERATING LEASES:

The Company is party to a lease agreement for its facilities located in Israel through November 2024. The Company has the option to extend the agreement for an additional 3-year period. Upon exercising the extension option, the annual rental payments will increase by 3%. The Company concluded that it is reasonably certain that it will exercise the renewal option. Accordingly, such renewal option was included in determining the lease term.

The Company also leases vehicles for its employees with different commencement and ending periods in Israel (for 3 years periods). The Company has an option terminate these lease agreements, which may result in penalties of insignificant amounts. The Company concluded that it is not reasonably certain that it will exercise the termination option. Accordingly, such termination option was not included in determining the lease term.

The company has short term agreements for the of parking spaces for periods of up to 12 months.

The Company’s operating lease expenses are recognized on a straight-line basis. Operating lease costs for the years ended December 31, 2023, 2022 and 2021 were as follows:

	December 31		
	2023	2022	2021
	U.S. dollars in thousands		
Operating lease cost	781	760	209
Short term lease costs	18	14	-
Total lease costs	799	774	209

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

	December 31		
	2023	2022	2021
	U.S. dollars in thousands		
Cash paid for amounts included in the measurement of lease liabilities	443	250	106
Right-of-use assets obtained in exchange for new operating lease liabilities	108	319	1,496

Other information related to operating leases were as follows:

	December 31,	
	2023	**2022**
Weighted-average remaining lease term	3.9 years	4.7 years
Weighted-average discount rate	12.88%	12.27%

The table below presents value of lease liabilities of the company for the lease period (USD thousands):

	December 31, 2023
2024	415
2025	404
2026	390
2027	309
Total operating lease payments	1,518
Less: imputed interest	(174)
Present value of lease liabilities	1,344

NOTE 10 - COMMITMENTS AND CONTINGENCIES:

Commitment to pay royalties to the Israel Innovation Authority and other participation grants

Since incorporation of the Company and through 2023, the Company received grants for participation in research and development the IIA, other governmental institutions (the Ministry of Economy and the Ministry of Energy) the BIRD Foundation, and from NYPA In the case of project termination and/or unsuccessful development prior to having a mature product and beginning of sales, the Company does not have any commitment to pay royalties. As a precondition for receiving the grants, the Company committed to pay royalties in a range of 11% to 16% (pending territory) of revenue generated from selling the products, and up to the amount of grants received, based on a letter of commitment entered with those entities.

Total contingent obligations as of December 31, 2023 and 2022, amounted to $2.0 million and $1.3 million, respectively.

The Company receives royalty-bearing grants, which represent participation of BIRD in approved programs for funding, covering up to 50% of project development costs. These grants are recognized as a reduction of research and development expenses as the related costs are incurred. For the years ended December 31,2023, 2022 and 2021, the Company received $0.1 million $0.1 million and $0.2 million from BIRD, respectively.

The Company is committed to pay royalties to BIRD at a rate of 5% of the sales of its product, up to 100% of the amount of the grants received if full repayment made by April 1, 2024, 113% if full repayment is made by April 2025, 125% if full repayment is made by April 2026, 138% if full repayment is made by April 2027, and 150% if full repayment is made after April 2027.

The Company receives royalty-bearing grants, which represent participation of IIA in approved programs for funding, covering up to 50% of project development costs. These grants are recognized as a reduction of research and development expenses as the related costs are incurred. For the years ended December 31, 2023, 2022 and 2021, the Company received $0.3 million, $0 and $0.1 million from IIA, respectively. The amount of $0.3 million received in 2023 from the IIA was recorded as “Other Receivables” in 2022. The Company is committed to pay royalties to the Israeli Government at a rate of 3% to 5% of the sales of its product, up to 100% of the amount of the grants received plus Annual Interest for a File, as such term is defined under the IIA’s rules and guidelines. In 2023 the Company paid $23 thousand to the Innovation Authority with respect of sales recognized during the year.

The amounts deducted from research and development expenses are $382 thousand, $359 thousand and $189 thousands for the years ended on December 31, 2023, 2022 and 2021, respectively.

Engagement in collaborations agreements and pilot programs:

1. Collaboration agreement with Blink

   In February 2020, the Company engaged in a collaboration agreement with Blink, a company engaged in development, marketing, and distribution of equipment for electric vehicles, for the development of an energy storage system for the U.S. market designed to accelerate EV charging. 50% of the project’s approved budget was funded by BIRD. Under the agreement, the Company is responsible for the development and manufacturing of the facility for the U.S. market in compliance with U.S. standards, while Blink is responsible for the manufacturing of a high-power EV charger, and for the marketing and distribution of the joint product. The Company is committed under the agreement to pay 5% royalties on U.S. sales and up to the amount of the grant.

2. Collaboration agreement with Afcon Electric Transportation LTD.

   In July 2022, the Company entered into an agreement with Afcon Electric Transportation Ltd. (hereafter - "Afcon"), in a cooperation agreement for the establishment and execution of a pilot for an ultra-fast charging infrastructure for electric vehicles, based on a ZOOZTER-100 kinetic storage system in combination with the energy management software (EMS) for smart management of power consumption on the site produced by the Company.
   The engagement in the agreement is subject to the approval from the IIA for a pilot support grant amounting to 40% of the project budget, in the amount of $0.3 million.

3. Collaboration agreement with New York Power Authority

On September 12, 2022, the Company engaged in a cooperation agreement with the NYPA for the development, installation, integration and demonstration of the Company's systems for use as ultra-fast charging infrastructure for electric vehicles, in locations with limited power grid capacity. Under the agreement, the Company is expected to construct and demonstrate with NYPA's funding of up to $0.9 million, of which the Company received $0.5 million during 2023) an ultra-fast charging station based on the Company's system. According to the contract, the Company is obliged to pay royalties in the range between 1.5% to 2% until the receipts received from NYPA are fully covered.

NOTE 11 - EQUITY:

In March 2024, the Company's general meeting of shareholders approved a reverse split of shares on a conversion ratio of 11.4372. All numbers of shares and options, and warrants presented in these financial statements are after retrospective application of the reverse-split. For more information see Note 1.

Each holder of the Company's ordinary shares, par value NIS 0.00286 per share, is entitled to one vote. The holders of ordinary shares are also entitled to receive dividends whenever funds are legally available and declared by the Company's Board of Directors (the "Board"). Since inception, the Company has not declared any dividends.

In February 2021, the Company converted 467,571 preferred shares into 1,565,000 ordinary shares before the split as describe below (Following the reverse split in March 2024, as described above, the converted preferred shares would have differed from 18,881,400 ordinary shares to 1,650,875 ordinary shares).

In February 2021, the Company's general meeting of shareholders approved the split of all classes in its issued and paid-up share capital into ordinary shares. Additionally, the general meeting approved a split of shares on a 40:1 ratio.

On February 18, 2021, the Company signed a binding memorandum with Arko shortly before obtaining permission to issue a complementary prospectus ahead of an initial public offering (IPO) of the Company on the Tel Aviv Stock Exchange ("TASE"), granting 26,230 warrants for the acquisition of ordinary shares of the Company, exercisable for a price per share at 120% of a the share price that would be determined at the IPO and for a period of five years. As of December 31, 2023, the warrants have yet to be exercised. Sales and marketing expenses for the year ended December 31, 2021 include an expense of $269 thousand.

In March 2021, the Company completed an IPO of its securities on the TASE and issued to the public 33,754 units, each composed of 8.74 ordinary shares, 6.56 Series 1 and 2.19 Series 2 options. Option series 1 will exercise period is within one year, with an exercise price of $29.7 (NIS 92.9). Option series 2 exercise period is within two years, with an exercise price of $44.6 (NIS 139.5). Gross issue proceeds were $8.4 million (NIS 27.4 million). Issuance costs were $0.6 million (NIS 1.9 million), recognized as a deduction from additional paid-in capital.

In March 2022, the Company completed a financing round through a private placement and a public offering. As part of the public offering, the Company issued 352,276 units, each composed of 8.74 ordinary shares and 5.68 Series 3 options. The options will vest over a period of 3 years, with an exercise price of $9.1 (NIS 32) for one year period and $11.4 (NIS 41.2) for additional two years period. In the private placement, the Company issued 42,735 units, each composed of 8.74 ordinary shares and 7.43 Series 3 options as well as 16,239 units, each composed of 8.74 ordinary shares and 5.68 Series 3 options. Gross issue proceeds were $29 million (NIS 96 million). Issuance costs amounted to USD 1.7 million (NIS 5.7 million), including NIS

0.5 million paid to an advisor through the allocation of shares and Series 3 options, were recognized as a deduction from additional paid-in capital.

NOTE 12 - SHARE BASED COMPENSATION:

The 2015 Incentive Compensation Plan (“2015 Plan”)

In August 2015, the Board of Directors approved the Company’s option plan for employees and officers, which was submitted in June 2016 to the Israel income tax authorities as a plan administered by a trustee and treated for tax purposes as a capital gain pursuant to Section 102(b)(2). Options to non-employees and non-officers of the Company, in addition to controlling shareholders of the Company, are to be allocated under Section 3(i) of the Income Tax Ordinance.

According to the 2015 Plan, the Company’s Board of Directors is permitted to grant employees, officers, directors, consultants and other senior service providers of the Company (as this term is defined by Section 102(a) to the Income Tax Ordinance unlisted options and warrants that are exercisable into shares of the Company. The 2015 Plan is managed by the Company’s Board of Directors, or by a committee authorized by the Board. All shares that will arise from exercising the unlisted options grants to employees, consultants and officers under the 2015 Plan would be fully paid up on their date of allocation and, beginning on the date the Company becomes public, would be registered in the name of the Company.

The exercise price for each option or warrant is as determined by the Board of Directors, but provided that if the Board of Directors does not indicate otherwise, the exercise price would be the fair market value of the Company’s share on the date of the decision to allocate.

The vesting period, unless the Company’s Board of Directors determines otherwise in respect to any specific grantee is (1) 25% of options would vest after twelve consecutive months of services by the grantee since the date of grant; (2) 6.25% of options would vest after every three (3) additional months of consecutive service by the grantee, until 100% of the options vest, after four (4) years after grant date. Further, the Company’s Board of Director is permitted, at its exclusive judgment, to accelerate vesting of all or part of an option of warrant in the event of a merger of the Company with another company.

Unless expired at an earlier date, the unexercised options would expire after ten years after grant date.

Equity classified awards

In November 2021, the Company granted 78,621 options (unlisted), exercisable into ordinary shares of the Company, to an officer who is a related party, with whom the Company has no employment relationship, for an exercise price of NIS 74.8 per share.

In November 2021, the Company granted 13,989 options (unlisted), exercisable into ordinary shares of the Company, to employees or officers, for an exercise price of NIS 65.6 per share.

In November 2021, the Company granted 13,989 options (unlisted), exercisable into ordinary shares of the Company, to an officer, for an exercise price of NIS 65.6 per share.

In July 2022, the Company granted 82,187 options (unlisted), exercisable into ordinary shares of the Company, to employees or officers with whom the Company has employment relationships, for an exercise price of NIS 21.6 per share.

In July 2022, the Company granted 17,486 options (unlisted), exercisable into ordinary shares of the Company, to an officer, with whom the Company has employment relationship for an exercise price of NIS 26.8 per share.

In August 2022, the Company granted 52,460 options (unlisted), exercisable into ordinary shares of the Company, to officers, with whom the Company has employment relationships for an exercise price of NIS 26.8 per share.

In October 2022, the Company granted 26,230 options (unlisted), exercisable into ordinary shares of the Company, to an officer, with whom the Company has employment relationship for an exercise price of NIS 26.8 per share.

In December 2022, the Company granted 13,989 options (unlisted), exercisable into ordinary shares of the Company, to employees or officers, and with whom the Company has employment relationships for an exercise price of NIS 17.4 per share.

In February 2023, the Company granted 13,115 options (unlisted), exercisable into ordinary shares of the Company, to an employee, with whom the Company has employment relationships for an exercise price of NIS 17.7 per share.

In March 2023, the Company granted 39,782 options (unlisted), exercisable into ordinary shares of the Company, to employees, with whom the Company has employment relationships for an exercise price of NIS 15.9 per share.

In April 2023, the Company granted 90,275 options (unlisted), exercisable into ordinary shares of the Company, to an officer who is a related party, with whom the Company has no employment relationship. The options will vest over 3 years from the date of the grant - 33% each year. The exercise price for each option is variable in each tranche: NIS 28.6, NIS 32.0, NIS 42.7, respectively.
The grant of the options was made against the cancellation of 78,621 options that were granted to that officer in November 2021. The accounting treatment of the grant of the options that replaced the canceled options was carried out by way of a modification. The incremental fair value granted, which is the difference between the fair value of the new options issued and the fair value of the canceled options at the time the new options were granted, will be recognized as an expense over the vesting period of the new grant.

In April 2023, the Company granted 47,873 options (unlisted), exercisable into ordinary shares of the Company, to two directors, with whom the Company has no employment relationships. The options will vest over 3 years from the date of the grant - 33% each year. The exercise price for each option is variable in each tranche: NIS 28.6, NIS 32.0, NIS 42.7, respectively.

In August 2023, the Company granted 49,400 options (unlisted), exercisable into ordinary shares of the Company, to employees, with whom the Company has employment relationships for an exercise price of NIS 12.1 per share.

The value of benefit is measured on the grant date by reference to the fair value of the granted equity instruments, as described above. The fair value is calculated using the Black and Scholes formula, with the following assumptions:

	2023	**2022**	**2021**
Dividend yield	0%	0	0%
Expected volatility	74%-76%	52%-76%	55%-75%
Risk-free interest rate	3.3%-3.9%	2.4%-3.1%	0.75%-2%
Expected term (years)	4-7 years	5-7 years	5-6 years
Exercise price (USD)	3.32-11.78	4.92-7.55	5.15-21.16

The following is summary information of equity classified options in 2023:

	Year ended December 31, 2023			
	Number	Weighted average exercise price USD	Weighted average remaining contractual life Years	Aggregate Intrinsic Value
Outstanding at beginning of year	298,955	8.46	9.4	-
Expired	(110,945)	16.81	-	-
Granted	240,447	5.60	9.3	-
Outstanding at end of year	428,457	7.55	8.9	-
Exercisable at end of year	64,291	9.15	8.2	-

The weighted-average grant-date fair value of equity awards granted during the year was $1.73.

The following is information regarding exercise prices and remaining contractual lives of outstanding options at December 31, 2023:

December 31, 2023					
Outstanding			Exercisable		
Number of options outstanding	Exercise price (USD)	Weighted average remaining contractual life	Number of options Exercisable	Exercise price (USD)	Weighted average remaining contractual life
49,400	3.32	9.6	-	-	-
39,782	4.35	9.2	-	-	-
9,618	4.80	8.9	2,077	4.80	8.9
13,115	4.92	9.1	-	-	-
59,482	5.95	8.5	19,809	5.95	8.5
96,177	7.43	8.7	28,416	7.43	8.7
46,050	7.89	9.3	-	-	-
46,050	9.04	9.3	-	-	-
46,050	11.78	9.3	-	-	-
22,733	18.07	7.8	13,989	18.07	7.8
428,457	7.55	8.9	64,291	9.15	8.2

As of December 31, 2023, there is an unrecognized share-based compensation expense of $441 thousand to be recognized over the average remaining vesting period of 2.5 years.

Liability classified awards

The options were classified as liabilities in accordance with ASC 718, as the exercise price is denominated in USD, that is not the Company's functional currency and not the employees' salary currency or the currency in which the Company is traded. Accordingly, the options are measured at fair value each reporting period, and changes in their fair value are recognized in the statements of operations. The fair value of the options as of December 31, 2023, was evaluated using the Black-Scholes Option Pricing Model. For the various scenarios modeled, volatility is based on companies in the industry by statistical analysis of a daily share pricing model. The risk-free interest rate assumption is based on observed interest rates appropriate for the period until the options expiration date. Following the merger in April 2024, as detailed in note 1, given that the currency of the market in which the Company's equity securities are traded, these awards will be reclassified to equity.

The table below sets forth a summary of changes in the fair value of the options:

	Number of options measured at fair value	**Fair value (U.S. Dollars in thousands)**
Balance at January 1, 2021	446,703	4,769
Effect of change in exchange rate		112
Changes in fair value	-	(1,276)
Balance at December 31, 2021	446,703	3,605
Effect of change in exchange rate		(315)
Changes in fair value	-	(2,294)
Balance at December 31, 2022	440,045	996
Effect of change in exchange rate		(30)
Changes in fair value	-	(734)
Balance at December 31, 2023	405,714	232

As of December 31, 2023, 386,016 options were fully vested.

The following table summarizes assumptions used as of December 31, 2023, 2022 and 2021:

	2023	**2022**	**2021**
Expected dividend	0%	0%	0%
Expected volatility*	81.2%-90.9%	79.6%-95.7%	86.9%-95%
Risk-free interest rate	4.97%-5.35%	4.68%-5.27%	1.18%-1.87%
Expected life	2-4	1.5-5	2-5.9
Exercise price (USD)	4.57-15.67	4.57-15.67	4.57-15.67

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The following is summary information about liability classified options in 2023:

	Year ended December 31, 2023			
	Number	Weighted average exercise price USD	Weighted average remaining contractual life years	Aggregate Intrinsic Value
Outstanding at beginning of year	440,045	8.46	6.3	-
Expired	(34,331)	7.66	-	-
Outstanding at end of year	405,714	9.72	6.2	-
Exercisable at end of year	386,016	10.52	6.1	-

The following is information regarding exercise prices and remaining contractual lives of outstanding options at December 31, 2023:

December 31, 2023					
outstanding			Exercisable		
Number of options outstanding	Exercise price range (USD)	Weighted average remaining contractual life	Number of options Exercisable	Exercise price range (USD)	Weighted average remaining contractual life
78,110	7.55	4.1	78,110	7.55	4.1
239,009	7.78	6.8	239,009	7.78	6.8
78,795	15.67	6.9	59,097	15.67	6.9
9,800	25.62	0.4	78,110	25.62	0.4
405,714	9.72	6.2	386,016	10.52	6.1

As of December 31, 2023, there is an unrecognized share-based compensation expense of $1 thousand to be recognized over the average remaining vesting period of 0.9 year.

The table below presents the expense (income) recognized in the financial statements of the Company in respect to share-based payment:

	Year ended December 31					
	2022			2021		
	Equity classified awards	Liability classified awards	Total expense	Equity classified awards	Liability classified awards	Total expense
Research and development expenses (income)	206	(1,426)	(1,220)	7	(1,297)	(1,290)
Sales and marketing expenses (income)	59	(546)	(487)	269	(459)	(190)
General and Administrative expenses (income)	278	(322)	(44)	70	95	165
	543	(2,294)	(1,751)	346	(1,661)	(1,315)

	Year ended December 31 2023		
	Equity classified awards	**Liability classified awards**	**Total expense**
Research and development expenses (income)	98	(440)	(342)
Sales and marketing expenses (income)	111	(171)	(60)
General and Administrative expenses (income)	294	(111)	183
	503	(722)	(219)

NOTE 13 – TAXES ON INCOME:

Tax rates

The Company is taxed under the laws of the State of Israel at a corporate tax rate of 23%. Capital gains of the Company are subject to the normal corporate tax rate beginning in the tax year.

Deferred Tax Assets

The Company's deferred tax assets are as follows:

	December 31	
	2023	**2022**
	U.S. dollars in thousands	
Deferred Tax assets:		
Net operating losses carryforward	8,053	5,882
Operating lease liabilities	309	362
Employee benefits	70	60
Inventory write off	291	-
Research and development expenses	1,250	-
Issuance costs	120	290
Total deferred tax assets	10,093	6,594
Less deferred tax liabilities (related to right of use assets)	(301)	(336)
Deferred tax assets, net	9,792	6,258
Less valuation allowance for deferred tax assets	(9,792)	(6,258)
Deferred tax assets	-	-

	December 31	
	2023	**2022**
	U.S. dollars in thousands	
Valuation allowance at beginning of year	(6,258)	(4,739)
Changes in valuation allowance	(3,534)	(1,519)
Valuation allowance at end of year	(9,792)	(6,258)

Deferred taxes were calculated using 23% tax rate as this represents the applicable corporate tax rate for the Company.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, the Company considered all available evidence, including past operating results, the most recent projections for taxable income, and prudent and feasible tax planning strategies. The Company reassess its valuation allowance periodically and if future evidence allows for a partial or full release of the valuation allowance, a tax benefit will be recorded accordingly.

Management currently believes that since the Company has a history of losses, it is more likely than not that the deferred tax assets regarding the loss carry-forward will not be realized in the foreseeable future and as a result the Company recorded a full valuation allowance.

Carryforward losses

Carryforward losses for tax purposes are NIS 127 million ($35 million) and NIS 90 million ($26 million) as of December 31, 2023 and 2022, respectively. Such carryforward losses have no expiration date.

Tax assessments

As prescribed by law, the statute of limitations on taxpayer self-assessments is four years after the end of the tax year in which the assessment is filed. Accordingly, self-assessments filed by the Company until and including 2018 are considered final.

NOTE 14 - RELATED PARTIES TRANSACTIONS:

	Year ended December 31		
	2023	**2022**	**2021**
	U.S. dollars in thousands		
Share based compensation expenses:			
Research and development income, net	(163)	(529)	(459)
General and administrative expenses	76	19	399

NOTE 15 - RESEARCH AND DEVELOPMENT EXPENSES, NET:

	Year ended December 31		
	2023	**2022**	**2021**
	U.S. dollars in thousands		
Payroll and related expenses	3,308	1,824	507
Subcontractors	697	1,212	625
Materials	388	945	301
Operating lease expenses	208	189	47
Depreciation	211	130	44
Maintenance	223	136	174
Other	298	86	14
	5,333	4,522	1,712
Less – grants from governments and others	(118)	(359)	(189)
	5,215	4,163	1,523

NOTE 16 – FINANCE INCOME EXPENSES (EXPENSE), NET:

	Year ended December 31		
	2023	**2022**	**2021**
	U.S. dollars in thousands		
Interest on deposits	265	108	-
Foreign exchange losses (gain), net	206	279	(34)
Bank fees	(15)	(10)	(9)
	456	377	(43)

NOTE 17 – SUBSEQUENT EVENTS:

1. On March 2024, the Company signed with Dor-Alon a binding memorandum of understanding, according to which the companies will cooperate within a project (the "Project") to upgrade the ultra-fast charging infrastructure of the ON network, at Dor-Alon stations on Route 6, using the company's solution, which is based on the ZOOZTER™-100 Power Booster (the "System") and the Company's charging management software. The purpose of the project is to enable the addition of ultra-fast charging ports, despite the limitation of the electricity grid, at the charging sites at the Dor-Alon stations on Route 6, as described below.

As part of the project, in cooperation with Dor Alon and Afcon Electric Transportation, the charging infrastructure will be upgraded at two Dor Alon stations, on Route 6 - Magal station (east side) and Naan station (west side) - while installing two ZOOZTER™-100 systems (one system at each station), and adding charging ports based on ultra-fast chargers, which allow charging with a power of up to 150 kilowatts. The upgrade of the charging infrastructure is expected to enable a significant improvement in the experience of EV drivers, who travel on Route 6 (being a major transportation corridor in Israel) and look for charging services at these sites.

In the first months of operation, of the ZOOZTER™-100 systems at the Route 6 sites, will be used to test their ability to allow the addition of charging ports while managing charging at a large number of charging ports (this is different from the outline of the pilot carried out during 2023 at the Dor-Alon station "Mall-Zikhron"). To the extent that the company's solution is proven to allow the addition of the aforementioned charging ports, the systems will be purchased by Dor-Alon, under conditions agreed upon between the parties.

2. As for the completion of the Merger transaction see Note 1