

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 22, 2022

Ondas Holdings Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction
of incorporation)

001-39761

(Commission File Number)

47-2615102

(IRS Employer
Identification No.)

411 Waverley Oaks Road, Suite 114, Waltham, MA 02452

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **(888) 350-9994**

N/A

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☒ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock par value \$0.0001	ONDS	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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

Explanatory Note

As previously disclosed in its Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on August 8, 2022, Ondas Holdings Inc. (the "Company" or "Ondas") entered into an Agreement of Merger (the "Merger Agreement") with Talos Ltd., an Israeli company and a wholly owned subsidiary of the Company ("Merger Sub"), and Airobotics Ltd., an Israeli publicly traded company on the Tel Aviv Stock Exchange and a leading Israeli developer of autonomous unmanned aircraft systems and automated data analysis and visualization platforms ("Airobotics"). The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, and in accordance with the Companies Law 5759-1999 of the State of Israel (together with the rules and regulations thereunder, the "ICL"), Merger Sub shall be merged with and into Airobotics, and Airobotics will continue as a wholly owned subsidiary of the Company (the "Merger"). The completion of the Merger is subject to various closing conditions, including (a) the requisite regulatory approvals being obtained; (b) the absence of any applicable order (whether temporary, preliminary or permanent) in effect which prohibits the consummation of the Merger; (c) the absence of any law of any governmental authority of competent jurisdiction prohibiting the consummation of the Merger; and (d) Airobotics obtaining the requisite stockholder approval. The transaction is expected to close in the fourth quarter of 2022.

Item 8.01. Other Events.

On September 22, 2022, Ondas filed with the SEC a registration statement on Form S-4 for the purpose of registering the shares of Ondas common stock issuable as consideration for the Merger. Risk Factors related to Airobotics, the Merger, and the combined company, Business about Airobotics and Certain Information About Airobotics (the “Airobotics Business Section”), Airobotics’ Management’s Discussion and Analysis of Financial Condition and Results of Operations of Airobotics Ltd. as of and for the years ended December 31, 2021 and 2020 and as of June 30, 2020 and for the six month periods ended June 30, 2022 and 2021, the Merger section, and the Merger Agreement section from the registration statement on Form S-4 are attached hereto as Exhibits 99.1, 99.2, 99.3 and 99.4, respectively, and incorporated herein by reference.

The audited financial statements of Airobotics for the years ended December 31, 2021 and December 31, 2020, the unaudited financial statements of Airobotics for the six months ended June 30, 2022 and June 30, 2021, and the unaudited pro forma condensed combined financial statements (and related notes) of the Company as of and for the six months ended June 30, 2022 and the year ended December 31, 2021 are attached hereto as Exhibits 99.5, 99.6 and 99.7, respectively, and incorporated herein by reference. The unaudited pro forma condensed combined financial statements are based on the Company’s audited and unaudited interim historical consolidated financial statements and Airobotics’ audited and unaudited interim historical financial statements as adjusted to give effect to the Company’s acquisition of Airobotics. The unaudited pro forma condensed combined balance sheet as of June 30, 2022 gives effect to these transactions as if they occurred on June 30, 2022. The unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2022 and the twelve months ended December 31, 2021 give effect to these transactions as if they occurred on January 1, 2021.

No Offer or Solicitation

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act.

Important Additional Information Will be Filed with the SEC

Ondas filed with the SEC a registration statement on Form S-4, which includes a prospectus of Ondas, on September 22, 2022. INVESTORS ARE URGED TO CAREFULLY READ THE REGISTRATION STATEMENT AND OTHER RELEVANT DOCUMENTS TO BE FILED WITH THE SEC IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT ONDAS, AIROBOTICS, THE PROPOSED ACQUISITION AND RELATED MATTERS. Investors will be able to obtain free copies of the registration statement and other documents filed with the SEC through the website maintained by the SEC at www.sec.gov and on Ondas’ website at <https://ir.ondas.com>.

Forward-Looking Statements

Statements made in this report that are not statements of historical or current facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 or as defined in the Israeli Securities Law 5728 – 1968. We caution readers that forward-looking statements are predictions based on Ondas’ and Airobotics’ current expectations about future events. Examples of forward-looking statements include, among others, statements regarding the proposed acquisition, including the benefits and timing of the proposed acquisition. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Ondas’ and Airobotics’ actual results, performance, or achievements could differ materially from those expressed or implied by the forward-looking statements as a result of a number of factors, including the other risks and uncertainties discussed under the heading “Risk Factors” discussed under the caption “Item 1A. Risk Factors” in Part I of Ondas’ most recent Annual Report on Form 10-K or any updates discussed under the caption “Item 1A. Risk Factors” in Part II of Ondas’ Quarterly Reports on Form 10-Q and in Ondas’ other filings with the SEC and with respect to Airobotics, Section 27 in Chapter A of the Airobotics Periodic Report for 2021 as published in the Israeli Securities Authority’s Magna System on March 30, 2022. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise that occur after that date, except as required by law.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.
99.1	Airobotics Business Section.
99.2	Risk Factors related to Airobotics, the Merger, and the combined company.
99.3	Management’s Discussion and Analysis of Financial Condition and Results of Operations of Airobotics as of and for the years ended December 31, 2021 and 2020 and as of June 30, 2022 and for the six month periods ended June 30, 2022 and 2021.
99.4	The Merger section and the Merger Agreement section.
99.5	The audited financial statements of Airobotics for the years ended December 31, 2021 and December 31, 2020.
99.6	The unaudited financial statements of Airobotics for the six months ended June 30, 2022 and June 30, 2021.
99.7	The unaudited proforma condensed combined financial statements (and related notes) of Ondas as of and for the six months ended June 30, 2022 and twelve months ended December 31, 2021.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

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

Date: September 22, 2022

ONDAS HOLDINGS INC.

By: /s/ Eric A. Brock
Eric A. Brock
Chief Executive Officer



Kost Forer Gabbay & Kasierer
Derech Menachem Begin 144A,
Tel Aviv, 6492124
Tel- 03-6232525
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Consent Letter

The Board of Directors
Airobotics LTD.:

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-237485 and 333-260845) and Form S-3 (File No. 333-235373, 333-252571, 333-260450 and 333-266011) of Ondas Holdings Inc. of our report dated September 22, 2022, relating to the financial statements of Airobotics Ltd. as of December 31, 2021 and 2020 and for the years ended December 31, 2021 and 2020, included in the Current Report on Form 8-K of Ondas Holdings Inc. dated September 22, 2022.

/S/ Kost Forer Gabbay and Kasierer

A member of Ernst & Young Global

Tel Aviv, Israel
September 22, 2022

BUSINESS OF AIROBOTICS AND CERTAIN INFORMATION ABOUT AIROBOTICS**Overview**

Airobotics was incorporated and registered in Israel on August 5, 2014, as a private limited liability company under the name Airobotics Ltd. Airobotics is currently a public company in Israel whose ordinary shares are listed for trading on the Tel Aviv Stock Exchange.

Airobotics' Field of Operations

Airobotics offers critical information, business intelligence and situational awareness to customers in commercial, government and defense markets for use in supporting applications including public safety, homeland security, construction project management, industrial inspection and field area monitoring. Airobotics provides these data-centric services via the processing and analyzing of data and information collected aurally through the operation of the Airobotics System, an autonomous drone platform. The Airobotics System is an end-to-end platform installed at a customer location that can offer continuous collection and analysis of valuable data and information meeting customer requirements. The operation of the Airobotics System does not require on-the-ground human intervention due to the autonomous capability and high degree of reliability.

For the purposes of executing safe, autonomous drone operations, Airobotics has developed and integrated a wide variety of technological solutions required to execute all stages of autonomous flights, including flight planning, pre-flight testing, takeoff, flight in space, reverse transmission and remote UAV control, automatic landing, robotic replacement capability for batteries, payloads and sensors, tool cleaning, security, docking station climate control, and autonomous safety systems.

The various components and subsystem technologies of the Airobotics System are fully integrated so that the system can optimally capture information through different integrated payloads which include real-time video, high resolution optical and thermal imagery, and LIDAR sensors. Robotic arms within the system allow for the swapping of batteries, payloads and sensors on the drone, supporting the continuous operation and 24x7 availability for customer operations, as well for a variety of use cases from a single system. The data collected via the aerial drones is securely integrated into customer cloud or on premises environments, according to customer needs. Access to processed information and data analytics are provided to customers via a proprietary customer data portal and user interface known as INSIGHTFUL.

The Airobotics System consists of the following key elements, which are seamlessly integrated and delivered to customers:

The Optimus UAV and Airbase Docking Station

Airobotics offers the Airobotics System, an end-to-end fully autonomous drone-in-a-box platform, consisting of the Optimus UAV, the Airbase docking station, a variety of payloads or sensors for data collection, related communications system for drone navigation and data backhaul for cloud integration, batteries, climate navigation and control.

All actions required to collect data and information is done via the drone and the selected payload, in a safe, autonomous and reliable manner under a wide variety of environments including extreme weather conditions. The Optimus drone takes off and lands through the designated docking station which does not require any human touch or human intervention making the collection of information accessible and reducing the risk of human error.

The Airbase docking station includes a smart robotic arm that can autonomously replace batteries and UAVs. The docking station includes ten rechargeable batteries and can effectively manage the batteries lifecycle while also maximizing the duration of drone flight operations. In addition, the docking station can contain up to nine different payload sensors and UAVs, thus enabling the collection of a wide variety of commercial data.

The Optimus System is capable of "station hopping," enabling the drone to autonomously land in a docking station that was not necessarily the station it took off from. One Optimus System can simultaneously serve several customers that are within the flight range of the docking station.

INSIGHTFUL Platform

Airobotics customers access the critical information, business intelligence and situational awareness provided by the Airobotics System via the internally developed INSIGHTFUL platform. INSIGHTFUL is the designated customer data portal and user interface which makes the information collected via the Optimus UAV accessible according to time and location. Key features of the INSIGHTFUL platform include the capability of viewing both real-time and on-demand video. A library of data analytics can also be accessed and the output from these reports can be stored and catalogued and displayed on an interactive map.

The Airobotics System has undergone extensive internal testing and real-world testing via customer trials. Airobotics believes its system has best-in-class reliability as evidenced by one customer pilot program that had a six-month duration where the Airobotics System was conducting its operations for 24x7 over a high population density environment. In addition, Airobotics has worked closely with civil aviation authorities in various countries including Israel, the U.S., and Singapore, where Airobotics currently operates. Airobotics is in the advanced stages of FAA Type Certification ("TC") of the Optimus UAV in the United States. Successful completion of the TC process will allow for the operations of the Airobotics System urban environments with flights over people in the United States. Airobotics expects to be one of the first small UAS providers to receive this certification in the U.S.

Marketing and Distributions

Airobotics' markets its autonomous drone platform to customers either through a direct sales model, or via a subscription service. Direct sales of Airobotics System are generally preferred by government and defense customers. Direct sales typically come with recurring systems maintenance programs which provide revenue over the life of the installed system.

Subscription services typically are preferred by commercial customers and for smart city applications, where multiple customers can contract for drone services. Subscription services typically have an upfront fee and an agreed upon monthly subscription fee. In certain applications, multiple customers can be engaged for services from a single system or from a network of installed Airobotics Systems across a city or region.

Manufacturing and Suppliers

The main raw materials used by Airobotics are materials used to manufacture UAV's and docking stations and electronic components used, inter alia, to manufacture payloads and sensors. Available raw materials are purchased from supplies in Israel and overseas.

Airobotics manufactures a part of the Airobotics System (UAVs, payloads and sensors) itself, when some of the elements used to manufacture the Airobotics System (docking station, electric panels, battery compartments, parachute, flight control and cloud service) are purchased from external suppliers, when some are shelf products and others are products which are adjusted, and changes are made in accordance with Airobotics' needs.

Airobotics has several supplies to purchases these components. The engagements between Airobotics and the suppliers are made through a uniform engagement which collects the terms of purchase whereby, inter alia, the suppliers undertake to Airobotics to maintain its intellectual property rights, indemnification of Airobotics from third party actions and providing warranty for the raw materials and products for a period of up to two years from the delivery date. In addition, some of the suppliers engaged with Airobotics in framework agreements with similar terms to the foregoing engagement form.

Airobotics does not have any exclusive agreements with any of its suppliers.

According to Airobotics' assessment, it does not depend on any of its suppliers. It is noted that with respect to some of the suppliers, to the extent that Airobotics will have to replace any supplier, Airobotics may incur additional one-time costs, which according to Airobotics' assessment are not material and can extend the production pace of the Airobotics System for a certain period of time which is immaterial according to Airobotics' assessments.

Competition

The increase in the demand for critical data solutions in commercial markets and smart city applications, combined with technical advances in the UAS technology ecosystem in recent years has supported increased levels

of competition in terms of the number of competitors in the UAS markets Airobotics targets. Notwithstanding, to the best of Airobotics' knowledge, most of these competitors do not provide any end-to-end service and/or do not provide or the level of autonomous functionality, as provided by Airobotics, but rather provide a portion of the services and/or services and require high levels of human intervention in the field to support flight operations.

Airobotics believes that the Airobotics System and its unique end-to-end capabilities has significant competitive advantages differentiating the products and services it offers to customers, with the primary advantages as follows:

- The ability to reliably conduct autonomous missions which include landing at the Airbase docking station in extreme weather conditions with no on-the-ground human support and thus provide solutions for collecting information and data continuously, and at a high level of quality, reliability, efficiency and accuracy;
- The Airobotics System's reliability is essential due to the required aviation safety and the need to operate in the field continuously on a daily basis. The Airobotics System's reliability has been extensively tested by a large number of laboratory and field trials, including with customers in real world environments;
- The ability to automatically replace a battery, between flights, thus maintaining a sequence of activities, of up to 27 flights a day, when the duration of each flight is about 40 minutes, and the average time between landing and take-off time is about 3.5 minutes;
- The ability to automatically replace a payload and sensor and serve as a multi-functional tool. This unique ability of the Airobotics System enables the increased profit potential by collecting wide variety of data, information and business intelligence, ranging from real-time video to high resolution images and LIDAR data;
- The ability to interface relatively easily to a large number of payloads and sensors;
- Extensive experience in the field (including in extreme environmental conditions) and the number of flight hours Airobotics has accumulated over tens of thousands of cumulative flights;
- The ability to cover an area of over 80 square kilometers from one Airbase docking station; and
- Full automation of Airobotics' Systems, commencing with the collection of information, uploading storing data to the cloud and the INSIGHTFUL system, which enables, inter alia, the provision of critical information, business intelligence and situational awareness to customers in commercial, government and defense markets.

Customers

Airobotics operates mainly in Israel and the United Arab Emirates and has an active customer pipeline in Singapore and the United States and intends to increase its activities in these and additional geographic regions. Airobotics has extensive experience with customers in these countries across the industrial sectors, including mining and oil & gas, as well as in government and defense markets for homeland security, public safety and smart city applications.

Airobotics has a strong pipeline of potential customer activity focused on government customers in homeland security, public safety and smart city applications, in addition to customer activity in commercial markets for inspection and monitoring of critical facilities and equipment and for the monitoring of large-scale construction projects. Active customers with installed Airobotics Systems include a large defense contractor in Israel, a UAE government agency for homeland security application, and a large global semiconductor producer who is using the platform to manage the construction of large-scale semiconductor fab facilities. Airobotics believes that these customers plan to expand their installations of Airobotics Systems.

During the year ended December 31, 2021, one customer contributed ten percent (10%) or more of Airobotics' revenue as follows: SJ Defence Services PteLtd. ("SJG") -86%. During the year ended December 31, 2020, two customers contributed ten percent (10%) or more of Airobotics' revenue as follows: SJG — 63% and Customer "A" — 15%.

Intellectual Property

Airobotics' believes that the patents they hold are of significant importance to its operations and situates Airobotics as a key player in its field and grants it a competitive edge over its competitors with respect to the technological abilities of the Airobotics System.

Airobotics has several patents and patent applications at different examination levels, in different countries where Airobotics operates or is interested in operating, as set forth below:⁽¹⁾

Name of the Patent	Description of the Patent	Rights in the Patent	Registration of the Rights	Registration Status ⁽²⁾	Countries/ Continents where Submitted	Anticipated Expiration Date
LANDING AND CHARGING SYSTEM FOR DRONES	Automatic navigation system to land the drone in the docking station and autonomous charging comprised of several necessary tiers for re-landing, accuracy and liability in a precise location.	100% ownership by Airobotics	January 28, 2016	Granted	USA	January 28, 2036
				Granted	Australia	
				Granted	Singapore	
				Granted	South Africa	
				Pending	Europe	
		—	—	Pending	Israel	—
CENTERING AND LANDING PLATFORM FOR HOVERING FLYING VEHICLES	Centering landing platforms for drones, including a retractable border element that connects to the drone through a mechanic mechanism and magnet.	100% ownership by Airobotics	May 19, 2016	Abandoned	USA	May 19, 2036
				Granted	South Africa	
				Pending	Australia	
				Pending	Europe	
		—	—	Pending	Israel	—
PAYLOAD EXCHANGE FACILITATING CONNECTOR	Autonomous connector to the battery replacement, suitable for the drone and docking station, including a battery, Sensor and other relevant item.	100% ownership by Airobotics	June 20, 2016	Granted	Israel	June 20, 2036
				Abandoned	USA	
				Await	Australia	
				Abandoned	Singapore	
POSITIONING AND LOCKING SYSTEM AND METHOD FOR UNMANNED VEHICLES	Final centering ability composed of an automatic positioning and security system and method for unmanned vehicles which is used for a variety of land and air vehicles, for examples, cars and drones.	—	—	Abandoned	Australia	—
				Abandoned	USA	
				Abandoned	Singapore	

(1) It is noted that as of the date of this report, Airobotics is not active in South Africa and Australia.

(2) Await — indicating that an application was filed, and its examination has not yet commenced in the country;
 Pending — indicating an application whose examination commenced however was not yet concluded in the country;
 Granted — indicating that an application was accepted and the patent with respect thereof was granted.

Restrictions and Supervision of Airobotics' Operations

Airobotics' operations are subject to restrictions and supervision according to aviation regulations (aviation production protocol, operation protocol and installation of automatic UAV systems and safety), in each area that it operates.

Airobotics is required to receive permits and licenses from the Civil Aviation Authority in every country that it operates, according to the provisions of the law in each country, CAAI in Israel, CAAS in Singapore, and FAA in the United States). Every permit and license are subject to compliance with the specific restrictions set forth therein, and is limited in time.

The Israeli regulator responsible for Airobotics' export activities is DECA.

In addition, Airobotics' activities meet the requirements of International Standard, ISO 9001, relating to quality security and quality control, which is in effect until June 4, 2023.

The current types of permits and licenses in the field of aviation for Mini UAVs are restricted, inter alia, with respect to time, the type of aircraft, the nature of the activities and the permissible flight area.

Airobotics must submit a specific and designated application with respect to every site. The processing time lasts several months, and the approval received is limited, inter alia, with respect to term, permissible flight area including height restrictions and additional restrictions in accordance with each task.

To the best of Airobotics' knowledge it has all the requisite permits and licenses for its operations and for the provision of services to its customers.

Permanent TC Approval — United States

Airobotics is cooperating with the Federal Aviation Authority of the United State (FAA) to receive a permanent TC approval for UAVs and receive this approval for the drone and Airobotics System manufactured by Airobotics, similar to approvals granted to manned aircrafts. The TC certificate shall grant Airobotics the ability to fly over people in urban and settled areas, without having to receive any prior authorization (in contract to the current state where it is required to receive a specific approval for every flight or operation) and without a commanding pilot with eyes contact (BVLOS — Beyond Visual Line of Sight) according to the operation approval.

In order to receive the permanent approval, Airobotics must prove the safety and reliability of the Airobotics System, in accordance with the FAA definition, the complexity, inter alia, the integration of accumulated flight hours and demonstration abilities in standard and extreme situations along with the approval of the operating and maintenance procedures, approval of the engineering design of the systems and compatibility of the systems actually manufactured according to the approved engineering design definitions.

According to Airobotics' assessments, the process is in final stages. In order to complete the process and receive a permanent approval, the FAA must complete the arrangement process for the criteria of the airworthiness of the Airobotics System and noise tests. This process includes the publication of criteria in the Federal Register for public reaction and thereafter final publication, and is not in Airobotics' control. The publication of the criteria for airworthiness was published and the criteria for the noise tests was not published yet.

To the best of Airobotics' knowledge, Airobotics has completed all major stages of the process. Airobotics believes that when the process of regulating the noise test criterion is completed, and after its final publication in the Federal Register, as required by law the certificate will be issued.

Receipt of the TC approval will allow Airobotics to fly over densely populated areas of up to 3,000 people per square mile, and up to a height of 400 feet above surface level (asl) during all hours of the day and night, and without the pilot having to maintain eye contract with aircraft (BVLOS). The TC approval shall significantly expand the scope of the activities that the Airobotics System can perform and the aerial space where it can operate and may increase the demands of the Airobotics System and other services provided by Airobotics.

It is noted that this is an innovative approval, which to the best of Airobotics' knowledge, to the extent approved, this will be one of the first time in the world that it would be granted to a mini UAV, and it is possible that Airobotics will be one of the first companies in the United States to receive this approval. It is also noted that in Israel, for example, this kind of approval has not yet been granted. To the best of Airobotics' knowledge, there are a few more companies that began the process to receive the TC approval and Airobotics assesses that the amendment to Part 107 will cause many additional companies to commence the process to receive a TC approval. According to Airobotics' assessment, the completion of the process for these companies will last many months (and even years).

Airobotics' assessments in connection with the receipt of the TC approval by Airobotics and additional companies, and its impact on the demand for the Airobotics System and the services granted by Airobotics, are future-forward looking information, as defined in the Securities Law, which are not solely in Airobotics' control. These assessments are based on the information currently in Airobotics' possession and the process with the FAA and its forecasts with respect to future activities. These assessments may not realize, may realize partially or differently, or materially differ, to the extent that the regulatory proceeding conducted with the FAA shall not be completed or whose completion shall

be delayed and/or if the TC approval shall not be obtained and/or if the approval shall be received under different terms and changes in Airobotics' Field of Operations and/or technological difficulties and/or other regulatory restrictions and/or the realization of the risk factors, or any part thereof.

Approvals in Israel

Airobotics must receive the permits and licenses required to operate the Payloads it manufactures in Israel in accordance with the aviation regulation including an aerial operation license and special authorizations to operate the UAV System, for example, a flight aptitude certificate for clinical use and/or any permanent, special authorization certificate.

Airobotics has all the requisite aviation approvals required for its operations in Israel.

Approvals in Singapore

Airobotics must receive all permits in Singapore including an operator permit (OP) and activity permit (AP).

In the past, Airobotics received several approvals to fly the Airobotics System in Singapore, which include an approval for flights without the pilot's eye contact (BVLOS) in a lowly densely populated area and flight approval with eye contact in a highly densely populated area.

As of this date, Airobotics' operations in Singapore have ended and Airobotics no longer has any operations in there, Therefore its operating license has expired. If Airobotics' operations in Singapore are renewed, it will be possible to renew the existing permits based on the extensive experience gained on flights in Singapore, as well as on the basis of the complex permits that Airobotics has already received in the past.

Approvals in the United Arab Emirates

In order to fly Mini UAVs for commercial purposes in the United Arab Emirates, the Payloads must be registered, and an operator permit, and operation permit must be received from the Federal Aviation Authority together with a 'no objection letter' from the local aviation authority. The total handling process for all the applications for the approvals is about two months.

In the past, Airobotics received all flight approvals required to perform demonstrations. In addition, the government body that operates Airobotics' System in Dubai holds the required permit from the local aviation authority, to carry out no eye contact flights over a populated area

According to Airobotics' assessments, it can receive additional approvals, that are required for additional operations, inter alia, based on the extensive air experience already acquired in the country, documents that prove the Airobotics System's ability that will be submitted to the other authorities throughout the world and based on the accrued work experience with the local authorities in Dubai.

To the best of Airobotics' knowledge, an additional regulatory process being conducted is material in the field of UAVs when determining international standards whose goal is to incorporate UAVs in the aerial space together with other users, inter alia, by embedding integration systems for the UAVs, for example, the UTM system, which was designed to monitor all the users in the aerial space, whereby, inter alia, anyone flying the drone shall be required to report to the control center and receive a permit, update the track, similar to the actions taken in the civilian manned aircraft market.

Airobotics' assessments in connection with receipt of additional approvals in the countries in which it operates, are in the scope of future-forward looking information, as defined in the Securities Law, which are not solely in Airobotics' control. These assessments are based on the information currently in Airobotics' possession and its forecasts with respect to its future operation. These assessments may not realize, may realize partially or differently, or materially differ, due to changes in Airobotics' Field of Operations and/or technological difficulties and/or regulatory constraints and/or the realization of all or any part of the risk factors.

Employees

As of June 30, 2022 and December 31, 2021, Airobotics had 41 and 53 employees, respectively.

Airobotics performs training and guidance to Airobotics' employees, in general and to the employees who need different private training specifically. Airobotics also has certifications authorized by external regulatory authorities mainly in the field of aerial operation, manufacture and maintenance. Training is conducted at least once a year (yearly renewal) and additional dates according to the professional needs (for example, recruiting new employees, new appointments in Airobotics, changes in the protocols and technological changes or updated versions of Airobotics Systems).

Properties

Airobotics' operations are mainly carried out in Airobotics' offices, located at 8 Modi'in St., Segula Industrial Area, Petach Tikva, with a total built area of approx. 1,230 sq. m. and an adjacent yard with an area of approx. 900 sq. m., which Airobotics leases according to three lease agreements with the landlord. Each agreement is with respect to a section of the area and are in effect through December 31, 2023, February 28, 2024, and November 30, 2024, as the case may be.

In addition, Airobotics is leasing two properties in Houston, Texas, U.S. The area of the warehouse is approx. 230 sq. m. and is used to store Airobotics' equipment and systems and a collaborative workspace that Airobotics leases on a monthly basis.

Legal Proceedings

Airobotics is not a party to any material legal proceedings.

Risks Related to the Merger

If Ondas and Airobotics are unable to complete the Merger, in a timely manner or at all, each company's business and stock price may be adversely affected.

The obligations of Ondas and Airobotics to consummate the Merger are subject to the satisfaction or waiver of the conditions described in the section titled “*The Merger Agreement — Conditions to the Merger*.”

The required satisfaction of the closing conditions could delay the completion of the Merger for a significant period of time or prevent it from occurring. Any delay in completing the Merger could cause Ondas not to realize some or all of the benefits that the parties expect Ondas to achieve following the Merger.

If the Merger is not completed or is delayed, each company's share price could fall to the extent that each company's current price reflects an assumption that the Merger will be completed on the expected timeline. Furthermore, if the Merger is delayed or is not completed and the Merger Agreement is terminated, Ondas and Airobotics may suffer other consequences that could adversely affect each of their businesses, results of operations and share price, including the following:

- each has incurred and will continue to incur costs relating to the Merger (including significant legal and financial advisory fees), and many of these costs are payable whether or not the Merger is completed;
- matters relating to the Merger (including integration planning) may require substantial commitments of time and resources by Ondas' and Airobotics' management team, which could otherwise have been devoted to conducting their respective businesses or other opportunities that may have been beneficial to either company;
- Ondas and Airobotics may be subject to legal proceedings related to the Merger or the failure to complete the Merger;
- a delay in completing the Merger, or failure to complete the Merger, negative perceptions about the Merger, or other factors beyond Ondas' and Airobotics' control, may result in negative publicity and a negative perception in the investment community; and
- any disruptions to Ondas' or Airobotics' business resulting from the announcement and pendency of the Merger.

Uncertainty about the Merger may adversely affect each company's relationships with its customers, suppliers, and employees, which could negatively affect Ondas' and Airobotics' business, whether or not the Merger is completed.

The announcement of the Merger may cause uncertainties in Ondas' and Airobotics' relationships with their respective customers and suppliers which could impair each company's ability to maintain or expand its business. Furthermore, uncertainties about the Merger may cause current and prospective employees of Ondas and Airobotics to experience uncertainty about their future with their respective companies. These uncertainties may impair the ability of Ondas and Airobotics to retain, recruit or motivate key employees which could affect their respective businesses.

The regulatory approvals required in connection with the Merger may not be obtained or may contain materially burdensome conditions.

Completion of the Merger is conditioned upon the receipt of certain regulatory approvals, and neither Ondas nor Airobotics can provide assurance that these approvals will be obtained. If any conditions or changes to the proposed structure of the Merger are required to obtain these regulatory approvals, they may have the effect of jeopardizing or delaying completion of the Merger or reducing the anticipated benefits of the Merger. If Ondas agrees to any material conditions in order to obtain any approvals required to complete the Merger, the business and results of operations of the combined company may be adversely affected.

The ratio for the exchange of Airobotics ordinary shares for Ondas common stock is fixed.

Each ordinary share of Airobotics will be exchanged for 0.16806 of a share of Ondas' common stock. This ratio of the number of ordinary shares of Airobotics to be exchanged for each share of Ondas' common stock will not change and there will be no adjustment to this exchange ratio for changes in the market price of either Ondas common stock or Airobotics ordinary shares. In addition, neither Ondas nor Airobotics may terminate the Merger Agreement solely because of changes in the market price of either company's shares. Therefore, if the market value of Ondas common stock or Airobotics ordinary shares changes relative to the market value of the other, there will not be a change, either upward or downward, in the aggregate number of shares of Ondas common stock to be issued to Airobotics shareholders in the Merger. The share prices of Ondas common stock or Airobotics ordinary shares are by their nature

subject to the general price fluctuations in the market for publicly traded equity securities and have experienced significant volatility, and you should obtain recent market quotations for Ondas common stock or Airobotics ordinary shares. In addition, there will be a period of time between the date when shareholders of Airobotics vote on the Merger and the date when the Merger is completed and Airobotics shareholders receive shares of Ondas common stock. Neither Ondas nor Airobotics can predict or give any assurances as to the relative market prices of their shares before, at or after Airobotics' shareholder vote on the Merger.

Ondas, Airobotics and the combined company may be subject to litigation in connection with the Merger.

Lawsuits may be filed against Ondas and Airobotics, their respective subsidiaries, and/or their respective directors or executive officers in connection with the Merger and/or the related transactions. In addition, lawsuits may be filed against the combined company following the Merger. If any such lawsuit is filed, it could result in a reduction in the stock price of Ondas, Airobotics or the combined company following the Merger, substantial costs and diversion of management's attention and resources, which could adversely affect the business, financial condition or results of operations of Ondas, Airobotics and the combined company whether or not a settlement or other resolution is achieved.

The rights of holders of Airobotics ordinary shares will change as a result of the Merger.

Upon completion of the Merger, shareholders of Airobotics will become Ondas stockholders and their rights as stockholders of Ondas will be governed by Ondas' Amended and Restated Articles of Incorporation (the "**Ondas Articles**"), Ondas' Amended and Restated Bylaws (the "**Ondas Bylaws**") and Nevada law. The terms of the Ondas Articles and Ondas Bylaws and Nevada law are, in some respects, different than the terms of Airobotics' articles of association and Israeli corporate law, which currently govern the rights of Airobotics shareholders. For more information, see the section titled "*Comparison of Shareholder Rights*".

If it is determined the Merger does not qualify as a tax-free "reorganization" for U.S. federal income tax purposes, U.S. holders of Airobotics ordinary shares will generally recognize capital gain or loss as a result of the Merger.

As further described below in "*The Merger — Certain U.S. Federal Income Tax Consequences*" of this report, the Merger is intended to qualify as a tax-free "reorganization" within the meaning of Section 368(a) of the Code. However, there is no assurance that the Internal Revenue Service (the "IRS") will not take a contrary position regarding the tax treatment of the Merger or that any such contrary position would not be sustained, nor is the receipt of any tax opinion a condition to the closing of the Merger. If it is determined the Merger does not qualify as a tax-free "reorganization", the Merger would be a taxable transaction to Airobotics shareholders for U.S. federal income tax purposes. In that case, a U.S. holder (as defined below in the section entitled "*The Merger — Certain U.S. Federal Income Tax Consequences*") would generally recognize capital gain or loss measured by reference to the fair market value of Ondas common stock received in exchange for such U.S. holder's Airobotics ordinary shares. For more information about the tax consequences related to the Merger, see the section entitled "*The Merger — Certain U.S. Federal Income Tax Consequences — Tax Consequences of the Merger*" of this report.

Even if the Merger qualifies as a "reorganization" under Section 368(a) of the Code, a U.S. holder may still recognize gain as a result of the Merger if Airobotics is or was classified as a "passive foreign investment company" for any taxable year during which a U.S. holder held Airobotics ordinary shares.

Even if the Merger qualifies as a "reorganization" within the meaning of Section 368(a) of the Code, if Airobotics was a "passive foreign investment company" (a "PFIC") for any taxable year during which a U.S. holder (as defined below in the section entitled "*Certain U.S. Federal Income Tax Consequences*") owned Airobotics ordinary shares, certain adverse U.S. federal income tax consequences, including recognition of gain, could apply to such U.S. holder as a result of the Merger, unless certain exceptions apply. U.S. holders of Airobotics ordinary shares should consult their tax advisors regarding the possible classification of Airobotics as a PFIC and the resulting U.S. federal income tax considerations. See the section entitled "*The Merger — Certain U.S. Federal Income Tax Consequences — U.S. Federal Income Taxation of U.S. Holders — Passive Foreign Investment Company Rules*".

Risks Related to the Combined Company

Ondas may not realize the benefits anticipated from the Merger, which could adversely affect Ondas' stock price.

The anticipated benefits from the Merger are, necessarily, based on projections and assumptions about the combined business of Ondas and Airobotics, which may not materialize as expected or which may prove to be inaccurate. Ondas' ability to achieve the anticipated benefits will depend on its ability to successfully and efficiently integrate the business and operations of Airobotics with those of Ondas and achieve the expected synergies. Ondas may encounter significant challenges with successfully integrating and recognizing the anticipated benefits of the Merger, including the following:

- potential disruption of, or reduced growth in, Ondas' historical core businesses, due to diversion of management attention and uncertainty with Ondas' current customer and supplier relationships;
- challenges arising from the expansion into those Airobotics jurisdictions where Ondas does not currently operate or have significant operations;
- coordinating and integrating research and development teams across technologies and products to enhance product development;
- consolidating and integrating corporate, information technology, finance and administrative infrastructures, and integrating and harmonizing business systems;
- coordinating sales and marketing efforts to effectively position Ondas' capabilities and the direction of product development;
- difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects from combining Airobotics' business with Ondas' business;
- limitations prior to the completion of the Merger on the ability of management of Ondas and of Airobotics to conduct planning regarding the integration of the two companies;
- the increased scale and complexity of Ondas' operations resulting from the Merger;
- retaining key employees, suppliers and other partners of Ondas and Airobotics;
- obligations that Ondas will have to counterparties of Airobotics that arise as a result of the change in control of Airobotics;
- difficulties in anticipating and responding to actions that may be taken by competitors in response to the Merger; and
- Ondas' assumption of and exposure to unknown or contingent liabilities of Airobotics. In addition, Ondas' anticipated benefits of the Merger contemplate significant cost-saving synergies over time. Consequently, even if Ondas is able to successfully integrate the operations of Airobotics with its own, Ondas may not realize the full benefits of the Merger if it is unable to identify and implement the anticipated cost savings or if the actions taken to implement such cost-savings have unintended consequences on Ondas' other business operations.

If Ondas does not successfully manage these issues and the other challenges inherent in integrating an acquired business then it may not achieve the anticipated benefits of the Merger, Ondas could incur unanticipated expenses and charges and its operating results and the value of its common stock could be materially and adversely affected.

The Merger may result in significant charges or other liabilities that could adversely affect the financial results of the combined company.

Ondas has incurred, and expects to continue to incur a number of non-recurring costs associated with the Merger. The substantial majority of the non-recurring expenses will consist of transaction and regulatory costs related to the Merger. Ondas will also incur transaction fees and costs related to formulating and implementing integration plans, including system consolidation costs and employment-related costs. Ondas continues to assess the magnitude of these costs, and additional unanticipated costs may be incurred from the Merger and integration. Although Ondas anticipates

that the elimination of duplicative costs and the realization of other efficiencies and synergies related to the integration should allow Ondas to offset integration-related costs over time, this net benefit may not be achieved in the near term, or at all. As a result, the financial results of Ondas following the Merger may be adversely affected by cash expenses and non-cash accounting charges incurred in connection with the Merger and the integration of the business and operations of Airobotics.

Furthermore, as a result of the Merger, Ondas will record a significant amount of goodwill and other intangible assets on its consolidated financial statements, which could be subject to impairment based upon future adverse changes in Ondas' business or prospects including its inability to recognize the benefits anticipated by the Merger.

In addition, upon the completion of the Merger, Ondas will be liable for some or all of Airobotics' liabilities that Ondas may have failed to or been unable to identify in the course of performing due diligence. If Ondas is not able to completely assess the scope of these liabilities or if these liabilities are neither probable nor estimable at this time, Ondas' future financial results could be adversely affected by unanticipated reserves or charges, unexpected litigation or regulatory exposure, unfavorable accounting charges, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on its business, operating results or financial condition. The price of Ondas' common stock following the Merger could decline to the extent the combined company's financial results are materially affected by any of these events.

Ondas' actual financial position and results of operations following the Merger may differ materially from the unaudited pro forma financial information included in this report.

The unaudited pro forma financial information contained in this report is presented for illustrative purposes only and may not be an indication of Ondas' financial condition or results of operations following the Merger. The unaudited pro forma financial information has been derived from the historical audited and unaudited consolidated financial information of Ondas and Airobotics, respectively, and certain adjustments and assumptions have been made regarding Ondas after giving effect to the Merger. The information upon which these adjustments and assumptions have been made is preliminary, and these types of adjustments and assumptions are difficult to make with accuracy. For example, the unaudited pro forma financial information does not reflect all costs that are expected to be incurred by Ondas in connection with the Merger. As a result, Ondas' actual financial condition and results of operations following the completion of the Merger may not be consistent with, or evident from, the unaudited pro forma financial information.

In addition, the assumptions used in preparing the unaudited pro forma financial information may prove to be inaccurate, and other factors may affect Ondas' financial condition or results of operations following the consummation of the Merger. Any potential decline in Ondas' financial condition or results of operations may cause significant variations in the market price of its common stock following the Merger. For additional information, see the section titled "Unaudited Pro Forma Condensed Combined Financial Information" contained in this report.

Ondas stockholders will experience dilution as a consequence of the issuance of the common stock in connection with the Merger.

Ondas stockholders will experience dilution upon the issuance of additional shares of common stock pursuant to the Merger Agreement. Such dilution will, among other things, limit the ability of the current Ondas stockholders to influence management of Ondas, including through the election of directors following the Merger.

Ondas may experience difficulties integrating Airobotics' business.

Achieving the anticipated benefits of the Merger will depend in significant part upon whether Ondas and Airobotics integrate their businesses in an efficient and effective manner. Ondas has been able to conduct only limited planning regarding the integration of the companies following the Merger and has not yet determined the exact nature of how the businesses and operations of the companies will be combined after the Merger. The actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. The companies may not be able to accomplish the integration process smoothly, successfully or on a timely basis. The necessity of coordinating geographically separated organizations, systems of controls, and facilities and addressing possible differences in business backgrounds, corporate cultures and management philosophies may increase the difficulties of integration. The companies operate numerous systems and controls, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance. The integration

of operations following the Merger will require the dedication of significant management and external resources, which may temporarily distract management's attention from the day-to-day business of the combined company and be costly. Employee uncertainty and lack of focus during the integration process may also disrupt the business of the combined company. Any inability of management to successfully and timely integrate the operations of the two companies could have a material adverse effect on the business and results of operations of the combined company.

The combined company's inability to integrate other recently acquired businesses or to successfully complete future acquisitions could limit its future growth or otherwise be disruptive to its ongoing business.

Ondas has pursued several acquisitions in recent years. Ondas completed its acquisition of American Robotics in August 2021. Ondas is still in the process of integrating the recently acquired businesses and assets, including American Robotics and Ardenna, and, following the Merger, will also need to successfully integrate the overall businesses of Ondas and Airobotics in the combined company. Additionally, Ondas may pursue future acquisitions that it believes will be accretive or complementary to its business. The anticipated benefits and synergies from recently completed acquisitions or future acquisitions may not materialize to the extent projected or at all.

Airobotics' failure to maintain an effective system of internal control over financial reporting could adversely affect its ability to present accurately its financial statements and could materially and adversely affect Airobotics and the combined company after the consummation of the Merger, including the combined company's business, reputation, results of operations, financial condition or liquidity.

Airobotics' outside auditor identified material weaknesses in Airobotics' internal control over financial reporting in connection with the preparation of the financial statements and audit as of and for the year ended December 31, 2021, which relates to a deficiency in the design and operation of its financial accounting and reporting controls. Specifically, the material weakness resulted from a lack of segregation of duties within the financial accounting and reporting processes. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis.

While the combined company intends to implement measures to remediate the material weakness, there is no guarantee that it can be remediated in a timely fashion or at all. The combined company's failure to correct this material weakness could result in inaccurate financial statements and could also impair its ability to comply with the applicable financial reporting requirements on a timely basis. These compliance issues could cause investors to lose confidence in Airobotics' reported financial information and may result in volatility in and a decline in the market price of the combined company's securities.

Upon completion of the Merger, Airobotics will become a wholly owned subsidiary of Ondas. Prior to the filing of the registration statement, Airobotics was not subject to the Sarbanes-Oxley Act, and Section 404 thereof will require that the combined company include a report from management on the effectiveness of its internal control over financial reporting in its annual report on Form 10-K. It may take the combined company time to develop the requisite internal control framework. The combined company's management may conclude that its internal control over financial reporting is not effective, or the level at which the combined company's controls are documented, designed, or reviewed is not adequate, and may result in the combined company's independent registered public accounting firm issuing a report that is qualified. In addition, the reporting obligations may place a significant strain on the combined company's management, operational and financial resources and systems for the foreseeable future. The combined company may be unable to complete its evaluation testing and any required remediation in a timely manner.

If Ondas is unable to implement and maintain effective internal control over financial reporting following completion of the Merger, Ondas may fail to prevent or detect material misstatements in its financial statements, in which case investors may lose confidence in the accuracy and completeness of its financial reports and the market price of its securities may decline.

Ondas and Airobotics currently maintain separate internal control over financial reporting with different financial reporting processes and different process control software. Ondas plans to integrate its internal control over financial reporting with that of Airobotics. Ondas may encounter difficulties and unanticipated issues in combining Ondas and Airobotics respective accounting systems due to the complexity of the financial reporting processes. Ondas may also identify errors or misstatements that could require audit adjustments. If Ondas is unable to implement and maintain

effective internal control over financial reporting following completion of the Merger, Ondas may fail to prevent or detect material misstatements in its financial statements, in which case investors may lose confidence in the accuracy and completeness of its financial reports and the market price of its securities may decline.

Airobotics may have liabilities that are not known, probable or estimable at this time.

After the Merger, Airobotics will remain subject to certain past, current, and future liabilities. There could be unasserted claims or assessments against or affecting Airobotics, including the failure to comply with applicable laws and regulations. In addition, there may be liabilities of Airobotics that are neither probable nor estimable at this time that may become probable or estimable in the future, including indemnification requests received from customers of Airobotics relating to claims of infringement or misappropriation of third party intellectual property or other proprietary rights, tax liabilities and liabilities in connection with other past, current and future legal claims and litigation. Any such liabilities, individually or in the aggregate, could have a material adverse effect on the combined company's financial results. Ondas may learn additional information about Airobotics that adversely affects the combined company, such as unknown, unasserted, or contingent liabilities and issues relating to compliance with applicable laws or infringement or misappropriation of third party intellectual property or other proprietary rights.

Airobotics is subject to numerous legal and regulatory regimes and the combined business could be harmed by changes to, or the interpretation or the application of, the laws and regulations of each of the jurisdictions in which it operates.

In addition to the United States, Airobotics operates in Israel, Singapore and the United Arab Emirates. The international scope of Airobotics' business will require the combined company to comply with a wide range of national and local laws and regulations, which may in certain cases diverge from or even conflict with each other.

With the geographic expansion of Ondas' business and that of its subsidiaries, including also Airobotics after the consummation of the Merger, into new markets, Ondas will become subject to additional and changing legal, regulatory, tax, licensing, and compliance requirements and industry standards with respect to the combined company's business.

In countries where Ondas and Airobotics operate, legislators and regulatory authorities may introduce new interpretations of existing laws and regulations or introduce new legislation or regulations concerning the business of Ondas and/or Airobotics. Changes in government regulation of or successful challenges to the business model used by Ondas or Airobotics in certain markets may require the combined company to change its existing business models and operations. Any additional regulatory scrutiny or changes in legal requirements may impose significant compliance costs and make it uneconomical for the combined company to continue to operate in all of the current markets or to expand in accordance with the combined company's strategy, particularly if regulations or their interpretations vary greatly or conflict between different operating countries. This may negatively impact the combined company's revenue and profitability by preventing the combined company's business from reaching sufficient scale in particular markets or having to change its business model or incur additional costs, which would adversely impact the combined company after the completion of the Merger. Our inability, or perceived inability, to comply with existing or new compliance obligations, could lead to regulatory scrutiny, which could result in administrative or enforcement action, such as fines, penalties, and/or enforceable undertakings and adversely affect the combined company after the completion of the Merger.

The combined company's goodwill or other intangible assets may become impaired, which could result in material non-cash charges to its results of operations.

The combined company will have goodwill and other intangible assets resulting from the Merger. At least annually, or whenever events or changes in circumstances indicate a potential impairment in the carrying value as defined by GAAP, the combined company will evaluate this goodwill and other intangible assets for impairment based on the fair value of each reporting unit. Estimated fair values could change if there are changes in the combined company's capital structure, cost of debt, interest rates, capital expenditure levels, operating cash flows, or market capitalization. Impairments of goodwill or other intangible assets could require material non-cash charges to the combined company's results of operations.

The combined company may be unable to manage its growth effectively.

The combined company's growth strategy will place significant demands on its financial, operational and management resources. In order to continue its growth, the combined company may need to add administrative and other personnel, and will need to make additional investments in operations and systems. There can be no assurance that the combined company will be able to find and train qualified personnel, or do so on a timely basis, or expand its operations and systems to the extent, and in the time, required.

The loss of key personnel could have a material adverse effect on the combined company's financial condition, results of operations, and growth prospects.

The success of the combined company will depend on the continued contributions of key employees and officers. The loss of the services of key employees and officers, whether such loss is through resignation or other causes, or the inability to attract additional qualified personnel, could have a material adverse effect on the combined company's financial condition, results of operations, and growth prospects.

Following the completion of the Merger, our exposure to fluctuations in foreign currency exchange rates will be increased.

Airobotics conducts a significant portion of its operations outside of the United States, which also operate in their respective local currencies, the most significant of which are currently the Israeli New Shekel, the Singapore Dollar and the Emirati Dirham. Therefore, following the completion of the Merger, the combined company's international operations will account for a more significant portion of overall operations than they do presently for Ondas and its exposure to fluctuations in foreign currency exchange rates will increase. Because our financial statements will continue to be presented in U.S. dollars subsequent to the completion of the transaction, the local currencies will be translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements, thereby increasing the foreign exchange translation risk.

Risks Related to Airobotics

Airobotics has incurred significant operating losses since its inception and cannot assure you that it will ever achieve or sustain profitability.

Since its inception, Airobotics has incurred significant losses. As of December 31, 2021 and December 31, 2020, Airobotics had an accumulated deficit of approximately \$141 million and \$122 million, respectively. To date, it has financed its operations primarily through convertible loans from shareholders, bank loans, grants from the Israel Innovation Authority, and the issuance of its ordinary shares on the stock exchange. Prior to entering into the Merger Agreement, Airobotics' ability to continue its operations was dependent on its ability to raise funds from various sources and it applied for financing from existing shareholders and a foreign sectoral investment fund.

Even if Airobotics were to achieve profitability in the future, it may not be able to sustain or increase such profitability. Additionally, Airobotics' costs may increase in future periods and it may expend substantial financial and other resources on, among things, sales and marketing, the hiring of additional employees, contractors and other service providers, and general administration, which may include a significant increase in legal and accounting expenses related to continued compliance and various regulations applicable to its business or arising from the growth and maturity of its business.

Airobotics is dependent on a small number of customers, and the loss of such customers or a decrease in business conducted with such customers could materially harm its business, financial condition or results of operations.

Airobotics' customers have historically consisted of urban supervisory and police authorities, municipalities and private entities from different industries, such as gas, mining, oil, ports, the defense industry and large technology companies. A small number of customers consisting of urban supervisory and police authorities and companies in the defense and technology industries have accounted for a substantial amount of Airobotics' revenue for the last two completed fiscal years. During the year ended December 31, 2021, one customer accounted for approximately 86% of Airobotics' revenue. During the year ended December 31, 2020, two customers accounted for approximately 78% of Airobotics' revenue. The loss of these customers or a decrease in the business conducted with such customers could have a material adverse impact on Airobotics' business, financial condition or results of operations.

If the commercial UAS markets do not experience significant growth, if Airobotics cannot expand its customer base or if its products and services do not achieve broad acceptance, then Airobotics may not be able to achieve its anticipated level of growth.

Airobotics cannot accurately predict the future growth rates or sizes of the markets for its products and services. Demand for its products and services may not increase, or may decrease, either generally or in specific markets, for particular types of products and services or during particular time periods. Airobotics believes the market for commercial UAS is nascent and the expansion of the market for its products and services in particular, depends on a number of factors, including the following:

- customer satisfaction with these types of systems as solutions;
- the cost, performance and reliability of products offered by Airobotics and its competitors;
- customer perceptions regarding the effectiveness and value of these types of systems;
- obtaining timely regulatory approvals for new customer deployments; and
- marketing efforts and publicity regarding these types of systems and services.

Even if commercial UAS gain wide market acceptance, Airobotics' products and services may not adequately address market requirements and may not continue to gain market acceptance. If these types of systems generally, or Airobotics' products and services specifically, do not gain wide market acceptance, then it may not be able to achieve its anticipated level of growth and its revenue and results of operations would decline.

Negative customer perception regarding the commercial UAS industry or Airobotics' automated data solutions could have a material adverse effect on the demand for Airobotics' products and the business, results of operations, financial condition and cash flows of Airobotics.

Airobotics believes the commercial UAS industry is highly dependent upon customer perception regarding the safety, efficacy, and quality of the commercial UAS system deployed. Customer perception of these products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, and other publicity. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention, or other research findings or publicity will be favorable to the UAS market. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for Airobotics' products and the business, results of operations, financial condition and cash flows of Airobotics. The dependence upon customer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on Airobotics, the demand for its products, and its business, results of operations, financial condition and cash flows.

Project performance delays or difficulties, including those caused by third parties, or certain contractual obligations may result in additional costs to Airobotics, reductions in revenues or the payment of liquidated damages.

Many projects involve challenging engineering, construction or installation phases that may occur over extended time periods. Airobotics may encounter difficulties as a result of delays or changes in designs, engineering information

or materials provided by a customer or a third party, delays or difficulties in equipment and material delivery, schedule changes, delays from a customer's failure to timely obtain permits or meet other regulatory requirements including the securing of necessary Federal Communications Commission ("FCC") certifications or FAA approvals, weather-related delays and other factors, many of which are beyond its control, that impact its ability to complete the project in accordance with the original delivery schedule. In addition, Airobotics contracts with third-party subcontractors to assist it with the completion of contracts. Any delay or failure by suppliers or by subcontractors in the completion of their portion of the project may be beyond Airobotics' control and may result in delays in the overall progress of the project or may cause it to incur additional costs, or both. Delays and additional costs may be substantial, and, in some cases, Airobotics may be required to compensate the customer for such delays. Delays may also disrupt the final completion of its contracts as well as the corresponding recognition of revenues and expenses therefrom. In certain circumstances, Airobotics guarantees project completion by a scheduled acceptance date or achievement of certain acceptance and performance testing levels; failure to meet any of its guarantees, schedules or performance requirements could also result in additional costs or penalties to Airobotics, including obligations to pay liquidated damages, and such amounts could exceed expected project profit. In extreme cases, the above-mentioned factors could cause project cancellations, and Airobotics may be unable to replace such projects with similar projects or at all. Such delays or cancellations may impact Airobotics' reputation, brand or relationships with customers, adversely affecting its ability to secure new contracts.

Airobotics' contractors may fail to satisfy their obligations to it or other parties, or it may be unable to maintain these relationships, either of which may have a material adverse effect on its business, financial condition and results of operations.

Airobotics depends on third party contractors to complete manufacturing, certain research and development and deployment functions. There is a risk that it may have disputes with contractors arising from, among other things, the quality and timeliness of work performed by the contractor, customer concerns about the contractor or Airobotics failure to extend existing task orders or issue new task orders. In addition, if any of its contractors fail to deliver on a timely basis the agreed-upon supplies and/or perform the agreed-upon services, then Airobotics ability to fulfil its obligations may be jeopardized. In addition, the absence of qualified contractors with whom Airobotics has a satisfactory relationship could adversely affect the quality of its service and its ability to perform under some of its contracts. Any of these factors may have a material adverse effect on Airobotics' business, financial condition or results of operations.

Material delays or defaults in customer payments could leave Airobotics unable to cover expenditures related to such customer's projects, including the payment of its subcontractors.

Because of the nature of most of Airobotics' contracts, it commits resources to projects prior to receiving payments from its customers in amounts sufficient to cover expenditures as they are incurred. In certain cases, these expenditures include paying its contractors and purchasing parts. If a customer defaults in making its payments on a project or projects to which Airobotics has devoted significant resources, it could have a material adverse effect on Airobotics' business, financial condition or results of operations.

Certain of Airobotics' officers, employees, contractors and other service providers may work on projects that are inherently dangerous, and a failure to maintain a safe worksite could result in significant losses.

Certain of Airobotics' project sites can place its employees, contractors and other service providers and others, including third parties, in difficult or dangerous environments, and may involve difficult and hard to reach terrain, high elevation, or locations near large or complex equipment, moving vehicles, high voltage or other safety hazards or dangerous processes. Safety is a primary focus of Airobotics' business and maintaining a good reputation for safety is critical to its business. Many of its customers require that Airobotics meet certain safety criteria to be eligible to bid on contracts. Airobotics maintains programs with the primary purpose of implementing effective health, safety and environmental procedures throughout the company. Maintaining such programs involves variable costs which may increase as governmental, regulatory and industry safety standards evolve, and any increase in such costs may materially affect Airobotics' business, financial condition or results of operations. Further, if Airobotics fails to implement appropriate safety procedures or if its procedures fail, its officers, employees, contractors and other service providers, including third parties, may suffer injuries. Failure to comply with such procedures, client contracts or

applicable regulations, or the occurrence of such injuries, could subject Airobotics to material losses and liability and may adversely impact its ability to obtain projects in the future or to hire and retain talented employees, contractors and other service providers, therefore materially adversely affecting its business, financial condition or results of operations.

Airobotics' marketing efforts depend significantly on its ability to receive positive references from its existing customers.

Airobotics' marketing efforts depend significantly on its ability to call on its current and past customers to provide positive references to new, potential customers. A material portion of its current pipeline activity is concentrated in the urban supervisory and police authorities, municipalities and private entities from different industries, such as gas, mining, oil, ports, the defense industry and large technology companies. Given Airobotics limited number of customers, the loss or dissatisfaction of any customer could substantially harm its brand and reputation, inhibit the market acceptance of its products and services, and impair its ability to attract new customers and maintain existing customers. Further, as Airobotics expands into new vertical and geographic end markets, references from existing customers could be similarly important. Any of these consequences could have a material adverse effect on Airobotics' business, financial condition and results of operations.

Airobotics is exposed to currency exchange rate fluctuations because a significant proportion of Airobotics' expenses are denominated in foreign currencies.

Airobotics' operating currency is the U.S. dollar and Airobotics is therefore exposed to risks arising from changes in the dollar exchange rate. Most of Airobotics' revenues are in dollars, while it has significant expenses in Shekels (mainly due to manpower). In light of the above, Airobotics' business results may be affected by fluctuations in the U.S. dollar exchange rate.

Airobotics operates in a competitive market.

Since the field of automatic collection, analysis and accessibility of information through automatic UAV's (the "**Field of Operations**"), is a field with numerous players and which is constantly evolving, market development and competition in the various industries relevant to Airobotics' operations may increase in the future and adversely affect Airobotics' business, for example, as a result of impaired prices for its products and services.

Airobotics depends on its ability to attract and retain skilled and professional employees.

As of the date of this report, Airobotics' operations focus on the further development and upgrade of the systems it develops and the services it provides, and distribution and marketing, therefore it is important to retain skilled and professional personnel. Notwithstanding the foregoing, in Airobotics' opinion, if necessary, it does not anticipate a material difficulty in replacing employees with training and training new employees within a reasonable period of time as required.

Airobotics depends on its ability to develop new products and technologies.

Airobotics is exposed to risks involved in the development of new products and/or new technologies, the failure of which may harm its operations and development.

For example, the current generation of Airobotics' products and technology platforms have only been developed in the last several years and will continue to evolve. Deploying and operating Airobotics' technology is complex and, until recently, had been done primarily by a small number of customers. As the size, complexity and scope of Airobotics' deployments grow it anticipates being able to test product performance at a greater scale and in a variety of new geographic settings and environmental conditions. As the number, size and complexity of Airobotics' deployments grow and it deploys its technology platforms for new applications in new critical infrastructure industries, it may encounter unforeseen operational, technical and other challenges, some of which could cause significant delays, trigger contractual penalties, result in unanticipated expenses, and/or damage to its reputation, each of which could materially and adversely affect its business, financial condition and results of operations.

If Airobotics fails to respond to evolving technological changes, Airobotics' products and services could become obsolete or less competitive.

Airobotics operates in highly competitive industries characterized by new and rapidly evolving technologies, standards, regulations, customer requirements, as well as frequent product introductions and revisions. Accordingly, its operating results depend upon its ability to develop and introduce new products and services and its ability to reduce production costs of its existing products. The process of developing new technologies and products is complex, and if Airobotics is unable to develop enhancements to, and new features for, its existing products and services or acceptable new products and services that keep pace with technological developments or industry standards, its products may become obsolete, less marketable and less competitive and its business, financial condition or results of operations could be significantly harmed.

Airobotics depends on its ability to develop new products and to enhance and sustain the quality of existing products.

Airobotics' growth and future success will depend, in part, on its ability to continue to design and manufacture new competitive products and to enhance and sustain the quality and marketability of its existing products. As such, it has made, and expects to continue to make, substantial investments in technology development. In the future, it may not have the necessary capital, or access to capital on acceptable terms, to fund necessary levels of research and development. Even with adequate capital resources, Airobotics may nonetheless experience unforeseen problems in the development or performance of its technologies or products. In addition, Airobotics may not meet its product development schedules and, even if it does, it may not develop new products fast enough to provide sufficient differentiation from its competitors' products, which may be more successful.

Airobotics faces uncertainty and adverse changes in the economy.

Adverse changes in the economy could negatively impact Airobotics' business. Future economic distress may result in a decrease in demand for Airobotics' products, which could have a material adverse impact on its operating results and financial condition. Uncertainty and adverse changes in the economy could also increase costs associated with developing and publishing products, increase the cost and decrease the availability of sources of financing, and increase Airobotics' exposure to material losses from bad debts, any of which could have a material adverse impact on the financial condition and operating results of Airobotics.

War, terrorism, and other acts of violence may affect the markets in which Airobotics operates, its clients and its product and service delivery.

Airobotics business may be adversely affected by regional or global instability, disruption or destruction, regardless of cause, including war, terrorism, riot, civil insurrection or social unrest. Such events may cause clients to delay their decisions on spending for the products and services provided by Airobotics and give rise to sudden significant changes in regional and global economic conditions and cycles. These events pose risks which could materially adversely affect Airobotics' financial results.

Airobotics' insurance policies may not cover all risks adequately or Airobotics may not be able to secure adequate insurance policies at reasonable prices when renewing coverage.

Airobotics has several insurance policies required to insure its operations, when Airobotics renews the period and terms of the insurance from time to time. Notwithstanding, it is possible that not all risks are covered and/or covered in full under the various policies and therefore, insurance proceeds, to the extent received, may not cover the full damage and losses incurred (third parties, including Airobotics' customers and passers-by in the public space and Airobotics' products and services).

In addition, Airobotics may be exposed to warranty claims for the products and services provided by it as well as additional claims (such as employee claims), which may affect its business, its reputation and the retention of its existing customers and engagement with new customers.

Airobotics operations may cause damage to its customers, which may not be fully covered by Airobotics' existing insurance coverage, or could harm its reputation.

Airobotics' operation may cause damage to its customers, such as bodily harm and property damage, including damage and loss of information contained in the various systems. Airobotics' engagements with its customers may include indemnity and liability clauses by Airobotics, inter alia, for monetary damages and bodily injuries, as well as a commitment to purchase insurance.

Airobotics has several insurance policies required to insure its operations, which correspond to the insurance coverage required for its operations, including liability insurance for damages caused as a result of UAVs.

Notwithstanding the foregoing, Airobotics may be exposed to an event that is not covered by the existing insurance coverage or to an event that is covered by the insurance coverage, but damage caused will exceed the limit of liability in the existing policy.

It should also be noted that damage to the customer may adversely affect Airobotics' reputation in general and its operations and results with the specific customer in particular.

Airobotics does not control certain aspects of the manufacturing process.

Some of the components used to manufacture the Airobotics System are purchased from external suppliers with whom Airobotics engages, when with respect to some of the components, adjustments and changes have been made in accordance with Airobotics' needs (as opposed to off-the-shelf products). If Airobotics is required to replace any of the aforesaid suppliers with another supplier, this may generate additional one-time costs for it, which according to Airobotics' assessments are not material and may also extend the production rate of the Airobotics System for a certain period.

Airobotics' ability to protect its intellectual property and proprietary technology is uncertain.

Airobotics relies primarily on patent, trademark and trade secret laws, as well as confidentiality and non-disclosure agreements, to protect its proprietary technologies and intellectual property. As of this filing, Airobotics held a total of one issued patent in the U.S., four issued international patents, five international pending patent applications, and one international patent application that has been filed but for which the examination process has not yet commenced. Airobotics' patents expire in 2036, subject to any patent extensions that may be available for such patents. Airobotics' intellectual property incorporates internally developed software and hardware design incorporating machine and computer vision and was developed with artificial intelligence and machine learning techniques. This intellectual property is critical to the development of end-to-end systems which reliably enable the automated operation of drones in real-world environments.

Airobotics has applied for patent protection relating to certain existing and proposed products and processes. If Airobotics fails to timely file a patent application in any jurisdiction, it may be precluded from doing so at a later date. Furthermore, Airobotics cannot assure you that any of its patent applications will be approved in a timely manner or at all. The rights granted to Airobotics under its patents, and the rights it is seeking to have granted in its pending patent applications, may not be meaningful or provide Airobotics with any commercial advantage. In addition, those rights could be opposed, contested or circumvented by its competitors, or be declared invalid or unenforceable in judicial or administrative proceedings. The failure of Airobotics' patents to adequately protect its technology might make it easier or cheaper for its competitors to offer the same or similar products or technologies. Even if Airobotics is successful in receiving patent protection for certain products and processes, its competitors may be able to design around its patents or develop products that provide outcomes which are comparable or superior to Airobotics without infringing on its intellectual property rights. Due to differences between foreign and U.S. patent laws, Airobotics patented intellectual property rights may not receive the same degree of protection in foreign countries as they would in the U.S. Even if patents are granted outside the U.S., effective enforcement in those countries may not be available without significant cost and time expense or at all.

Airobotics relies on its trademarks and trade names to distinguish its products from the products of its competitors. Third parties may challenge Airobotics use of the trademarks. In the event that Airobotics' trademarks are successfully challenged, it could be forced to rebrand its products, which could result in loss of brand recognition, and could require us to devote additional resources to marketing new brands. Further, Airobotics cannot assure you that its competitors will not infringe upon its trademarks, or that it will have adequate resources to enforce its trademarks.

Airobotics also relies on trade secrets, know-how and technology, which are not protectable by patents, to maintain its competitive position. Airobotics tries to protect this information by entering into confidentiality agreements and intellectual property assignment agreements with its officers, employees, contractors and other service providers regarding its intellectual property and proprietary technology. In the event of unauthorized use or disclosure or other breaches of those agreements, Airobotics may not be provided with meaningful protection for its trade secrets or other proprietary information. In addition, its trade secrets may otherwise become known or be independently discovered by competitors. To the extent that Airobotics' commercial partners, collaborators, officers, employees, contractors and other service providers use intellectual property owned by others in their work for it, disputes may arise as to the rights in the related or resulting know-how and inventions. If any of Airobotics' trade secrets, know-how or other technologies not protected by a patent were to be disclosed to or independently developed by a competitor, its business, financial condition and results of operations could be materially adversely affected.

If a competitor infringes upon one of Airobotics' patents, trademarks or other intellectual property rights, enforcing those patents, trademarks and other rights may be costly, difficult and time consuming. Patent law relating to the scope of claims in the industry in which it operates is subject to rapid change and constant evolution and, consequently, patent positions in Airobotics' industry can be uncertain. Even if successful, litigation to defend its patents and trademarks against challenges or to enforce its intellectual property rights could be expensive and time consuming and could divert management's attention from managing its business. Moreover, Airobotics may not have sufficient resources or desire to defend its patents or trademarks against challenges or to enforce its intellectual property rights. Litigation also puts Airobotics' patents at risk of being invalidated or interpreted narrowly and its patent applications at risk of not issuing. Additionally, Airobotics may provoke third parties to assert claims against it. Airobotics may not prevail in any lawsuits that it initiates, and the damages or other remedies awarded, if any, may not be commercially valuable. The occurrence of any of these events may harm Airobotics' business, financial condition and operating results.

Airobotics' business may suffer if it is alleged or found that its products infringe the intellectual property rights of others.

The industry that Airobotics operates in is characterized by the existence of a large number of patents and by litigation based on allegations of infringement or other violations of intellectual property rights. Moreover, in recent years, individuals and groups have purchased patents and other intellectual property assets for the purpose of making claims of infringement in order to extract settlements from companies. To date Airobotics has not received any claims with respect to its infringement of intellectual property or patents but, in the future, third parties may claim that it is infringing upon their patents or other intellectual property rights. In addition, Airobotics may be or may become contractually obligated to indemnify its customers or other third parties that use or resell its products in the event its products are alleged to infringe a third-party's intellectual property rights. Responding to such claims, regardless of their merit, can be time consuming, costly to defend in litigation, divert management's attention and resources, damage Airobotics' reputation and brand, and cause it to incur significant expenses. Even if Airobotics is indemnified against such costs, the indemnifying party may be unable to uphold its contractual obligations. Further, claims of intellectual property infringement might require Airobotics to redesign affected products, delay affected product offerings, enter into costly settlement or license agreements or pay costly damage awards or face a temporary or permanent injunction prohibiting Airobotics from marketing, selling or distributing the affected products. If Airobotics cannot or does not license the alleged infringed technology on reasonable terms or at all, or substitute similar technology from another source, its revenue and earnings could be adversely impacted. Additionally, Airobotics' customers may not purchase its products if they are concerned that its products infringe third-party intellectual property rights. This could reduce the market opportunity for the sale of Airobotics products and services. The occurrence of any of these events may have a material adverse effect on its business, financial condition and results of operations.

If Airobotics is unable to protect the confidentiality of its proprietary information, the value of its technology and products could be adversely affected.

In addition to patented technology, Airobotics relies on its unpatented technology, trade secrets and know-how. Airobotics generally seeks to protect this information by confidentiality, non-disclosure and assignment of invention agreements with its officers, employees, contractors and other service providers and with parties with which Airobotics does business. These agreements may be breached, which breach may result in the misappropriation of such information, and Airobotics may not have adequate remedies for any such breach. Airobotics cannot be certain that the steps it has taken will prevent unauthorized use or reverse engineering of its technology.

Moreover, Airobotics' trade secrets may be disclosed to or otherwise become known or be independently developed by competitors. To the extent that Airobotics' officers, employees, contractors, other service providers, or other third parties with whom it does business uses intellectual property owned by others in their work for Airobotics, disputes may arise as to the rights in related or resulting know-how and inventions. If, for any of the above reasons, Airobotics' intellectual property is disclosed or misappropriated, it would harm its ability to protect its rights and have a material adverse effect on its business, financial condition, and results of operations.

Airobotics uses open-source software in its products and services that may subject its products and services to general release or require it to re-engineer its products and services, which may cause harm to its business.

Airobotics uses open-source software in connection with its products and services. From time to time, companies that incorporate open-source software into their products have faced claims challenging the ownership of open-source software and/or compliance with open source license terms. Therefore, Airobotics could be subject to suits by parties claiming ownership of what it believes to be open-source software or noncompliance with open-source licensing terms. Some open-source software licenses require users who distribute open-source software as part of their software to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open-source code on unfavorable terms or at no cost. While Airobotics monitors the use of open source software in its products and services and tries to ensure that none is used in a manner that would require it to disclose the source code to the related product or that would otherwise breach the terms of an open source agreement, such use could inadvertently occur and it may be required to release its proprietary source code, pay damages for breach of contract, re-engineer its products, discontinue the sale of its products in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from its development efforts, any of which could adversely affect Airobotics' business, operating results and financial condition.

Intellectual property rights do not necessarily address all potential threats to Airobotics' competitive advantage.

The degree of future protection afforded by Airobotics' intellectual property rights is uncertain because intellectual property rights have limitations, and may not adequately protect Airobotics' business, or permit it to maintain its competitive advantage. The following examples are illustrative:

- others may be able to make devices that are the same as or similar to Airobotics' products but that are not covered by the claims of the patents that it owns;
- Airobotics or any collaborators might not have been the first to make the inventions covered by the issued patents or pending patent applications that it owns;
- Airobotics might not have been the first to file patent applications covering certain of its inventions;
- others may independently develop similar or alternative technologies or duplicate any of Airobotics' technologies without infringing its intellectual property rights;
- it is possible that Airobotics' pending patent applications will not lead to issued patents;
- issued patents that Airobotics owns may not provide it with any competitive advantages, or may be held invalid or unenforceable as a result of legal challenges;
- Airobotics' competitors might conduct research and development activities in the U.S. and other countries that provide a safe harbor from patent infringement claims for certain research and development activities, as well as in countries where it does not have patent rights, and then use the information learned from such activities to develop competitive products for sale in its major commercial markets; and
- Airobotics may not develop additional proprietary technologies that are patentable.

Airobotics is subject to various government regulations, restrictions and requirements, and may be subject to additional regulations in the future, violation of which could subject Airobotics to sanctions or otherwise harm, restrict or add costs to Airobotics' business.

Legislative changes in Israel and throughout the world, including changes in regulatory policy in Airobotics' operations, may affect its ability to meet schedules for delivering products to its customers and providing services to

its customers. In addition, such changes and/or Airobotics' non-compliance of the lawful requirements due to such changes, may cause Airobotics additional expenses and/or cause the imposition of new restrictions on its operations and thus impair its ability to provide services to customers or to expand the geographic footprint of its operations.

Airobotics is subject to Israeli regulations, restrictions and requirements which could adversely affect its business and operating results.

Restrictions imposed on Airobotics by the Government of Israel, as a result of strategic ties and treaties with foreign countries, limit Airobotics' activities and access to certain countries, in a manner that may restrict and even prevent in certain situations Airobotics' operations in certain countries and affect its results.

Airobotics is subject to extensive regulation, which could restrict its business.

Airobotics' operations are subject to extensive and stringent regulation in the countries in which it operates, which varies from country to country and depends, inter alia, on obtaining permits and licenses in connection with UAV flying. Some are limited in time and certain flight conditions (in terms of altitude, noise, population density and flight distance) and are required to be renewed periodically by Airobotics with respect to every UAV unit produced by Airobotics. Changes in regulations in the countries where Airobotics operates, and regulatory changes related to aviation may impair Airobotics' operations, so that it will prevent it from providing the services, in part or in full, and/or require additional time and resources to obtain additional and updated permits and licenses.

Failure to obtain necessary regulatory approvals from the FAA or other governmental agencies, or limitations put on the use of small UAS in response to public privacy and other concerns, may prevent Airobotics from expanding the sales of its drone solutions to industrial and government customers in the United States.

The regulation of small UAS for commercial use in the United States is undergoing substantial change and the ultimate treatment is uncertain.

On February 14, 2012, the FAA Modernization and Reform Act of 2012 was enacted, establishing various deadlines for the FAA to allow expanded use of small UAS for both public and commercial applications. On June 21, 2016, the FAA released its final rules regarding the routine use of certain small UAS (under 55 pounds) in the U.S. National Airspace System pursuant to the act (the "Part 107 Rules"). The Part 107 Rules, which became effective in August 2016, provided safety regulations for small UAS conducting non-recreational operations and contain various limitations and restrictions for such operations, including a requirement that operators keep UAS within visual-line-of-sight and prohibiting flights over unprotected people on the ground who are not directly participating in the operation of the UAS. On December 28, 2020, the FAA announced final rules requiring remote identification of drones and allowing operators of small drones to fly over people and at night under certain conditions. On June 8, 2021, the FAA announced the formation of an Aviation Rulemaking Committee ("ARC") to develop new rules to further define regulations for the operations of UAS Beyond Visual Line-of-Site ("BVLOS"). The timing of additional rulemaking is uncertain as is the outcome of the still developing regulatory environment related to the operation of small UAS.

Airobotics cannot assure you that any final rules enacted in furtherance of the FAA's announced proposals will result in the expanded use of its drones and drone solutions by commercial and industrial entities. In addition, there exists public concern regarding the privacy and other implications of U.S. commercial use of small UAS. This concern has included calls to develop explicit written policies and procedures establishing usage limitations. Airobotics cannot assure you that the response from regulatory agencies, customers and privacy advocates to these concerns will not delay or restrict the adoption of small UAS by the commercial use markets.

As a manufacturer of commercial UAS, Airobotics is subject to various government regulations, restrictions and requirements, and may be subject to additional regulations in the future, violation of which could subject it to sanctions or otherwise harm, restrict or add costs to its business.

As a manufacturer of consumer products, Airobotics is subject to significant government regulations, restrictions and requirements, including, in the United States, those issued under the Consumer Products Safety Act, as well as those issued under product safety and consumer protection statutes in our international markets. Failure to comply with any applicable product safety or consumer protection regulation could result in sanctions that could have a negative impact on Airobotics' business, financial condition and results of operations.

Governments and regulatory agencies in the markets where Airobotics manufactures and sells products may enact additional regulations relating to product safety and consumer protection in the future and may also increase the penalties for failure to comply with product safety and consumer protection regulations. In addition, one or more of Airobotics' customers might require changes in its products, such as the non-use of certain materials, in the future. Complying with any such additional regulations or requirements could impose increased costs on Airobotics' business. Similarly, increased penalties for non-compliance could subject Airobotics to greater expenses in the event any of its products were found to not comply with such regulations. Such increased costs or penalties could harm Airobotics' business.

Airobotics' business is subject to federal, state and international laws regarding data protection, privacy, and information security, as well as confidentiality obligations under various agreements, and its actual or perceived failure to comply with such obligations could damage its reputation, expose it to litigation risk and adversely affect its business and operating results.

In connection with Airobotics' business, it receives, collects, processes and retains certain sensitive and confidential customer information. As a result, Airobotics is subject to increasingly rigorous federal, state and international laws regarding privacy and data protection. Personal privacy, data protection and information security are significant issues in the United States and the other jurisdictions where Airobotics offers its products and services. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Airobotics' handling of data is subject to a variety of laws and regulations, including regulation by various government agencies, including the United States Federal Trade Commission ("FTC") and various state, local and foreign bodies and agencies. Airobotics also executes confidentiality agreements with various parties under which it is required to protect their confidential information.

The United States federal and various state and foreign governments have adopted or proposed limitations on the collection, distribution, use and storage of personal information of individuals, including end-customers and employees. In the United States, the FTC and many state attorneys general are applying federal and state consumer protection laws to the online collection, use and dissemination of data. Additionally, many foreign countries and governmental bodies, and other jurisdictions in which Airobotics operates or conducts its business, have laws and regulations concerning the collection and use of personal information obtained from their residents or by businesses operating within their jurisdiction. These laws and regulations often are more restrictive than those in the United States. Such laws and regulations may require companies to implement new privacy and security policies, permit individuals to access, correct and delete personal information stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consent to use personal information for certain purposes.

Airobotics also expects that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and it cannot yet determine the impact of such future laws, regulations and standards may have on its business. For example, the California Consumer Privacy Act, which became effective in 2020, provides new data privacy rights for consumers and new operational requirements for companies. Additionally, Airobotics expects that existing laws, regulations and standards may be interpreted differently in the future. There remains significant uncertainty surrounding the regulatory framework for the future of personal data transfers from the European Union to the United States with regulations such as the recently adopted General Data Protection Regulation ("GDPR"), which imposes more stringent E.U. data protection requirements, provides an enforcement authority, and imposes large penalties for noncompliance. Future laws, regulations, standards and other obligations, including the adoption of the GDPR, as well as changes in the interpretation of existing laws, regulations, standards and other obligations could impair Airobotics ability to collect, use or disclose information relating to individuals, which could decrease demand for its products, require it to restrict its business operations, increase its costs and impair its ability to maintain and grow its customer base and increase its revenue.

Although Airobotics is working to comply with those federal, state and foreign laws and regulations, industry standards, contractual obligations and other legal obligations that apply to Airobotics, such laws, regulations, standards and obligations are evolving and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another, other requirements or legal obligations, Airobotics' practices or the features of its products. As such, Airobotics cannot assure ongoing compliance with all such laws or regulations, industry standards, contractual obligations and other legal obligations, and its efforts to do so may cause it to incur significant costs or require changes to its business practices, which could adversely affect its business and operating results. Any failure or perceived failure by Airobotics to comply with federal, state or foreign laws or regulations, industry

standards, contractual obligations or other legal obligations, or any actual or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of personal information or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause its customers to lose trust in Airobotics, which could have an adverse effect on its reputation and business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations could result in additional cost and liability to Airobotics, damage our reputation, inhibit sales, and adversely affect its business and operating results.

Cyberattacks through security vulnerabilities could lead to disruption of business.

In recent years, cyber and information security risks have become more significant and common risk factors, especially in light of digital transformation processes taking place in various industries, and the reliance of various organizations on digital information management systems and work processes. Airobotics' Field of Operations which includes the collection, analysis and transfer of information, combines the use of computer and network systems that are exposed to various cyber risks. Cyberattacks can cause damage and loss of information found in various systems, make it difficult to carry out ongoing activities at customer sites, and other activities of Airobotics, such as research and development and production, and adversely affect its reputation.

Further, if Airobotics fails to adequately maintain its infrastructure, it may experience outages and data loss. Excessive outages may affect its ability to timely and efficiently deliver products to customers or develop new products and solutions. Such disruptions and data loss may adversely impact Airobotics ability to fulfill orders, patent its intellectual property or protect its source code, and interrupt other processes. Delayed sales or lost customers resulting from these disruptions could adversely affect Airobotics' financial results, stock price and reputation.

Unauthorized use or disclosure of, or access to, any personal information maintained by Airobotics or on its behalf, whether through breach of its systems, breach of the systems of its suppliers or vendors by an unauthorized party, or through employee or contractor error, theft or misuse, or otherwise, could harm its business. If any such unauthorized use or disclosure of, or access to, such personal information was to occur, Airobotics' operations could be seriously disrupted, and it could be subject to demands, claims and litigation by private parties, and investigations, related actions, and penalties by regulatory authorities. In addition, it could incur significant costs in notifying affected persons and entities and otherwise complying with the multitude of foreign, federal, state and local laws and regulations relating to the unauthorized access to, or use or disclosure of, personal information. Finally, any perceived or actual unauthorized access to, or use or disclosure of, such information could harm Airobotics' reputation, substantially impair its ability to attract and retain customers and have an adverse impact on its business, financial condition and results of operations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS OF AIROBOTICS**

You should read the following discussion and analysis in conjunction with the audited financial statements and the notes of Airobotics for the years ended December 31, 2021 and 2020 and the unaudited financial statements and notes of Airobotics for the six months ended June 30, 2022 and June 30, 2021 included elsewhere in the prospectus. All dollars are reported in thousands except per share amounts.

Overview

Airobotics is an Israeli manufacturer and operator of Unmanned Aircraft and Aerial Data Platforms. Airobotics is a pioneer in developing the Optimus System, an advanced, autonomous unmanned aircraft system (UAS) focused on high-value applications in industrial, homeland security, and smart city services markets. The Optimus System is an industrial grade drone-in-a-box ("DIB") platform consisting of the Optimus Drone and the Optimus Airbase. The Optimus Airbase offers the market's most comprehensive set of functionalities, including robotic battery swapping and robotic payload swapping. As a result, the system is able to provide near-continuous flight time and multi-option imaging capabilities, feature sets desired by certain markets such as security and public safety. The system also includes the Insightful Data Platform, a powerful automated data distribution and processing software. The Optimus System offers customers an enterprise level automated data capture and analysis solution, including real time video, and can operate 24/7 without human intervention.

The Optimus System is a robust and mature platform deployed and operated in some of the world's most complex environments. Airobotics has an active customer pipeline in the United States, Israel, Singapore, and the UAE, as well as the potential to expand into additional international markets. Airobotics is in its final stages to receive a Type Certificate by the FAA for its Optimus UAS. As part of this process, the FAA has published the safety criteria for the Optimus System which will allow Airobotics to certify its highly automated drone system, automating all phases of flight including swapping batteries and payloads and eventually permitting operation over cities and other populated areas. Airobotics expects to have one of the first DIB system to receive such certification from the FAA.

Results of Operations

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

(U.S. dollars in thousands)

	Six Months Ended June 30		
	2022	2021	Increase (Decrease)
Revenues	\$ 544	\$ 1,646	\$ (1,102)
Cost of sales	1,299	2,225	(926)
Research and development expenses	2,103	4,255	(2,152)
Administrative and general expenses	1,646	2,787	(1,141)
Selling and marketing expenses	1,104	799	305
Other expenses (income), net	287	(880)	1,167
Operating loss	5,895	7,540	(1,645)
Financing expenses	330	1,141	(811)
Financing income	90	14	76
Loss for period	6,135	8,667	(2,532)

Revenues

Airobotics revenues were \$544 thousand for the six months ended June 30, 2022 compared to \$1,646 thousand for the six months ended June 30, 2021. The decrease in revenues was primarily due to a decrease in revenues in connection with the completion of a project in Singapore in the amount of \$1,346 thousand in connection with this project in the corresponding period last year. The decrease was offset by an increase in revenues in Israel and the United Arab Emirates in a total amount of \$244 thousand.

Cost of Sales

Airobotics cost of sales were \$1,299 thousand for the six months ended June 30, 2022 compared to \$2,225 thousand for the six months ended June 30, 2021. The decrease in cost of sales was primarily due to a decrease in share-based payment expenses in the amount of \$767 thousand compared to the corresponding period last year.

Research and Development Expenses

Airobotics research and development expenses were \$2,103 thousand for the six months ended June 30, 2022 compared to \$4,255 thousand for the six months ended June 30, 2021. The decrease in research and development expenses was primarily due to a decrease in salary expenses in the amount of \$1,114 thousand and a decrease in share-based payment expenses in the amount of \$903 thousand compared to the corresponding period last year.

Administrative and General Expenses

Airobotics administrative and general expenses were \$1,646 thousand for the six months ended June 30, 2022 compared to \$2,787 thousand for the six months ended June 30, 2021. The decrease in administrative and general expenses was primarily due to a decrease in share-based payment expenses in the amount of \$963 thousand compared to the corresponding period last year.

Selling and Marketing Expenses

Airobotics selling and marketing expenses were \$1,104 thousand for the six months ended June 30, 2022 compared to \$799 thousand for the six months ended June 30, 2021. The increase in selling and marketing expenses was primarily due to an increase in share-based payment expenses in the amount of \$338 thousand compared to the corresponding period last year.

Other Expenses (Income), Net

Airobotics other expenses, net were \$287 thousand for the six months ended June 30, 2022, compared to other income, net of \$880 thousand for the six months ended June 30, 2021. The primary variation in other expenses (income), net was due to the loss from the decrease in value of fixed assets in the amount of \$302 thousand compared to income in the corresponding period last year in the amount of \$407 thousand and \$466 thousand from the sale of fixed assets and from the exercise of a capital fund, respectively. For a description of the exercise of a capital fund see Note 4 of the Airobotics unaudited financial statements for the six months ended June 30, 2022 and 2021 included elsewhere in this report.

Financing Expenses

Airobotics financing expenses were \$330 thousand for the six months ended June 30, 2022 compared to \$1,141 thousand for the six months ended June 30, 2021. The decrease in financing expenses was primarily due to a decrease in financing expenses for the conversion loan in the amount of \$835 thousand compared to the corresponding period last year. For a description of the conversion loan see Note 13 of the Airobotics audited financial statements for the year ended December 31, 2021 and December 31, 2020 included elsewhere in this report.

Financing Income

Airobotics financing income was \$90 thousand for the six months ended June 30, 2022 compared to \$14 thousand for the six months ended June 30, 2021. The increase in financing income was primarily due to an increase in income from exchange rate differences compared to the corresponding period last year.

Net Loss

As a result of the net effects of the foregoing, loss for the period for the six months ended June 30, 2022 was \$6,135 thousand compared to \$8,667 thousand for the six months ended June 30, 2021.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

(U.S. dollars in thousands)

	Year Ended December 31		
	2021	2020	Increase (Decrease)
Revenues	3,287	1,609	\$ 1,678
Cost of sales	3,661	3,477	184
Research and development expenses	7,702	6,387	1,315
Administrative and general expenses	6,033	2,671	3,362
Selling and marketing expenses	3,219	847	2,372
Other expenses (income), net	146	(81)	227
Operating loss	17,474	11,692	5,782
Financing expenses	1,383	2,693	(1,310)
Financing income	88	77	11
Loss for period	18,769	14,308	4,461

Revenues

Airobotics revenues were \$3,287 thousand for the year ended December 31, 2021 compared to \$1,609 thousand for the year ended December 31, 2020. The increase in revenues was primarily in connection with projects in Singapore. Projects in Singapore represented \$2,841 thousand for the year ended December 31, 2021 compared to \$1,259 thousand for the year ended December 31, 2020.

Cost of Sales

Airobotics cost of sales were \$3,661 thousand for the year ended December 31, 2021 compared to \$3,477 thousand for the year ended December 31, 2020. Following the streamlining process Airobotics went through, reducing the manpower and the outsourcing and travel expenses, despite the increase in sales of approximately 104%, the cost of sales increased by only 5%.

Research and Development Expenses

Airobotics research and development expenses were \$7,702 thousand for the year ended December 31, 2021 compared to \$6,387 thousand for the year ended December 31, 2020. The increase in research and development expenses was primarily due to an increase in share-based payment expenses in the amount of \$1,518 thousand compared to the corresponding period last year, offset by a decrease in offsite contracting and travel in the amount of \$589 thousand compared to the corresponding period last year.

Administrative and General Expenses

Airobotics administrative and general expenses were \$6,033 thousand for the year ended December 31, 2021 compared to \$2,671 thousand for the year ended December 31, 2020. The increase in administrative and general expenses was primarily due to an increase in share-based payment expenses in the amount of \$2,623 thousand compared to the corresponding period last year, and \$486 thousand of the costs associated with the Airobotics' initial public offering completed in September 2021 classified to administrative and general expense. For a description of the Airobotics initial public offering costs see Note 12 of the Airobotics audited financial statements for the year ended December 31, 2021 and December 31, 2020 included elsewhere in this report.

Selling and Marketing Expenses

Airobotics selling and marketing expenses were \$3,219 thousand for the year ended December 31, 2021 compared to \$847 thousand for the year ended December 31, 2020. The increase in selling and marketing expenses was primarily due to an increase in share-based payment expenses in the amount of \$1,758 thousand, salary expenses in the amount of \$311 thousand, and advertising and marketing expenses of \$290 thousand compared to the corresponding period last year.

Other Expenses (Income), Net

Airobotics other expenses, net were \$146 thousand for the year ended December 31, 2021 compared to other income, net of \$81 thousand for the year ended December 31, 2020. The primary variance in other expenses (income), net was due to impairment losses from the cancellation of balances in the amount of \$955 thousand, offset by the income of \$343 thousand from capital gain and \$466 thousand from the gain on realization of translation differences, foreign operations. For a description of the impairment losses from the cancellation of balances see Note 9 of the Airobotics audited financial statements for the year ended December 31, 2021 and December 31, 2020 included elsewhere in this report.

Financing Expenses

Airobotics financing expenses were \$1,383 thousand for the year ended December 31, 2021 compared to \$2,693 thousand for the year ended December 31, 2020. The decrease in financing expenses was primarily due to a decrease in financing expenses for the conversion loan in the amount of \$1,242 thousand. For a description of the conversion loan see Note 13 of the Airobotics audited financial statements for the year ended December 31, 2021 and December 31, 2020 included elsewhere in this report.

Financing Income

For the year ended December 31, 2021 compared to the year ended December 31, 2020 there were no significant changes in financing income.

Net Loss

As a result of the net effects of the foregoing, loss for the year ended December 31, 2021 was \$18,769 thousand compared to \$14,308 thousand for the year ended December 31, 2020.

Liquidity and Capital Resources

Airobotics has incurred significant losses and has financed its activities mainly through capital investments, convertible loans from shareholders, loans from banking institutions and grants from the Israel Innovation Authority (the “IIA”). Airobotics’ operations depend on its ability to raise funding from various sources, including raising additional capital and debt to improve its financial position. As of June 30, 2022 and December 31, 2021, Airobotics had cash and cash equivalents of \$2,489 thousand and \$6,686 thousand, respectively. Also, as of June 30, 2022 and December 31, 2021, Airobotics had a working capital of \$1,899 thousand and \$6,310 thousand, respectively.

Also, on September 20, 2022, Ondas and Airobotics entered into a Credit and Guaranty Agreement pursuant to which Ondas has agreed to make a revolving loan available to Airobotics, commencing from October 3, 2022, in a principal amount of up to \$1,500 thousand (the “Bridge Loan”). Amounts borrowed may be prepaid without penalty and reborrowed. The loan will accrue interest at a rate of 6% per annum and matures on the earlier to occur of February 1, 2023 and the termination of the Merger Agreement as a result of a breach or violation thereof by Airobotics. The Bridge Loan is secured by substantially all of the assets of Airobotics pursuant to a Pledge and Security Agreement between Ondas and Airobotics. In addition, Airobotics Inc., a subsidiary of Airobotics, has guaranteed its obligations under the Bridge Loan.

Cash Flows from Operating Activities

Net cash used for operating activity was \$4,535 thousand for the six months ended June 30, 2022 compared to \$4,673 thousand for the six months ended June 30, 2021. There were no significant changes in net cash used for operating activity for the six months ended June 30, 2022 compared to the six months ended June 30, 2021.

Net cash used for operating activities was \$9,443 thousand for the year ended December 31, 2021 compared to \$8,822 thousand for the year ended December 31, 2020. The increase in net cash used for operating activities for the year ended 2021 compared to the year ended December 31, 2020 was primarily due to the increase in salary expenses.

Cash Flows Provided by Investing Activities

Net cash used in investing activities was \$234 thousand for the six months ended June 30, 2022 compared to net cash provided by investment activities of \$636 thousand for the six months ended June 30, 2021. The increase in net cash used in investing activities for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 was primarily due to the sale of property and equipment of Airobotics' systems for a government entity in the United Arab Emirates in the amount of \$983 thousand in the six months ended June 30, 2021.

Net cash provided by investing activities was \$461 thousand for the year ended December 31, 2021 compared to net cash used in investing activities of \$967 thousand for the year ended December 31, 2020. The increase in net cash from investing activities in 2021 compared to 2020 was primarily due to a decrease in the purchase of property and equipment from \$518 thousand for the year ended December 31, 2021 compared to \$1,063 thousand for the year ended December 31, 2020.

Cash Flows Provided by Financing Activities

Net cash provided by financing activities was \$933 thousand for the six months ended June 30, 2022 compared to \$7,818 thousand for the six months ended June 30, 2021. The decrease in cash flows provided by financing activities was primarily due to entering into agreements for the future allocation of Airobotics' ordinary shares (the "SAFE Agreements"), and receiving a convertible loan in the total amount of \$8,518 thousand during the six months ended June 30, 2021, offset by the receipt of a loan from a related party in the amount of \$1,100 thousand during the six months ended June 30, 2022, see Note 5 of the Airobotics unaudited financial statements for the six months ended June 30, 2022 and June 30, 2021 included elsewhere in this report.

Net cash provided by financing activities was \$14,890 thousand for the year ended December 31, 2021 compared to \$7,146 thousand for the year ended December 31, 2020. The increase in cash flows from financing activities for the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to proceeds of \$5,856 thousand from an issuance of share capital, net and from receiving a convertible loan in the amount of \$5,446 thousand and raising capital according to the SAFE Agreements in the amount of \$4,455 thousand.

Additional Financing Arrangements

On May 19, 2022, Airobotics entered into a loan agreement (the "Agreement") with the OurCrowd Group, a significant stockholder of Airobotics (the "Lender"), pursuant to which the Lender provided Airobotics, upon signing of the Agreement, with a loan of \$1,100 thousand (the "Principal"), at an annual interest of 6% (the "Interest"). The Principal will be repaid in one lump sum on May 19, 2027 or within 30 business days from the date on which Airobotics will raise capital, either in one round or in several rounds, totaling together \$2,000 thousand or more ("Round"), whichever comes first ("Maturity Date"). The interest will be paid annually on December 31 of each calendar year for the past year or partially, as the case may be, or on the Maturity Date, or on an early maturity date, as stated below. Any other loan taken by Airobotics will not count for the purpose of calculating the cumulative total capital raised.

Airobotics may repay the loan early, in whole or in part, at any time and for any reason, with advance notice in writing to the Lender seven days prior to the early repayment, at its sole discretion, and without an early repayment fee. As of June 30, 2022, the Principal and Interest outstanding was \$1,100 thousand and \$7 thousand, respectively. In connection with Ondas' acquisition of Airobotics, the loan will be repaid in full.

See Note 4 of Airobotics' unaudited financial statements for the six months ended June 30, 2022 and June 30, 2021 for additional information regarding the loan.

Critical Accounting Policies and Estimates

The discussion and analysis of Airobotics' financial conditions and results of operations are based upon Airobotics' financial statements included elsewhere in this report. The preparation of these financial statements requires Airobotics' management to make estimates and judgments that affect the reported amounts of assets and liabilities, sales and expenses and related disclosures of contingent assets and liabilities at the date of Airobotics' financial statements. Actual results may differ from these estimates under different assumptions or conditions, impacting Airobotics' reported results of operations and financial condition.

Certain accounting policies involve significant judgments and assumptions by Airobotics' management, which have a material impact on the carrying value of assets and liabilities and the recognition of income and expenses. Airobotics' management considers these accounting policies to be critical accounting policies. The estimates and assumptions used by Airobotics' management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. The significant accounting policies and estimates which Airobotics believes are the most critical to aid in fully understanding and evaluating Airobotics' reported financial results are described below. See Note 2 — Significant Accounting Policies of Airobotics' audited financial statements for the years ended December 31, 2021 and December 31, 2020 and Note 2 — Summary of Significant Accounting Policies of Airobotics' unaudited financial statements for the six months ended June 30, 2022 and June 30, 2021 included elsewhere in this report for more detailed information regarding Airobotics' critical accounting policies.

Revenue Recognition

Revenue from contracts with customers is recognized when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

Revenue from the sale of goods:

Revenue from sale of goods is recognized in profit or loss at the point in time when the control of the goods is transferred to the customer, generally upon delivery of the goods to the customer.

Revenue from rendering of services:

Revenue from rendering of services is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by Airobotics' performance. Airobotics charges its customers based on payment terms agreed upon in specific agreements.

Property and Equipment

Property and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with equipment.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates, as follows:

	%
Docking stations and drones	20 – 33
Computers and peripheral equipment	33
Office Furniture and equipment	6 – 33
Motor Vehicles	20
Leasehold improvements	(*)

(*) Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the useful life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

Intangible Assets

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized on a straight-line basis over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

The intangible assets of Airobotics consist of software.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Software	33

a. Research and Development Expenditures

Research expenditures are recognized in profit or loss when incurred.

Costs incurred in an internal development project are recognized as an intangible asset when the following conditions are met:

- Airobotics can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Airobotics' intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset;
- How the intangible asset will generate future economic benefits;
- The availability of adequate technical, financial and other resources to complete the intangible asset; and-
- The ability to measure reliably the expenditures attributable to the intangible asset during its development.

When an internally developed intangible asset cannot be recognized, the development costs are recognized as an expense in profit or loss as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Airobotics focuses on improving existing technology and related software, and is in various stages of project examination and development. As of reporting date, there is no certainty as to the existence of technical, financial and other resources to complete these processes, and accordingly, Airobotics did not recognize the asset in its financial statements. In light of the above, development expenses up to reporting date did not meet such conditions, and were therefore charged to the statement of comprehensive income when incurred.

Impairment of Non-Financial Assets

Airobotics evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. Airobotics periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

- Raw materials — at cost of purchase using the “first-in, first-out” method.
- Work in progress and finished goods — on the basis of average costs including materials, labor and other direct and indirect manufacturing costs based on normal capacity.

Change of Use-From Property and Equipment to Inventory:

Considering the expansion of Airobotics’ operations in the United Arab Emirates, Airobotics intends to sell some of the UAV equipment to customers as part of its business model (a system that includes the docking station, 2 Drones and Mast), in addition to its service package. Therefore, as of December 31, 2021, Airobotics has decided to transfer the UAV equipment, that were classified as property, plant, and equipment, to Inventory.

THE MERGER

The description of the Merger Agreement in this section and elsewhere in this report is qualified in its entirety by reference to the complete text of the Merger Agreement. This summary does not purport to be complete and may not contain all of the information about the Merger that is important to you. You are encouraged to read the Merger Agreement carefully and in its entirety. This section is not intended to provide you with any factual information about Ondas or Airobotics. Such information can be found elsewhere in this report and in the public filings Ondas makes with the SEC that are incorporated by reference into this document, as described in the section titled “Where You Can Find More Information”.

Background of the Merger

As part of its ongoing evaluation of Ondas’ business, the Ondas Board and Ondas’ management continuously review Ondas’ operations, financial performance, strategy and growth initiatives and industry conditions. In this context, the Ondas Board considers strategic opportunities that are or might be available to it to enhance shareholder value, including investments in new growth opportunities, technologies and adjacent businesses as well as potential acquisitions, taking into account industry and transaction trends as well as economic and other conditions generally.

The Airobotics Board and Airobotics’ management periodically review and assess Airobotics’ operations, financial performance and competitive position in the context of Airobotics’ long-term strategic goals and plans. These reviews include consideration of potential opportunities to enhance shareholder value as well as industry dynamics and consolidation among participants in the industry.

In August 2021, Airobotics was introduced to Ondas via B. Riley Securities, Inc. (“B. Riley”).

In September 2021, Ondas’ and Airobotics’ management teams held a telephonic meeting. Discussions did not ensue further at such time and Airobotics proceeded with its TASE initial public offering, which was completed in September 2021.

From September 2021 to May 25, 2022, Ondas’ management team had no further contact with Airobotics.

On May 25, 2022, Airobotics contacted B. Riley expressing interest in speaking to the Ondas management team about strategic opportunities between the two companies.

On May 28, 2022, B. Riley provided Ondas a draft of a Mutual Non-Disclosure Agreement between Ondas and Airobotics (the “Mutual Non-Disclosure Agreement”).

On May 30, 2022, Ondas’ and Airobotics’ management teams held a telephonic meeting to discuss strategic opportunities between the two companies.

On June 2, 2022, Ondas’ and Airobotics’ management teams held a follow-up telephonic meeting.

On June 2, 2022, Ondas provided B. Riley comments to the draft Mutual Non-Disclosure Agreement.

On June 3, 2022, B. Riley provided Ondas a draft engagement letter for B. Riley to serve as Ondas’ exclusive financial advisor in connection with the acquisition, merger or a related transaction with Airobotics (the “B. Riley engagement letter”).

On June 5, 2022, Airobotics provided Ondas comments to the draft Mutual Non-Disclosure Agreement.

On June 6, 2022, representatives from Ondas, Airobotics, Akerman LLP, Ondas’ legal counsel (“Akerman”), and Shilbolet Law Firm, Airobotics’ legal counsel, met virtually to discuss the draft Mutual Non-Disclosure Agreement.

On June 6, 2022, Ondas provided B. Riley with comments to the B. Riley engagement letter.

On June 7, 2022, representatives from Ondas and B. Riley discussed Ondas’ comments to the B. Riley engagement letter. Also, on June 7-8, 2022, Airobotics and B. Riley’s internal counsel revised and finalized the B. Riley engagement letter.

On June 7, 2022, representatives from Airobotics, Akerman, and Shilbolet held a conference call to review the terms of the draft Mutual Non-Disclosure Agreement.

Later on June 7, 2022, Airobotics executed the Mutual Non-Disclosure Agreement. On June 8, 2022, Ondas countersigned the Mutual Non-Disclosure Agreement.

On June 9 – 10, 2022, representatives from Ondas visited Airobotics’ offices in Petah Tikva, Israel for extensive technical, business, and financial due diligence.

On June 10, 2022, Ondas and B. Riley executed the B. Riley engagement letter.

On June 15, 2022, Ondas provided Airobotics an initial draft of a non-binding term sheet (the “Term Sheet”).

On June 19, 2022, Airobotics provided Ondas a revised draft Term Sheet.

On June 27, 2022, Ondas executed an engagement letter with Pearl Cohen Zedek Latzer Baratz (“Pearl Cohen”) to serve as Ondas’ Israeli counsel.

Later on June 27, 2022, the Ondas Board held a meeting to discuss among other matters the Term Sheet with Airobotics. Also, Ondas’ management provided the Ondas Board a summary of the potential benefits of the proposed acquisition of Airobotics.

On June 27, 2022, Akerman provided Herzog Fox & Neeman, Airobotics’ legal counsel, (“Herzog”) a revised draft of the Term Sheet.

On June 27, 2022, representatives from Ondas, Airobotics, Akerman, Herzog and B. Riley met virtually to review the revised draft Term Sheet.

On June 28, 2022, representatives from Ondas, Airobotics, Akerman, Herzog and B. Riley met virtually to review the revised draft Term Sheet.

On June 29, 2022, Akerman provided Herzog a revised draft Term Sheet.

On June 29, 2022, Herzog provided Akerman a revised draft Term Sheet.

On June 30, 2022, the Airobotics Board approved the Term Sheet.

On July 1, 2022, Akerman provided Herzog an initial draft of an amendment to the Mutual Non-Disclosure Agreement, which primarily reflected changes to allow for confidential information to be provided to representatives of the parties.

On July 3, 2022, Herzog provided Akerman a revised draft of the amendment to the Mutual Non-Disclosure Agreement.

On July 5, 2022, Akerman provided Herzog a revised draft of the amendment to the Mutual Non-Disclosure Agreement.

Later on July 5, 2022, Ondas and Airobotics executed the Term Sheet.

Also later on July 5, 2022, Airobotics and Ondas issued a joint press release announcing the entry into the Term Sheet and Airobotics issued an immediate report summarizing the terms of the Term Sheet. Also, on July 5, 2022, Ondas filed a Current Report on Form 8-K with the SEC reporting the entry into the Term Sheet and included copies of the joint press release and immediate report as exhibits.

On July 5, 2022, Ondas continued legal and business due diligence, which process continued over the following weeks while the parties negotiated the Merger Agreement.

Also, on July 5, 2022, B. Riley hosted a virtual meeting to “kick off” the transaction with Ondas; Airobotics; Akerman; Pearl Cohen; Herzog; Rosenberg Rich Baker Berman, P.A., Ondas’ auditors; and Ernst & Young LLP, Airobotics’ auditors. Following the kick off call, bi-weekly calls were held with this working group to discuss transaction documentation and status.

On July 5-6, 2022, representatives from Akerman and Herzog met virtually to review the draft amendment to the Mutual Non-Disclosure Agreement.

On July 7, 2022, Akerman provided Herzog a revised amendment to the Mutual Non-Disclosure Agreement and Ondas and Airobotics executed the amendment.

On July 20, 2022, Akerman provided Herzog an initial draft of the Merger Agreement.

On July 25, 2022, Herzog provided Akerman and Pearl Cohen a list of matters relating to the draft Merger Agreement. Also, on July 25, 2022, representatives from Akerman, Pearl Cohen and Herzog met virtually to review such list.

On July 28, 2022, Herzog provided Akerman and Pearl Cohen a revised draft of the Merger Agreement.

On July 30, 2022, Akerman provided Herzog a revised draft of the Merger Agreement.

On July 31, 2022, Herzog provided Akerman and Pearl Cohen a revised draft of the Merger Agreement.

On August 1, 2022, Akerman provided Herzog with a list of matters relating to the draft Merger Agreement, to which Herzog added additional input on August 2, 2022.

On August 1, 2 and 3, 2022, representatives from Akerman, Pearl Cohen and Herzog met virtually to review the draft Merger Agreement.

On August 3, 2022, Herzog sent to Akerman an initial draft of the Airobotics disclosure schedules to the draft Merger Agreement.

On August 3, 2022, Akerman sent Herzog a draft of the Merger Agreement and the parties exchanged multiple drafts of the draft Merger Agreement throughout the day on August 3, 2022.

On August 3, 2022, Akerman sent Herzog comments to the initial draft of Airobotics disclosure schedules.

On August 3, 2022, Akerman sent Herzog an initial draft of the Ondas disclosure schedules.

On August 4, Herzog sent Akerman comments to the draft of Airobotics disclosure schedules.

On August 4, 2022, representatives from Akerman, Pearl Cohen and Herzog met virtually to review the schedules of the Merger Agreement.

Later on August 4, 2022, Akerman sent Herzog a revised draft of the Airobotics disclosure schedules to incorporate final drafting edits, and Akerman and Herzog agreed to the final form of the Airobotics disclosure schedules.

On August 4, 2022, Herzog sent Akerman a revised draft of the Merger Agreement.

Later on August 4, 2022, Akerman provided Herzog a revised draft of the Merger Agreement to incorporate final drafting edits, and Akerman and Herzog agreed to the final form of the Merger Agreement.

On August 4, 2022, Akerman sent Herzog a draft of the Ondas disclosure schedules to incorporate final drafting edits, and Akerman and Herzog agreed to the final form of the Ondas disclosure schedules.

On August 4, 2022, the Ondas Board executed an unanimous written consent approving the Merger Agreement and related transactional matters, including Nasdaq filings, federal securities filings, the preparation and filing of the Registration Statement on Form S-4, and Israeli securities matters.

On August 4, 2022, the Airobotics Board approved the Merger Agreement and related transactional matters and the Israeli securities matters.

On August 4, 2022, Ondas and Airobotics executed the Merger Agreement.

On August 8, 2022, Airobotics and Ondas issued a joint press release announcing the entry into the Merger Agreement and Airobotics issued an immediate report summarizing the terms of the Merger Agreement. Also, on August 8, 2022, Ondas filed a Current Report on Form 8-K with the SEC reporting the entry into the Merger Agreement and included copies of the Merger Agreement, joint press release and immediate report as exhibits.

On August 9, 2022, Ondas issued a press release announcing its second quarter 2022 financial and operational results for the quarter ended June 30, 2022.

Also, on August 9, 2022, Ondas held a conference call to discuss Ondas' financial and operational results for the quarter ended June 30, 2022 and the acquisition of Airobotics.

On August 25, 2022, Airobotics filed a distribution of proxy statement to its shareholders.

On September 5 – 8, 2022, representatives of Airobotics management team visited the Ondas offices in Waltham, Massachusetts.

Also, during the week of September 18, 2022, representatives of Ondas visited Airobotics' offices in Petah Tikva, Israel.

On September 20, 2022, pursuant to the Merger Agreement, Ondas and Airobotics entered into a Credit and Guaranty Agreement in which Ondas agreed to make a revolving loan available to Airobotics, commencing from October 3, 2022, in a principal amount of up to \$1,500,000.

Also, on September 20, 2022, Airobotics issued an immediate report summarizing the terms of the Credit and Guaranty Agreement and Ondas filed a Current Report on Form 8-K with the SEC including a copy of the immediate report as an exhibit.

On September 22, 2022, Ondas filed the Registration Statement on Form S-4.

Airobotics Board of Directors' Recommendation and Reasons for the Merger

At its meeting on August 4, 2022, following discussion and careful consideration, the Airobotics Board unanimously:

- determined that the Merger Agreement and the transactions contemplated by the Merger Agreement are advisable and in the best interests of Airobotics and Airobotics' shareholders and that, considering the financial position of the merging companies, no reasonable concern exists that the surviving corporation will be unable to fulfill the obligations of Airobotics to its creditors as a result of the Merger;
- approved the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement; and
- determined to recommend that Airobotics' shareholders vote to approve the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement.

The Airobotics Board recommends that the Airobotics shareholders vote to approve the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement.

The members of the audit committee of the Airobotics Board (the "**Airobotics Committee**") and the Airobotics Board considered many factors in making its determination that the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement are advisable and in the best interests of Airobotics and its shareholders. In arriving at its determination, the Airobotics Board consulted with members of the Airobotics management team and assessed various factors relevant to its decision, including the following:

- the belief that the Merger Consideration is fair, reasonable, in accordance with market conditions, and expresses a fair price for the shareholders of Airobotics; taking into account, among other factors, their familiarity with Airobotics' business, Airobotics' financial state given the existence of a going concern note in Airobotics' financial statements, the market, the feasibility and chances of completing the Merger and the timetables for its completion, and compared to forecasts on Airobotics' future financial yields
- the belief that Merger Consideration reflects to Airobotics' shareholders a premium of approximately 71% (based on the closing price of each of Airobotics ordinary shares and Ondas common stock on the relevant stock exchange, and the exchange rate at the end of the trading day to the date of approval of the Merger Agreement by the Airobotics Board); and a premium of about 48% - based on the aforementioned lock-in price on average of 30 trading days preceding the date of approval by the Airobotics Board;

- the fact that the Merger Consideration includes the exchange of all Airobotics Stock Options and rights to purchase shares of Airobotics, even those not yet vested or matured, while maintaining the conditions applicable to the Airobotics Stock Options and rights to shares of Airobotics, which will be exercisable in exchange for a coordinated exercise price;
- the expectation that the combination of Airobotics' activity with Ondas activity, through American Robotics, by combining their technologies, will allow Airobotics to expand the range of its products and capabilities that will be offered to Airobotics' customers, as well as to expand the variety and scope of its customers in many markets, including the United States, and accelerate the transition from the development phase to sales and growth;
- the belief that failure to complete the Merger may endanger the continued existence and business activity of Airobotics; and
- the expectation that the Merger can be completed, within a reasonable time, while allowing the continued existence and business activity of Airobotics during the interim period, taking into account, among other reasons, that the parties conducted negotiations for the provision of a loan by Ondas to Airobotics in the interim period subject to the terms of the Merger Agreement.

The Airobotics Committee and Airobotics Board also identified and considered a number of other matters, some of which are countervailing factors and risks to Airobotics and its shareholders, relating to the Merger and the transactions contemplated by the Merger Agreement, including the following:

- the possibility that the Merger might not be consummated and the fact that, if the Merger is not consummated, (i) Airobotics' directors, senior management and other employees will have expended extensive time and effort and will have experienced significant distractions from their work during the pendency of the Merger, (ii) Airobotics will have incurred significant transaction costs, (iii) Airobotics' continuing business relationships with business partners and employees may be adversely affected, (iv) the trading price of Airobotics ordinary shares could be adversely affected and (v) the market's perceptions of Airobotics' prospects could be adversely affected;
- the restrictions on the conduct of Airobotics' business required by the Merger Agreement (subject to specified exceptions), which may have an adverse effect on Airobotics' ability to respond to changing market and business conditions in a timely manner or at all and to execute its strategic plans;
- subject to certain exceptions, the Merger Agreement precludes Airobotics from soliciting alternative acquisition proposals and requires Airobotics to pay to Ondas a termination fee of \$800,000, if the Merger Agreement is terminated under certain circumstances, including a termination of the Merger Agreement by Airobotics to accept a superior proposal. These factors might have the effect of discouraging other parties from making competing proposals that might be more advantageous to Airobotics shareholders than the Merger; and
- the risk that the parties may incur significant costs and delays related to the Merger, including resulting from seeking governmental consents and regulatory approvals necessary for completion of the Merger.

The foregoing discussion of the information and factors considered by the Airobotics Board is intended to be illustrative and not exhaustive, but rather includes the material reasons and factors considered by the Airobotics Board in reaching its determination and recommendation in relation to the Merger and the Merger Agreement and the transactions proposed thereby. In view of the numerous reasons and factors considered and the complexity of these matters, the Airobotics Board did not find it practical to, and did not, quantify or otherwise assign relative weights to the specified factors considered in reaching its determinations or the reasons for such determinations. Individual directors may have given differing weights to different factors or may have had different reasons for their ultimate determination. In addition, the Airobotics Board did not reach any specific conclusion with respect to any of the factors or reasons considered. Instead, the Airobotics Board conducted an overall analysis of the factors and reasons described above and unanimously determined in its business judgment that, in the aggregate, the potential benefits of the Merger to the shareholders of Airobotics outweighed the risks or potential negative consequences.

Ondas' Reasons for the Merger

The Ondas Board unanimously approved the Merger Agreement and determined that the terms of the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, are advisable and fair to and in the best interests of Ondas and its shareholders. In reaching its determination, the Ondas Board consulted with Ondas' management, as well as with Ondas' financial, legal and strategic advisors, and considered a variety of factors weighing favorably towards the transactions, including the factors described below:

- the belief that the Merger advances Ondas' business plan and positions the combined company to scale on behalf of franchise customers and accelerate the growth of the commercial drone market;
- the belief that the combined company will bring together leading engineering and aviation talent, regulatory leadership, and world-class technology platforms, providing a unique opportunity to offer a broader scope of solutions and services to customers in accelerated timelines;
- the belief that the Merger should result in a number of important synergies, primarily from achieving greater operating efficiencies, capturing inherent economies of scale and leveraging corporate resources;
- the belief that the combined company will be a global provider of automated drone solutions to a broader range of markets and applications and strengthen the combined company's ability to deliver complete end-to-end solutions for customers on a global scale;
- the belief that Airobotics and American Robotics will bring together best-in-class elements of the commercial DIB ecosystem offering the opportunity for accelerated product offerings to a broader set of end markets and applications;
- the expectation that critical system elements including payloads, detect-and-avoid technology, reliability and safety systems, and data analytics can be optimized in the companies' current and next-generation drone platforms;
- the belief that the Merger will provide a U.S.-based marketing and field services platform to drive adoption of the Airobotics System in commercial, security and defense markets;
- the expectation that the combined company will have a greater opportunity to bring American Robotics' Scout System into international markets, offering the combined company the ability to better serve large, multi-national customers across the world with a wider variety of solutions and services;
- the expectation that the integration of American Robotics' safety systems with the Airobotics System will offer the potential for extended FAA approvals for Beyond Visual Line of Sight flight operations;
- the belief that if Airobotics receives Type Certification with the FAA for the Airobotics System, the combined company will receive significant time and cost advantages when it pursues Type Certification of future UAS platforms, including the Scout System;
- the expectation that Ondas Networks' software-defined wireless connectivity platform will see a broader opportunity for product development in UAS applications, including command and control UAS navigation;
- the belief that a presence in Israel will offer the opportunity to expand existing relationships with Israeli aviation and defense vendors and the broader international MC-IoT vendor ecosystem;
- the belief that the Merger will strengthen Ondas' position in an industry where we expect to continue to see consolidation; and
- the expectation that the combined company will benefit from synergies, including cost-related efficiencies resulting from integrated engineering and product development programs, the benefit of shared sales and marketing resources and the elimination of certain duplicative costs related to legal, board and other public company costs.

The Ondas Board also identified and considered certain potentially negative factors in its deliberations to be balanced against the positive factors, including:

- the possibility that the Merger may not be completed as a result of the failure to satisfy one or more conditions to the Merger described under “*The Merger Agreement — Conditions to the Merger*,”
- the effect of the public announcement of the Merger or the failure to consummate the Merger on Ondas’ revenues, operating results, stock price, customers, suppliers, management, employees, and other constituencies;
- the risk that the operations of the two companies might not be successfully integrated or integrated in a timely manner, and the possibility of not achieving the anticipated synergies and other benefits sought to be obtained in the Merger;
- the substantial costs to be incurred in connection with the Merger, including costs of integrating the businesses and expenses arising from the Merger, which may exceed management’s estimates;
- the risk that Airobotics has material liabilities which were not identified during Ondas’ due diligence; and
- various other risks associated with the Merger and the combined company set forth under the “*Cautionary Note Regarding Forward-Looking Statements*” and “*Risk Factors*” section.

After consideration of these factors, the Ondas Board determined that, overall, the potential benefits of the Merger Agreement and transactions contemplated by the Merger Agreement outweighed the potential risks.

This discussion of the information and factors considered by the Ondas Board includes the material positive and negative factors considered by the Ondas Board, but it is not intended to be exhaustive and may not include all the factors considered by the Ondas Board. The Ondas Board did not quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the Merger Agreement and the transactions contemplated by the Merger Agreement. Rather, the Ondas Board viewed its position as being based on the totality of the information presented to and factors considered by it. In addition, individual members of the Ondas Board may have given differing weights to different factors. It should be noted that this explanation of the reasoning of the Ondas Board and certain information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed in the section titled “*Cautionary Note Regarding Forward-Looking Statements*.”

Regulatory Approvals

The parties are required to execute and file, or join in the execution and filing of, any application, notification or other document that may be necessary in order to obtain the authorization, approval or consent of any governmental entity, whether federal, state, local or foreign, that may be reasonably required, or that Ondas may reasonably request, in connection with the Merger.

In connection with the Merger, Ondas will use reasonable best efforts to cause the shares of Ondas common stock to be issued as Merger Consideration and the shares of Ondas common stock to be reserved for issuance upon exercise of the Airobotics Stock Options to be approved for listing on the NASDAQ and the parties also intend to deliver a notification to Nasdaq regarding the listing of additional Ondas common stock that will be registered pursuant to the prospectus.

If Ondas does not receive the ISA Exemption (as defined below), Ondas will use its best efforts to receive a permit from TASE for a registration statement with respect to the dual listing of Ondas common stock, including all shares of Ondas common stock underlying shares of Ondas’ convertible securities, at the TASE or a permit from the ISA and the TASE to publish a prospectus which would also apply to the Merger Consideration.

Neither Ondas nor Airobotics can provide assurance that any such regulatory approvals will not result in the delay or abandonment of the Merger.

Timing of the Merger

The Merger is expected to close in the fourth quarter of 2022. Neither Ondas nor Airobotics can predict, however, the actual date on which the Merger will be completed because it is subject to conditions beyond each company’s control, including obtaining the necessary regulatory approvals.

See “*The Merger Agreement — Conditions to the Merger*”.

Certain U.S. Federal Income Tax Consequences of the Merger

This section describes certain United States federal income tax consequences of (i) the Merger to certain beneficial owners of Airobotics ordinary shares who exchange their Airobotics ordinary shares for shares of Ondas common stock pursuant to the Merger and (ii) the ownership and disposition of Ondas common stock received upon the consummation of the Merger.

This discussion is based on the provisions of the Code, the U.S. Treasury Regulations promulgated thereunder and judicial and administrative rulings, all as in effect as of the date hereof and all of which are subject to change or varying interpretation, possibly with retroactive effect. Any such change could affect the accuracy of the statements and conclusions set forth herein.

This discussion assumes that Airobotics shareholders hold their Airobotics ordinary shares as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all aspects of U.S. federal income taxation that may be relevant to an Airobotics shareholder in light of such holder's particular circumstances, nor does it discuss the special considerations applicable to Airobotics shareholders subject to special treatment under the U.S. federal income tax laws, such as, for example, financial institutions or broker-dealers, mutual funds, tax-exempt organizations, insurance companies, dealers in securities or foreign currencies, traders in securities who elect the mark-to-market method of accounting, controlled foreign corporations, passive foreign investment companies, U.S. expatriates, holders who acquired their Airobotics ordinary shares through the exercise of options or otherwise as compensation, holders who hold their Airobotics ordinary shares as part of a hedge, straddle, constructive sale or conversion transaction, U.S. holders whose functional currency is not the U.S. dollar, and holders who own or have owned (directly, indirectly or constructively) 10% or more (by vote or value) of Airobotics' ordinary shares. This discussion does not address any tax consequences arising under the Medicare contribution tax, nor does it address any aspect of foreign, state, local, alternative minimum, estate, gift or other tax law that may be applicable to a holder.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Airobotics ordinary shares, the tax treatment of a partner in such partnership generally will depend on the status of the partner and activities of the partnership. Holders that are partners of a partnership holding Airobotics ordinary shares should consult their own tax advisors.

All Airobotics shareholders should consult their own tax advisors to determine the particular tax consequences to them in light of their particular circumstances, including the applicability and effect of the alternative minimum tax and any U.S. federal, U.S. state or local, non-U.S. or other tax laws and of potential changes in such laws.

U.S. Federal Income Tax Treatment of the Merger

For U.S. federal income tax purposes, the Merger is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Code (a "Reorganization"). Unless otherwise noted, the remainder of this discussion assumes that the Merger will be so treated. Neither Ondas nor Airobotics has obtained or will obtain a ruling from the IRS regarding the U.S. federal income tax consequences of the Merger. Accordingly, there is no assurance that the IRS will not take a contrary position regarding the tax consequences described in this discussion, or that any such contrary position would not be sustained, nor is the receipt of any tax opinion a condition to the closing of the Merger.

U.S. Federal Income Taxation of U.S. Holders

For purposes of this discussion, the term "U.S. holder" means a beneficial owner of Airobotics ordinary shares that is, for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- a trust if (a) its administration is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person; or
- an estate the income of which is subject to U.S. federal income tax regardless of its source.

The tax treatment of a U.S. holder will depend in part on whether or not Airobotics is or was classified as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes. Except as discussed below under “Passive Foreign Investment Company Rules”, this discussion assumes that Airobotics is not and has not been classified as a PFIC for U.S. federal income tax purposes.

Tax Consequences of the Merger

The exchange of Airobotics ordinary shares for shares of Ondas common stock will be tax-free to U.S. holders. A U.S. holder’s aggregate tax basis in Ondas common stock received in the Merger will equal such U.S. holder’s aggregate adjusted tax basis in the Airobotics ordinary shares exchanged therefor. A U.S. holder’s holding period for Ondas common stock received in the Merger will include the U.S. holder’s holding period in respect of the Airobotics ordinary shares exchanged for such Ondas common stock.

If a U.S. holder of Airobotics ordinary shares acquired different blocks of Airobotics ordinary shares at different times or at different prices, such U.S. holder’s basis and holding period in its shares of Ondas common stock may be determined separately with reference to each block of Airobotics ordinary shares. Any such U.S. holder should consult its tax advisor regarding the tax bases and holding periods of the particular shares of Ondas common stock received in the Merger.

If it is determined that the Merger does not qualify as a Reorganization, the Merger would be a taxable transaction to Airobotics shareholders for U.S. federal income tax purposes. In that case, a U.S. holder would generally recognize capital gain or loss measured by the difference between (a) the fair market value (in U.S. dollars) of Ondas common stock received in exchange for such U.S. holder’s Airobotics ordinary shares and (b) such U.S. holder’s basis in the Airobotics ordinary shares it holds. Such capital gain or loss would be long-term capital gain or loss if, at the time of the exchange, such U.S. holder’s holding period in its Airobotics ordinary shares was greater than one year. A U.S. holder’s tax basis in shares of Ondas common stock received in the Merger would be the fair market value (in U.S. dollars) of those shares on the date such U.S. holder received them. The U.S. holder’s holding period for shares of Ondas common stock received in the Merger would begin on the day after the date such U.S. holder received such shares.

Passive Foreign Investment Company Rules

The U.S. federal income tax consequences to U.S. holders could differ materially from those described above if, at any relevant time, Airobotics were a Passive Foreign Investment Company (“PFIC”) (determined under the rules described below). Airobotics believes that it was not a PFIC for its 2021 taxable year or any prior taxable year, and it does not expect to become a PFIC for any taxable year up to and including the taxable year in which the Merger is completed. However, Airobotics has not conducted and does not expect to conduct a formal study to determine its PFIC status. Moreover, because Airobotics’ PFIC status is based on its income, assets and activities for the entire taxable year, it is not possible to determine whether Airobotics will be characterized as a PFIC for its current taxable year until after the close of the applicable taxable year. As a result, there can be no assurance that Airobotics is not or will not become a PFIC prior to the closing of the Merger.

In general, Airobotics will be a PFIC with respect to a U.S. holder if for any taxable year in which such U.S. holder held Airobotics ordinary shares:

- at least 75% of Airobotics’ gross income for the taxable year is passive income; or
- at least 50% of the value, determined on the basis of a quarterly average, of the Airobotics’ assets is attributable to assets that produce or are held for the production of passive income.

“Passive income” generally includes dividends, interest, gains from the sale or exchange of investment property, rents and royalties (other than certain rents and royalties derived in the active conduct of a trade or business), and certain other specified categories of income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is, for purposes of the PFIC tests, treated as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation’s income.

If Airobotics were to be considered a PFIC at any time that a U.S. holder holds Airobotics ordinary shares, any gain recognized by the U.S. holder on a sale or other disposition of the Airobotics ordinary shares generally would be allocated ratably over the U.S. holder’s holding period for its Airobotics ordinary shares. The amounts allocated

to the taxable year of the sale or other disposition and to any year before Airobotics became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed. If Airobotics is treated as a PFIC with respect to a U.S. holder for any taxable year, the U.S. holder will be subject to the PFIC rules with respect to any of Airobotics' subsidiaries that are also PFICs. Unless a U.S. holder makes a "qualified electing fund" or "mark-to-market" election with respect to the Airobotics ordinary shares, a U.S. holder that holds Airobotics ordinary shares during a period in which Airobotics is a PFIC will be subject to the PFIC rules for that taxable year and all subsequent taxable years in which the U.S. holder holds Airobotics ordinary shares, even if Airobotics ceases to be a PFIC. Classification as a PFIC may have other adverse tax consequences. If Airobotics is considered a PFIC, a U.S. holder will also be subject to annual information reporting requirements.

U.S. holders of Airobotics ordinary shares are urged to consult their tax advisors regarding the application of the PFIC rules to the Merger and Airobotics ordinary shares, including the advisability of making a qualified electing fund or mark-to-market election.

Ownership of Ondas Common Stock Received in the Merger

Distributions on Ondas Common Stock

Distributions of cash or property with respect to shares of Ondas common stock generally will be treated as dividends to the extent of Ondas' current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Dividends paid to a non-corporate U.S. holder that constitute qualified dividend income will be taxable at preferential rates applicable to long-term capital gains so long as the holder holds the Ondas common stock for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meets other holding period requirements. Dividends paid with respect to Ondas common stock will generally be qualified dividend income, provided the holding period requirements in the previous sentence are satisfied. In addition, dividends paid to corporate U.S. holders may qualify for the dividends received deduction if the holder meets certain holding period and other requirements. Any portion of a distribution in excess of Ondas' current and accumulated earnings and profits will be treated first as a tax-free return of capital to the extent of a U.S. holder's basis in Ondas common stock and thereafter as capital gain.

Sale or Other Disposition of Ondas Common Stock

A U.S. holder that sells or otherwise disposes of Ondas common stock in a taxable transaction will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between the amount that the U.S. holder realizes and the U.S. holder's tax basis in those shares. Capital gain of a non-corporate U.S. holder is taxed at preferential rates when the holder has a holding period greater than one year. The deduction of capital losses is subject to limitations.

Backup Withholding and Information Reporting

A U.S. holder may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain amounts that it receives in the Merger, unless such holder properly establishes an exemption or provides its correct tax identification number and otherwise complies with the applicable requirements of the backup withholding rules. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a payee's U.S. federal income tax liability, if any, so long as such payee furnishes the required information to the IRS in a timely manner.

U.S. Federal Income Taxation of Non-U.S. Holders

A "non-U.S. holder" is a beneficial owner of Airobotics ordinary shares that is, for U.S. federal income tax purposes, an individual, corporation, estate or trust and that is not a U.S. holder.

Tax Consequences of the Merger

The Merger is not expected to result in any material U.S. federal income tax consequences to non-U.S. holders.

Ownership of Ondas Common Stock Received in the Merger

Distributions on Ondas Common Stock

Distributions of cash or property with respect to shares of Ondas common stock generally will be treated as dividends to the extent of Ondas' current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Any portion of a distribution in excess of Ondas' current and accumulated earnings and profits will be treated first as a tax-free return of capital to the extent of a non-U.S. holder's basis in its Ondas common stock, and thereafter as capital gain (which will be treated in the manner described below under " — Sale or Other Disposition of Common Stock").

Except as described below, dividends on Ondas' common stock that are paid to or for the account of a non-U.S. holder generally will be subject to U.S. federal withholding tax at a rate of 30%, or at a lower rate if the non-U.S. holder is eligible for the benefits of an income tax treaty that provides for a lower rate and the non-U.S. holder provides the documentation (generally, IRS Form W-8BEN or W-8BEN-E) required to claim benefits under such tax treaty to the applicable withholding agent. Even if Ondas's current or accumulated earnings and profits are less than the amount of the distribution, the applicable withholding agent may elect to treat the entire distribution as a dividend for U.S. federal withholding tax purposes. Each non-U.S. holder should consult its own tax advisor regarding U.S. federal withholding tax on distributions, including such non-U.S. holder's eligibility for a lower rate and the availability of a refund of any excess U.S. federal tax withheld.

If, however, a dividend is "effectively connected" with the conduct of a trade or business in the United States by a non-U.S. holder, such dividend generally will not be subject to the 30% U.S. federal withholding tax if such non-U.S. holder provides the appropriate documentation (generally, a valid IRS Form W-8ECI or an acceptable substitute form) to the applicable withholding agent. Instead, such non-U.S. holder generally will be subject to U.S. federal income tax on such dividend in substantially the same manner as United States citizens, resident aliens and domestic United States corporations (except as provided by an applicable tax treaty). In addition, a non-U.S. holder that is treated as a corporation for U.S. federal income tax purposes may be subject to a "branch profits tax" at a rate of 30% (or a lower rate if provided by an applicable tax treaty) on its "effectively connected" income for the taxable year, subject to certain adjustments.

The foregoing discussion is subject to the discussion below under " — FATCA Withholding" and " — Information Reporting and Backup Withholding".

Sale or Other Disposition of Common Stock

A non-U.S. holder generally will not be subject to U.S. federal income tax on any gain recognized on the sale or other disposition of Ondas common stock unless:

- such gain is "effectively connected" with the conduct of a trade or business in the United States by the non-U.S. holder (and the gain is attributable to a permanent establishment that the non-U.S. holder maintains in the United States, if that is required by an applicable income tax treaty as a condition for subjecting the non-U.S. holder to United States taxation on a net income basis);
- the non-U.S. holder is an individual who is present in the United States for 183 days or more during the taxable year of such sale or other disposition and certain other conditions are met; or
- Ondas is or has been a "United States real property holding corporation" (as described below) for U.S. federal income tax purposes at any time within the five-year period preceding the disposition or the non-U.S. holder's holding period, whichever period is shorter, the non U.S. holder is not eligible for a treaty exemption, and either (i) Ondas common stock is not regularly traded on an established securities market during the calendar year in which the sale or disposition occurs or (ii) the non-U.S. holder owned or is deemed to have owned, at any time within the five-year period preceding the disposition or the non-U.S. holder's holding period, whichever period is shorter, more than 5% of Ondas's common stock.

If the gain from the taxable disposition of shares of Ondas common stock is "effectively connected" with the non-U.S. holder's conduct of a trade or business in the United States (and, if required by an applicable tax treaty, the gain is attributable to a permanent establishment that the non-U.S. holder maintains in the United States), the non-U.S. holder will be subject to tax on the net gain derived from the sale at rates applicable to United States citizens, resident aliens and domestic United States corporations. "Effectively connected" gains that a non-U.S. holder recognizes may also, under

certain circumstances, be subject to an additional “branch profits tax” at a 30% rate or at a lower rate if the non-U.S. holder is eligible for the benefits of an income tax treaty that provides for a lower rate. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax (unless an applicable income tax treaty provides otherwise) on the gain derived from the sale or other disposition, which may be offset by United States source capital losses, even though the non-U.S. holder is not considered a resident of the United States.

Ondas will be a United States real property holding corporation at any time that the fair market value of Ondas’ “United States real property interests”, as defined in the Code and applicable Treasury Regulations, equals or exceeds 50% of the aggregate fair market value of Ondas’ worldwide real property interests and Ondas’ other assets used or held for use in a trade or business (all as determined for the U.S. federal income tax purposes). Ondas believes that it is not, and does not anticipate becoming in the foreseeable future, a United States real property holding corporation.

FATCA Withholding

Pursuant to sections 1471 through 1474 of the Code, commonly known as the Foreign Account Tax Compliance Act (“FATCA”), a 30% withholding tax (“FATCA withholding”) may be imposed on certain payments to a non-U.S. holder or to certain foreign financial institutions, investment funds and other non-U.S. persons receiving payments on behalf of a non-U.S. holder if such persons fail to comply with certain information reporting requirements. Payments of dividends received by a non-U.S. holder in respect of Ondas common stock could be affected by this withholding if the non-U.S. holder is subject to the FATCA information reporting requirements and fails to comply with them or if the non-U.S. holder holds Ondas common stock through a non-U.S. person (e.g., a foreign bank or broker) that fails to comply with these requirements (even if payments to the non-U.S. holder would not otherwise have been subject to FATCA withholding). An intergovernmental agreement between the United States and an applicable country may modify these requirements. If FATCA withholding is imposed, a non-U.S. holder that is not a foreign financial institution generally may obtain a refund of any amounts withheld by filing a U.S. federal income tax return (which may entail significant administrative burden). All non-U.S. holders should consult their own tax advisors regarding the relevant U.S. law and other official guidance on FATCA withholding.

Information Reporting and Backup Withholding

Ondas and other payors are required to report payments of dividends on Ondas common stock on IRS Form 1042-S even if the payments are exempt from withholding. A non-U.S. holder otherwise is generally exempt from backup withholding and information reporting requirements with respect to dividend payments and the payments of the proceeds from the sale of Ondas common stock effected at a United States office of a broker, provided that either (i) the payor or broker does not have actual knowledge or reason to know that the non-U.S. holder is a United States person and the non-U.S. holder has furnished a valid IRS Form W-8 or other documentation upon which the payor or broker may rely to treat the payments as made to a non-United States person, or (ii) the non-U.S. holder otherwise establishes an exemption.

Payment of the proceeds from the sale of Ondas common stock effected at a non-U.S. office of a broker generally will not be subject to information reporting or backup withholding. However, a sale effected at a non-U.S. office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation are sent to the United States or (iii) the sale has certain other specified connections with the United States.

Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against a non-U.S. holder’s U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

Certain Israeli Tax Consequences of the Merger

The following description is not intended to constitute a complete analysis of all Israeli tax consequences of Airobotics shareholders relating to the Merger. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular person in light of his or her personal circumstances. The discussion should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

Airobotics intends to file requests for three tax rulings from the ITA with respect to (i) a deferral of capital gains tax with respect to Airobotics shareholders which hold less than 5% of Airobotics’ issued and outstanding shares regarding the stock consideration; and partial tax deferral, for the period of two and four years for each half of the

stock consideration (respectively) for shareholders which hold upwards of 5% of Airobotics' issued and outstanding shares; and (ii) the Israeli tax treatment applicable to holders of Airobotics stock options and ordinary shares issued to certain directors and employees under Section 102 of the ITO. There can be no assurance that such tax rulings will be granted before the closing of the Merger or at all or that, if obtained, such tax rulings will be granted under the conditions requested by Airobotics.

Discussions between Airobotics and the ITA regarding the scope of the rulings are ongoing. If and when the tax rulings referenced in the immediately preceding paragraph are finalized, Airobotics will file an immediate report on the ISA's website, referred to as "MAGNA", describing the tax rulings. There can be no assurance that such tax rulings will be granted before the completion of the Merger or at all, or that if obtained, such rulings will be granted under the conditions requested by Airobotics.

Israeli Capital Gains Tax

Generally, the exchange of Airobotics ordinary shares for the Merger Consideration would be treated as a sale and subject to Israeli tax both for Israeli and the non-Israeli resident shareholders of Airobotics. However, certain relief and/or exemptions may be available under Israeli law.

Israeli law generally imposes capital gains tax on the real capital gain from the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of capital assets located in Israel, including shares of Israeli companies by non-residents of Israel, unless a specific exemption is available or a tax treaty between Israel and the shareholder's country of residence provides otherwise. Israeli law distinguishes between real capital gain and inflationary surplus. The real capital gain is the excess of the total capital gain over the inflationary surplus. You should consult your own tax advisor as to the method you should use to determine the inflationary surplus.

Generally, the capital gains tax rate applicable to the real capital gain is 25% for individuals. If such individual is holding or is entitled to purchase, directly or indirectly, alone or together with such person's relative or another person who collaborates with such person on a permanent basis, at least 10% of (i) the voting rights of Airobotics, (ii) the right to receive Airobotics' profits or its assets upon liquidation, (iii) the right to appoint a manager/director, or (iv) the right to instruct a Major Stockholder to do any of the foregoing on the date of sale or on any date falling within the 12-month period preceding that date of sale, such Major Stockholder would be subject to Israeli capital gains tax at the rate of 30%.

The actual capital gains tax rates which may apply to individual Airobotics shareholders on the sale of Airobotics ordinary shares (which may be effectively higher or lower than the rates mentioned above) are subject also to various factors including, inter alia, the date on which the shares were purchased, whether the shares are held through a nominee company or by the shareholder, the identity of the shareholder and certain tax elections which may have been made in the past by the shareholder.

In general, companies are subject to the corporate tax rate on real capital gains derived from the sale of shares at the rate of 23% in 2022. Please note that due to certain provisions of the ITO, the effective capital gains tax applicable to certain companies may be different than that specified above.

Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to "business income," currently 23% for companies and a marginal tax rate of up to 47% for individuals, plus an additional tax of 3%, which is imposed on individuals whose annual taxable income exceeds a certain threshold (NIS 663,240 for 2022), see "— Excess Tax" below.

The inflationary surplus is generally exempt from tax, provided that the shares being sold were acquired after December 31, 1993.

Pursuant to Israeli tax law, non-Israeli residents (individuals or corporations) will generally be exempt from Israeli capital gains tax, subject to certain provisions of the ITO, on the sale of Airobotics ordinary shares which were acquired after the company was registered for trade on the Israeli stock exchange. However, non-Israeli corporations will not be entitled to the foregoing exemption if Israeli residents: (i) have a controlling interest of more than 25% in such non-Israeli corporation or (ii) are the beneficiaries of, or are entitled to, 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Other non-Israeli residents (individuals or corporations) may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty between Israel and the seller's country of residence (subject to the receipt of a valid certificate from the ITA allowing for an exemption or a reduced tax rate). For example, under the Convention between the Government of the State of Israel and the Government of the United States of America with Respect to Taxes on Income (the "U.S.-Israel Tax Treaty"), Israeli capital gains tax would generally not apply when arising from the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and who holds the shares as a capital asset and is entitled to claim the benefits afforded to such person by the treaty. However, such exemption will not apply if (i) the capital gain arising from such sale, exchange or disposition is attributed to real estate located in Israel; (ii) the capital gain arising from such sale, exchange or disposition is attributed to royalties; (iii) the capital gains from such sale, exchange or disposition may be attributed to a permanent establishment of the U.S. resident that is maintained in Israel, under certain terms, (iv) the U.S. resident holds, directly or indirectly, securities representing 10% or more of the voting rights during any part of the 12-month period preceding the effective time of the sale, exchange or disposition, subject to certain conditions; or (v) the U.S. resident, if an individual, was physically present in Israel for a period or periods aggregating to 183 days or more during the relevant taxable year.

In order to obtain an applicable withholding tax exemption for capital gains tax, certain documentation and/or declarations shall need to be provided to the ITA.

Other countries, including Canada, France, Germany, Japan and the United Kingdom, are party to tax treaties with Israel that, subject to the provisions of those treaties, may exempt a non-Israeli resident shareholder from Israeli tax.

You are urged to consult with your own tax advisor regarding the applicability of these tax treaties to you and your receipt of Merger Consideration.

Excess Tax

Individuals who are subject to tax in Israel are also subject to an additional tax at a rate of 3% on annual income exceeding a certain threshold (NIS 663,240 for 2022), which amount is linked to the annual change in the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain, subject to the provisions of an applicable tax treaty.

Israeli Tax Withholding

Whether or not a particular shareholder is actually subject to Israeli capital gains tax in connection with the Merger, absent receipt by Airobotics of an applicable tax ruling from the ITA prior to closing of the Merger, all Airobotics shareholders will be subject to Israeli withholding tax at the rate of 25% (for individuals) and 23% (for corporations) on the Merger Consideration (unless the shareholder requests and obtains an individual certificate of exemption or a reduced tax rate from the ITA, as described below), and since this is a cashless transaction the Merger Consideration shall not be paid to any payment recipient only after such payment recipient will satisfy its Israel Tax obligation to the sole satisfaction of the Ondas or the Israeli Sub-Agent or the payment to the Israeli Sub-Agent of the withholding tax amount by the payment recipient.

Airobotics is currently in discussions with the ITA on the scope of the final tax rulings and the exemptions that may be provided to Airobotics shareholders and, as of September 21, 2022, no definitive binding ruling has been obtained from the ITA. There can be no assurance that the tax rulings will be granted before the closing of the Merger or at all or that, if obtained, the tax rulings will be granted under the conditions requested by Airobotics.

Regardless of whether Airobotics obtains the requested tax rulings from the ITA, any holder of Airobotics ordinary shares who believes that it is entitled to such an exemption from withholding tax (or entitled to a reduced tax rate) may separately apply to the ITA to obtain a certificate of exemption from withholding or an individual tax ruling providing for no withholding or withholding at a reduced rate, and submit such certificate of exemption or ruling to the exchange agent prior to receiving the Merger Consideration and at least three business days prior to the date that is 365 days following the date of the closing of the Merger. If Ondas or the exchange agent do not receive a valid exemption certificate or tax ruling (in form and substance reasonably acceptable to Israeli Sub Paying Agent) prior to

delivering the Merger Consideration and at least three business days prior to the date that is 365 days following the date of the closing of the Merger, then the withholding (if any) of any amounts under the ITO from the consideration payable shall be made only in accordance with the provisions of such Israeli tax certificate or tax ruling.

The Israeli tax withholding consequences of the Merger to Airobotics shareholders and holders of Airobotics stock options subject to Section 102 of the ITO may vary depending upon the particular circumstances of each shareholder or holder of Airobotics stock options subject to Section 102 of the ITO, as applicable, and the final tax rulings issued by the ITA.

To the extent that tax is withheld on payments to U.S. taxpayers, it is possible that such withheld taxes may not be able to be credited against such taxpayers' U.S. income tax liability.

Shareholders who received or acquired their Airobotics ordinary shares or were granted stock options or restricted stock awards under one or more of the Airobotics equity-based incentive plans, or otherwise as compensation for employment or services provided to Airobotics, may be subject to different tax rates.

As noted, Airobotics has also filed requests for a tax ruling from the ITA with respect to the withholding tax and other Israeli tax treatment applicable in respect of the Merger to holders of Airobotics stock options subject to Section 102 of the ITO (such ruling, as defined below under "The Merger Agreement — Tax Rulings", is referred to as the "options tax ruling").

The options tax ruling, if obtained as requested, would confirm, among other things that:

- the treatment of the Airobotics stock options (whether vested or unvested) in the Merger would not constitute a violation of Section 102 of the ITO, and holders of such Airobotics stock options will not be subject to Israeli withholding tax at the closing of the Merger;
- the statutory holding period under Section 102 of the ITO will continue uninterrupted from the original date of grant; and
- the payment of any consideration to holders of vested Airobotics stock options with respect to such Airobotics stock options will not constitute a violation of Section 102 of the ITO; provided that the consideration paid to the holders of such Airobotics stock options is deposited with the trustee appointed by Airobotics, and approved by the ITA (the "102 Trustee"), for the duration of the statutory holding period under Section 102 of the ITO.

If no tax ruling is obtained for holders of Airobotics stock options subject to Section 102 of the ITO, such holders might be subject to Israeli withholding tax at such holders' marginal tax rates under Israeli law for ordinary income, and may be also subject to withholding for national insurance contributions, depending on the specific circumstances of such holders and the terms and the timing of the grants of Airobotics stock options. In such event, no Ondas common stock will be issued to such holder of Airobotics stock options subject to Section 102 of the ITO, until such holder remits sufficient cash to cover the required amount to be withheld.

The Israeli tax rulings mentioned above may not be obtained or may contain such provisions, terms and conditions as the ITA may prescribe, which may be different from those detailed above. Certain categories of shareholders are expected to be excluded from the scope of any eventual ruling granted by the ITA and the final determination of the type of holders of Airobotics ordinary shares who will be included in such categories will be based on the outcome of the ongoing discussions with the ITA.

Accounting Treatment

Ondas prepares its financial statements in accordance with U.S. GAAP. The Merger will be accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. As the acquirer for accounting purposes, Ondas has estimated the fair value of Airobotics' assets acquired and liabilities assumed and conformed the accounting policies of Airobotics to its own accounting policies.

All unaudited pro forma condensed combined financial information contained in this report was prepared using the acquisition method of accounting. The final allocation of the purchase price will be determined after the Merger is completed and after completion of an analysis to determine the estimated net fair value of Airobotics' assets and liabilities. Accordingly, the final estimate of the fair values of the assets and liabilities will be determined with the assistance of a third-party valuation firm. Ondas' preliminary estimates and assumptions are subject to materially change upon the finalization of internal studies and third-party valuations of assets, including investments, property and equipment, intangible assets including goodwill, and certain liabilities.

Nasdaq and TASE Listings; Delisting and Deregistration of Airobotics Ordinary Shares

Ondas has agreed to take all actions necessary in order to list the shares of Ondas common stock on the TASE immediately prior to the completion of the Merger, in the event the No-Action Letter is not be obtained. Ondas has also agreed, prior to the completion of the Merger, to use its reasonable best efforts to obtain a dual listing permit from the ISA as well as the agreement of the TASE to list such shares of Ondas common stock and the shares of Ondas' common stock to be issued in connection with the Merger on the TASE. Ondas will file a registration statement with the Israel Securities Authority (the "ISA"), and TASE for the listing of the Ondas common stock on the TASE. Ondas' common stock will be listed on the TASE following the effectiveness of the Merger and the obtaining of a dual listing permit from the ISA. Prior to the completion of the Merger, Ondas has further agreed to use its reasonable best efforts to cause the shares of Ondas common stock to be issued in connection with the Merger to be approved for listing on Nasdaq, subject to official notice of issuance. The listing of the shares of Ondas' common stock on Nasdaq, subject to official notice of issuance, is also a condition to completion of the Merger.

If the Merger is completed, Airobotics ordinary shares will cease to be listed on the TASE in accordance with the applicable rules and policies of the TASE.

Ondas Stockholders

As of September 21, 2022, there were 112 stockholders of record of Ondas common stock.

Ondas' Dividend Policy

Ondas has never declared or paid cash dividends on Ondas capital stock nor is it under any obligation to declare or pay such cash dividends. Ondas currently intends to retain any future earnings to fund its operations and the development and growth of Ondas' business, and it does not expect to declare or pay any dividends in the foreseeable future. Ondas' future ability to pay cash dividends on its capital stock may be limited by any future debt instruments or preferred securities.

Airobotics' Dividend Policy

Airobotics has never declared or paid cash dividends on Airobotics capital stock nor is it under any obligation to declare or pay such cash dividends.

Airobotics Holders

As of September 21, 2022, there was one shareholder of record of Airobotics' ordinary shares. The number of record holders is not representative of the number of beneficial holders of our Airobotics' ordinary shares, as the shares of all shareholders for a publicly traded company such as Airobotics which is listed on the TASE are recorded in the name of Airobotics' Israeli share registrar.

Restrictions on Sales of Shares of Ondas Common Stock Received in the Merger

All shares of Ondas common stock received by Airobotics shareholders in the Merger will be freely tradable for purposes of the Securities Act and the Exchange Act. The prospectus does not cover resales of shares of Ondas common stock received by any person upon completion of the Merger, and no person is authorized to make any use of the prospectus in connection with any resale.

Interests of Certain Persons in the Merger

To the best knowledge of Airobotics, no director or other interested party in Airobotics, has a personal interest in the Merger, except as detailed herein:

1. OurCrowd Group, an interested party in Airobotics, has a personal interest in the approval of the Merger, as the Merger Agreement includes agreements in connection with the repayment of a loan that it provided to Airobotics (the “**OurCrowd Loan**”);
2. Mr. Ran Stern, the Chairman of Airobotics, has a personal interest in the approval of the Merger, as he is a partner in OurCrowd. It should be noted that in light of the aforementioned, entering into the Merger Agreement was brought for approval by Airobotics’ Audit Committee as a transaction in which the office holder has a personal interest, and was approved by the Airobotics Committee and the Airobotics Board; and
3. All directors of Airobotics may be considered to have a personal interest in connection with the liability insurance of directors and officers of Airobotics within the framework of the Merger. Accordingly, all the directors were allowed to be present at the discussion of the Airobotics Board and participate in the vote in connection with the liability insurance of directors and officers in Airobotics.

THE MERGER AGREEMENT

This section describes the material terms of the Merger Agreement. The descriptions of the Merger Agreement in this section and elsewhere in this report are qualified in their entirety by reference to the complete text of the Merger Agreement. This summary does not purport to be complete and may not contain all of the information about the Merger Agreement that is important to you. You are encouraged to carefully read the entire Merger Agreement. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Merger Agreement.

Explanatory Note Regarding the Merger Agreement

The Merger Agreement and the summary of its material terms in this section have been included only to provide you with information about the terms and conditions of the Merger Agreement. Neither the Merger Agreement nor the summary of its material terms included in this section is intended to provide any factual information about Ondas or Airobotics. The Merger Agreement contains representations, warranties and covenants of the parties customary for a merger of this nature. The representations and warranties contained in the Merger Agreement were made only for purposes of the Merger Agreement as of the specific dates therein; were made solely for the benefit of the parties to the Merger Agreement; may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between Airobotics and Ondas made for the purposes of allocating contractual risk between the parties to the Merger Agreement instead of establishing these matters as facts; and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Moreover, information concerning the subject matter of representations and warranties may change after the date of the Merger Agreement, which subsequent information may or may not be fully reflected in Ondas' or Airobotics' public disclosures.

For the foregoing reasons, the representations, warranties, covenants and agreements contained in the Merger Agreement and any descriptions of those provisions should not be read alone or relied on by any persons as characterizations of the actual state of facts about Ondas or Airobotics at the time they were made or otherwise. Instead, such provisions or descriptions should be read only in conjunction with the other information provided elsewhere in the prospectus or in the notice of meeting to be issued to Airobotics shareholders by Airobotics or incorporated by reference herein or therein. See the section titled "*Where You Can Find More Information*".

Structure of the Transaction

The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, and in accordance with the ICL, at the Effective Time, Merger Sub shall be merged with and into Airobotics. As a result of the Merger, Airobotics (i) shall continue as the surviving corporation, while the separate corporate existence of Merger Sub shall cease, (ii) shall be governed by the laws of the State of Israel; (iii) shall maintain a registered office in the State of Israel; and (iv) shall succeed to and assume all of the rights, properties, and obligations of Merger Sub and Airobotics in accordance with the ICL. The articles of association of Merger Sub shall be identical to the articles of association of Airobotics in effect at the Closing, except that they shall (a) exempt the Merger Sub from appointing an external auditor pursuant to Section 158 of the ICL, (b) cancel such existing definitions and articles derived from the fact Airobotics is publicly traded, and (c) include such other adjustments, if mandatory under Applicable Law.

Merger Consideration

At the Effective Time, upon the terms and subject to the conditions set forth in the Merger Agreement, each ordinary share of Airobotics, par value NIS 0.01 per share, issued and outstanding immediately prior to the Effective Time (other than shares owned by Airobotics or its subsidiaries (dormant or otherwise) or by Ondas or Merger Sub) shall be exchanged for and converted into the right to receive 0.16806 of a fully paid and nonassessable share of Ondas common stock, par value \$0.0001 per share, without interest and subject to applicable tax withholdings.

All fractional shares of Ondas common stock that would otherwise be issued to a holder of Airobotics ordinary shares as part of the Merger Consideration will be rounded up to the nearest whole based on the total number of shares of Ondas common stock to be issued to the holder of Airobotics ordinary shares (after aggregating all fractional Ondas common stock issuable to such holder).

Ondas stockholders will continue to own their existing shares of common stock of Ondas, the form of which will not be changed by the Merger.

Treatment of Equity Awards

At the Effective Time, each outstanding option, warrant or other right to purchase Airobotics ordinary shares (each, an “**Airobotics Stock Option**,” and collectively, the “**Airobotics Stock Options**”) issued pursuant to any plan, other agreement, or arrangement, whether vested or unvested, including any Airobotics Stock Option with an exercise price per share equal to or greater than the Per Share Cash Equivalent Consideration, shall be assumed by Ondas and converted as of the Effective Time into an option, warrant or right, as applicable, to purchase shares of Ondas common stock. Subject to the terms of the relevant Airobotics Stock Option, each Airobotics Stock Option shall be deemed to constitute an option or warrant, as applicable, to acquire, on substantially the same terms and conditions as were applicable under such Airobotics Stock Option, a number of shares of Ondas common stock equal to the number of shares of Ondas common stock (rounded up to the nearest whole share) that the holder of such Airobotics Stock Option would have been entitled to receive pursuant to the Merger had such holder exercised such option or warrant into full Airobotics ordinary shares immediately prior to the Effective Time at a price per share of Ondas common stock (rounded down to the nearest whole cent) equal to (i) the former per share exercise price for Airobotics ordinary shares otherwise purchasable pursuant to such Airobotics Stock Option, divided by (ii) the Exchange Ratio.

Closing and Effectiveness of the Merger

The closing of the Merger will take place at a time and on a date (the “**Closing Date**”) to be specified by Ondas, Merger Sub, and Airobotics, which shall be no later than the second business day after satisfaction (or waiver) of the latest to occur of the conditions set forth in the Merger Agreement (other than conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions), remotely by exchange of documents and signatures via Electronic Delivery, unless another time, date or place is agreed to in writing by Ondas, Merger Sub, and Airobotics.

Conversion of Shares; Exchange Procedures

The conversion of Airobotics ordinary shares (other than the excluded shares) into the right to receive the Merger Consideration will occur automatically at the Effective Time. Each outstanding ordinary share of Merger Sub shall be converted into one ordinary share of the surviving corporation and shall be registered in the name of Ondas in the shareholders register of the surviving corporation.

As soon as reasonably practicable after the Effective Time (but not later than three business days thereafter), Ondas shall direct the Exchange Agent to deliver to each holder of record of a Certificate (or Certificates) or Book-Entry Shares as of immediately prior to the Effective Time, in each case, whose Airobotics ordinary shares were converted into the right to receive the Merger Consideration, and dividends or other distributions, if any (in each case other than holders of Section 102 Shares and Section 102 Non Trustee Shares, which will be eligible to receive the Merger Consideration as described below): (i) a letter of transmittal in customary form reasonably acceptable to Airobotics (which shall specify that, in the case of Airobotics ordinary shares represented by Certificates, delivery shall be effected and risk of loss and title to the Certificates shall pass only upon delivery of the Certificates (or affidavits of loss in lieu thereof as provided in the Merger Agreement) to the Exchange Agent and shall be in such form and have such other provisions as Ondas and Airobotics may reasonably specify); (ii) a declaration in which the beneficial owner of Airobotics ordinary shares provides certain information requested by the Exchange Agent and/or the Israeli Sub-Agent, as necessary for the Exchange Agent and/or Israeli Sub-Agent to determine whether any amounts need to be withheld from the Merger Consideration payable to such beneficial owner pursuant to the terms of the Ordinance (subject to the provisions of the Merger Agreement), the Code, or any applicable provision of state, local, Israeli, U.S. or foreign Applicable Law; and (iii) instructions for use in effecting the surrender of the Certificates (or an effective affidavit of loss in lieu thereof) or Book-Entry Shares in exchange for shares of Ondas common stock and dividends or other distributions payable pursuant to the Merger Agreement, if any. Upon surrender of a Certificate (or an effective affidavit of loss in lieu thereof, together with such other security and/or documents as may be required pursuant to the Merger Agreement) or Book-Entry Shares for cancellation to the Exchange Agent, together with such letter of transmittal duly executed and any other forms or certificates required under Applicable Law, the holder of such Certificate or Book-Entry Shares shall be entitled to receive in exchange therefor that number of whole shares of Ondas common stock (which shall be in uncertificated book-entry form) and dividends or distributions, if any,

that such holder has the right to receive pursuant to the Merger Agreement, and the Certificate or Book-Entry Shares so surrendered shall forthwith be canceled; provided, however, that any Merger Consideration payable to holders of Section 102 Shares and Section 102 Non Trustee Shares shall be paid, deposited or issued to the 102 Trustee on behalf of such holders of Section 102 Shares and Section 102 Non Trustee Shares under the Assumed Company Plan, to be disbursed to the applicable holders in accordance with the provisions of Section 102 and the Options Tax Ruling (or the Interim Options Tax Ruling, if applicable), if obtained.

In the case of Certificates, upon receipt by the Exchange Agent of a letter of transmittal and surrender of a Certificate (or affidavit of loss in lieu thereof) for cancellation to the Exchange Agent, together with a letter of transmittal, the declaration for tax withholding purposes and/or a valid tax certificate, in each case, duly completed and validly executed in accordance with the instructions thereto, and such other documents as may be required pursuant to such instructions, the holder of such Certificate shall be entitled to receive in exchange therefor, and Ondas shall cause the Exchange Agent to pay and deliver in exchange therefor as promptly as reasonably practicable, the number of shares of Ondas common stock in book-entry form representing in the aggregate, the whole number of shares that such holder has the right to receive in respect of such Certificates and any dividends or other distributions payable, in each case, in accordance with the Merger Agreement, and the Certificates so surrendered will be canceled.

In the case of Book-Entry Shares, upon receipt by the Exchange Agent of a letter of transmittal, receipt of the declaration for tax withholding purposes and/or a valid tax certificate, in each case, duly completed and validly executed in accordance with the instructions thereto, the holder of such Book-Entry Shares shall be entitled to receive in exchange therefor, and Ondas shall cause the Exchange Agent to pay and deliver in exchange therefor as promptly as reasonably practicable, the number of shares of Ondas common stock in book-entry form representing in the aggregate, the whole number of shares that such holder has the right to receive in respect of such Book-Entry Shares and any dividends or other distributions payable, in each case, in accordance with the Merger Agreement, and the Book-Entry Shares so surrendered will be canceled.

Any consideration, whether in stock, cash or otherwise, that is paid or issued to holders of Section 102 Shares and Section 102 Non Trustee Shares, shall be paid, deposited, or issued to the 102 Trustee under the Assumed Company Plan, on behalf of holders of Section 102 Shares and Section 102 Non Trustee Shares, in accordance with Section 102 and the Options Tax Ruling (or the Interim Options Tax Ruling, if applicable), if obtained (the “**Section 102 Share Consideration**”). The Section 102 Share Consideration shall be held in trust by the 102 Trustee pursuant to the applicable provisions of Section 102 and the Options Tax Ruling (or the Interim Options Tax Ruling, if applicable), if obtained, and shall be released by the 102 Trustee, together with any interest earned thereon by virtue of the investment of such amounts by the 102 Trustee, in accordance with the terms and conditions of Section 102 and the Options Tax Ruling (or the Interim Options Tax Ruling, if applicable), if obtained.

If payment of the Merger Consideration (and any dividends or other distributions with respect to Ondas common stock) is to be made to a Person other than the Person in whose name the surrendered Certificate or Book-Entry Share so surrendered is registered, it shall be a condition precedent of payment that (i) the Certificate so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer (or the Book-Entry Share so surrendered shall be in proper form for transfer), and (ii) the Person requesting such payment shall have paid any transfer and other similar taxes required by reason of the payment of the Merger Consideration (and any dividends or other distributions with respect to Ondas common stock) to a Person other than the registered holder of such Certificate or Book-Entry Share (as applicable) surrendered or shall have established to the reasonable satisfaction of Ondas that such tax either has been paid or is not required to be paid.

All shares of Ondas common stock issued upon the surrender for exchange of Airobotics ordinary shares in accordance with the terms of the Merger Agreement and any cash paid with respect to dividends and distributions shall be deemed to have been issued in full satisfaction of all rights pertaining to such Airobotics ordinary shares, subject, to the surviving corporation’s obligation to pay any dividends or make any other distributions with a record date prior to the date hereof that has been disclosed to Ondas in writing and that remain unpaid at the Effective Time. From and after the Effective Time, there shall be no further registration of transfers on the stock transfer books of the surviving corporation of the Airobotics ordinary shares that were outstanding immediately prior to the Effective Time, other than transfers by Ondas. If, after the Effective Time, Certificates or Book-Entry Shares are presented to the surviving corporation for any reason, they shall be canceled and exchanged as described in this section “ — *The Merger Agreement — Conversion of Shares; Exchange Procedures.*”

Subject to Applicable Law, there shall be paid to the holder of the Ondas common stock issued in exchange for Certificates or Book-Entry Shares pursuant to the Merger Agreement, without interest, (a) at the time of delivery of such Ondas common stock by the Exchange Agent, the amount of dividends or other distributions, if any, with a record date at or after the Effective Time theretofore paid with respect to such shares of Ondas common stock, and (b) at the appropriate payment date, the amount of dividends or other distributions, if any, with a record date at or after the Effective Time but prior to such delivery of such Ondas common stock by the Exchange Agent, and a payment date subsequent to such delivery of such Ondas common stock by the Exchange Agent, payable with respect to such shares of Ondas common stock. No dividends or other distributions declared or made at or after the Effective Time with respect to Ondas common stock with a record date at or after the Effective Time shall be paid to the holder of any unsurrendered Certificate or Book-Entry Shares with respect to the shares of Ondas common stock represented thereby, until the holder of record of such Certificate or Book-Entry Shares shall surrender such Certificate (or provide an affidavit of loss in lieu thereof as provided in the Merger Agreement) or such Book-Entry Shares, as applicable.

Withholding

Each of Ondas, Merger Sub, the Surviving Corporation, the 102 Trustee, the Exchange Agent and any other third-party agents (each, a “**Payor**”) shall be entitled to deduct and withhold, or cause to be deducted and withheld, from any amounts otherwise payable (by issuance of Ondas common stock or otherwise) pursuant to the Merger Agreement, including by way of a sale of a portion of the Ondas common stock in the stock exchange, any amounts that are required to be withheld or deducted with respect to such amounts under with respect to any such payments or issuances under the Ordinance, Code or any provision of state or any other Applicable Law relating to taxes as determined by Ondas. To the extent that amounts are so withheld and timely paid over to the applicable Governmental Entity, (i) such withheld amounts will be treated for all purposes of the Merger Agreement as having been paid or issued, as applicable, to such Persons in respect of which such deduction and withholding was made and (ii) the Payor shall provide to the payment recipient in respect of which such deduction and withholding was made satisfactory evidence regarding any such withholding.

Subject to the provisions of the Tax Rulings, if obtained and as applicable, with respect to Israeli taxes, and in accordance with the Israeli Sub-Agent undertaking provided prior to Closing by the Israeli Sub-Agent to Ondas as required under Section 6.2.4.3 of the Income Tax Circular 19/2018 (Transaction for Sale of Rights in a Corporation that includes Consideration that will be transferred to the Seller at Future Dates), any payment payable pursuant to the Merger Agreement to any payee (other than holders of Section 102 Awards, Section 3(i) Options, and any other Merger Consideration issuable to payment recipients, which shall be delivered to the Section 102 Trustee or the 104H Trustee, as applicable), shall be paid to and retained by the Exchange Agent, in each case for the benefit of such payment recipient for a period of 365 days from the Closing Date or an earlier date required in writing by such payment recipient (the “**Withholding Drop Date**”), during which time unless requested otherwise by the ITA, no payments shall be made by the Exchange Agent to any payment recipient and no amounts for Israeli taxes shall be withheld from the payments or other consideration deliverable pursuant to the Merger Agreement, except as provided below and during which time each payment recipient may obtain a Valid Tax Certificate. If a payment recipient delivers, no later than three business days prior to the Withholding Drop Date a Valid Tax Certificate to the Exchange Agent, determining tax liability, such shareholder shall transfer the tax liability amount to the Exchange Agent, the deduction and withholding of any Israeli taxes shall be made only in accordance with the provisions of such Valid Tax Certificate and the balance of the applicable Merger Consideration shall be paid and issued to such person. If any payment recipient either (a) does not provide the Exchange Agent with a Valid Tax Certificate by no later than three business days before the Withholding Drop Date, or (b) submits a written request to the Exchange Agent to release his, her or its portion of the Merger Consideration payable or otherwise deliverable prior to the Withholding Drop Date and fails to submit a Valid Tax Certificate no later than three business days before such time, then the Exchange Agent will transfer the applicable Merger Consideration to such payment recipient only after such payment recipient will satisfy its Israel tax obligation to the sole satisfaction of Ondas or the Israeli Sub-Agent or the payment to the Israeli Sub-Agent of the withholding tax amount by the payment recipient. To the extent the Exchange Agent and/or the Israeli Sub-Agent withholds any amounts with respect to Israeli taxes, any amounts so withheld shall be treated for all purposes of the Merger Agreement as having been paid to the applicable payment recipient. If the applicable payment recipient does not satisfy his, her or its Israeli tax obligation to the satisfaction of Ondas or the Israeli Sub-Agent prior to the Withholding Drop Date, the Exchange Agent or the Israeli Sub-Agent will: (i) to the extent applicable, sell a portion of the Ondas common stock applicable to such payment recipient in the stock exchange, in order to allow the payment of any Israeli taxes as shall be determined by the Israeli Sub-Agent, and transfer the balance to the

applicable payment recipient; or (ii) at Ondas' opinion, which cannot be exercised prior to three business days prior to the Withholding Drop Date and subject to the provisions of the Tax Rulings, if obtained and as applicable, deliver such Merger Consideration back to Ondas, to be paid and issued by Ondas to the applicable payment recipient only following full satisfaction of Israeli taxes to Ondas' or the Israeli Sub-Agent's sole satisfaction.

In the event that a Payor receives a written demand from the ITA, to withhold any amount out of the amount held by such Payor for distribution to a particular payee and transfer it to the ITA prior to the Withholding Drop Date, (a) such Payor will notify such payee, in writing, of such withholding reasonably promptly after receipt of such demand, and provide such payee with reasonable time (which shall not be less than 30 days, unless otherwise required by the ITA or any Applicable Law, including the Ordinance, as determined by Payor at its reasonable discretion) to attempt to delay such requirement or extend the period for complying with such requirement as evidenced by a written certificate, ruling, or confirmation from the ITA; and (b) to the extent that any such certificate, ruling, or confirmation is not provided by such payee to the Payor prior to the time required by the ITA or under any Applicable Law, the Exchange Agent shall deliver the applicable portion of the Merger Consideration to such payment recipient only after such payment recipient will satisfy its Israel tax obligation to the sole satisfaction of Ondas or the payment to Ondas of the withholding tax amount by the payment recipient, including any interest, indexation and fines required by the ITA in respect thereof.

Any payments made to holders of a Section 102 Award or a Section 3(i) Options will be subject to deduction or withholding of Israeli tax under the Ordinance on the 15th day of the calendar month following the month during which the Closing occurs, unless with respect to Israeli resident holders of Section 102 Awards and Section 3(i) options, the Options Tax Ruling (or the Interim Options Tax Ruling) has been obtained by the Closing, in which case Ondas or Airotech or the 102 Trustee, or any Person acting on their behalf, will act in accordance with the Options Tax Ruling (or Interim Options Tax Ruling).

Any withholding made in NIS with respect to payments made hereunder in U.S. dollars shall be calculated based on a conversion rate on the date the payment is actually made to any recipient and any currency conversion commissions will be borne by the applicable payment recipient and deducted from payments to be made to such payment recipient.

If any of the Tax Rulings shall be obtained and delivered to Ondas, the Exchange Agent, the Israeli Sub-Agent and the trustee appointed under the 104H Tax Ruling, if any and as applicable, prior to the applicable withholding date, then the provisions of such Tax Rulings, as the case may be, shall apply and all applicable withholding procedures with respect to any recipients shall be made in accordance with the provisions of such Tax Rulings, as the case may be.

Representations and Warranties; Material Adverse Effect

The Merger Agreement contains a number of representations and warranties made by the parties thereto that are subject in some cases to exceptions and qualifications (including exceptions to the effect that there have been, and would not reasonably be expected to be, a "**Material Adverse Effect**"). See the definition of "Material Adverse Effect" below.

The representations and warranties made by each party under the Merger Agreement relate to, among other thing the followings:

- due organization, valid existence, qualification and subsidiaries;
- capitalization;
- corporate authorization of the Merger Agreement and the transactions contemplated by the Merger Agreement and the valid and binding nature of the Merger Agreement;
- accuracy of information supplied or to be supplied in connection with the prospectus, the ISA Exemption Application (as defined below), and/or the Israel Prospectus (as defined below);
- required consents and approvals from Governmental Entities;
- the absence of any conflicts, breaches, defaults or violations of organizational documents and other agreements or laws;

- securities filings and financial statements;
- intellectual property;
- tax matters;
- conduct of their businesses in the ordinary course and the absence of a Material Adverse Effect;
- the absence of certain undisclosed liabilities;
- the absence of certain litigation, legal proceedings, investigations and governmental orders;
- compliance with Applicable Law; and
- brokers and transaction-related fees and expenses.

The Merger Agreement also contains additional representations and warranties of Airobotics, relating to, among other things, the following:

- employee benefits matters;
- employment and labor matters;
- material contracts;
- suppliers and customers;
- government grants, incentives and subsidies;
- real property;
- tangible personal property; title; sufficiency of assets;
- environmental matters;
- export controls and import laws;
- insurance policies;
- the absence of certain changes or events;
- possession of, and compliance with, permits necessary for the conduct of such party's business;
- the absence of violations of anti-corruption and sanctions laws;
- transactions with Affiliates;
- Indebtedness;
- Foreign Business; and
- applicability of anti-takeover statutes.

The representations and warranties of each of the parties to the Merger Agreement will expire upon completion of the Merger.

Certain of the representations and warranties made by the parties are qualified as to "knowledge," "materially" or "Material Adverse Effect." For purposes of the Merger Agreement, "Material Adverse Effect," means on or with respect to (x) Airobotics and its subsidiaries (taken as a whole), or (y) Ondas and its subsidiaries (taken as a whole), as the case may be, any state of facts, change, development, effect, condition or occurrence which, individually or in the aggregate, has or would be reasonably be expected to have, a materially adverse impact on:

- (i) the business, assets, Liabilities, condition (financial or otherwise), financial position or results of operations of such Person and its subsidiaries, taken as a whole, provided that "Material Adverse Effect" for purposes of this clause (i) of the definition of Material Adverse Effect (i) shall be deemed to exclude

the impact of (a) changes in Applicable Laws (or interpretations thereof) of general applicability or interpretations thereof by Governmental Entities, (b) changes or modifications in US GAAP (in the case of Ondas or its subsidiaries) or IFRS (in the case of Airobotics or its subsidiaries), (c) actions and omissions of such Person taken with the prior consent of Ondas (in the case of Airobotics) or Airobotics (in the case of Ondas), (d) general national or international economic, financial, political or business conditions, (e) acts of terrorism or war (whether or not declared), (f) changes to the industries in which such Person or its subsidiaries, as the case may be, operates in general and not specifically relating to such Person or its subsidiaries, (g) the announcement of the Merger Agreement or the Merger, including, without limitation, any stockholder litigation related to the Merger Agreement, (h) changes in the price or trading volume of the Shares or the Ondas common stock, as the case may be (it being understood that any cause underlying such change may be taken into consideration when determining whether a Material Adverse Effect has occurred unless such cause is otherwise excluded), or (i) any failure by such Person to meet internal projections or forecasts or third-party revenue or earnings predictions for any period (it being understood that any cause of any such failure may be taken into consideration when determining whether a Material Adverse Effect has occurred, unless such cause is otherwise excluded); and provided further that clauses (a), (b), (d) and (e) above shall be considered for purposes for determining whether there has been a Material Adverse Effect to the extent such state of facts, change, development, effect, condition or occurrence has a disproportionate adverse effect on such Person and its subsidiaries, as compared to other companies operating in the industry or territory in which such Person operates; or

- (ii) the ability of such Person to perform its obligations under the Merger Agreement or to consummate the Merger or the other transactions contemplated by the Merger Agreement.

Covenants

Conduct of Business

Each of Ondas and Airobotics has agreed to certain covenants in the Merger Agreement restricting the conduct of its respective business between August 4, 2022 (the date of the Merger Agreement) and the earlier of the Effective Time and the termination of the Merger Agreement (the “**Interim Period**”).

Conduct of Business of Airobotics

In general, Airobotics has agreed that during the Interim Period, except as may be consented to in writing by Ondas (which consent will not be unreasonably withheld, delayed or conditioned), or in the case of the second through fourth bullets below, any actions or omissions reasonably and in good faith taken in response to COVID-19 or any COVID-19 measures, Airobotics will and will cause its subsidiaries to:

- not take any action that would or would reasonably be expected to prevent, materially impair or materially delay the ability of Airobotics, Merger Sub or Ondas to consummate the transactions contemplated by the Merger Agreement or the other Transaction Agreements;
- conduct the business of Airobotics and its subsidiaries in the ordinary and usual course of business consistent with past practice in all material respects; and
- use its reasonable best efforts to preserve intact its corporate existence and current business organizations, keep available the service of its current officers, directors, consultants, and employees, and preserve in all material respects its relationships with customers, licensees, licensors, suppliers, distributors, lessors, creditors, employees, contractors, and others having business dealings with it; and
- preserve in all material respects their present properties and tangible and intangible assets.

In addition, without limiting the generality of the foregoing, except as otherwise expressly provided in the Merger Agreement, during the Interim Period, Airobotics will not, and will not permit any of its subsidiaries to (unless required by Applicable Law after consultation with counsel), without the prior written consent of Ondas (which shall not be unreasonably withheld or delayed):

- amend or authorize any amendments to the terms of any of its outstanding securities or its governing or organizational documents, or to the governing or organizational documents of any of its subsidiaries;

- issue, sell, deliver, pledge, dispose of, encumber or transfer or agree or commit to do or authorize any of the foregoing with respect to (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any stock of any class or any other equity securities or equity equivalents (including any stock options or stock appreciation rights) of Airobotics or any of its subsidiaries except for the issuance and sale of Airobotics ordinary shares pursuant to Airobotics stock options granted under plans or agreements pursuant to which any Airobotics stock option has been issued or may be issued (the “**Airobotics Plan**”), prior to the date of the Merger Agreement and issuance of Airobotics stock options to new employees in the ordinary course of business consistent with past practice;
- split, combine or reclassify any shares of its Capital Stock or any other equity securities or equity equivalents, declare, set aside, authorize, make or pay any dividend or other distribution (whether in cash, stock or property, any combination thereof or otherwise) in respect of its Capital Stock or any other equity securities or equity equivalents of Airobotics or any of its subsidiaries, including the Airobotics ordinary shares (except dividends declared or paid by a wholly-owned subsidiary of Airobotics to Airobotics or another wholly-owned subsidiary of Airobotics), make any other actual, constructive or deemed distribution in respect of its Capital Stock or other equity securities or equity equivalents or otherwise make any payments to shareholders in their capacity as such, or redeem, purchase or otherwise acquire or issue or sell any of its securities or any rights, options, warrants or calls to acquire or sell any such shares or other securities or any securities or any rights, options, warrants or calls to acquire or sell any such shares or other securities of any of its subsidiaries; provided that Airobotics may repurchase or otherwise acquire shares in connection with (a) the applicable Airobotics Plan in effect as of the date of the Merger Agreement, (b) the acceptance of Airobotics ordinary shares as payment for the per share exercise price of the Airobotics stock options or as payment for taxes incurred in connection with the exercise, vesting and/or settlement of Airobotics stock options, in each case in accordance with the applicable Airobotics Plan, or (c) the forfeiture of Airobotics stock options;
- enter into any Contract with respect to the voting of the equity interests of Airobotics, including the Airobotics ordinary shares;
- adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization, or other reorganization of Airobotics or any of its subsidiaries (other than the Merger);
- alter through merger, liquidation, reorganization, restructuring or any other fashion the corporate structure of Airobotics or any subsidiary;
- (i) incur or assume any Indebtedness or issue any debt securities, individually or in the aggregate, or modify or agree to any amendment of the terms of any existing Indebtedness of Airobotics or any of its subsidiaries, except for the Bridge Loan; (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the material obligations of any other Person except for obligations of wholly owned subsidiaries of Airobotics incurred in the ordinary course of business and consistent with past practices; (iii) make any loans, advances or capital contributions to, or investments in, any other Person (other than to wholly-owned subsidiaries of Airobotics); (iv) redeem, pay, discharge or satisfy any Indebtedness or other material Liability, other than repayment of the OurCrowd Loan or the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice or in accordance with their terms, of other liabilities reflected or reserved against in, or contemplated by, the Airobotics’ Financial Statements or incurred in the ordinary course of business consistent with past practice after the date of Airobotics’ Latest Balance Sheet; (v) cancel any material Indebtedness (individually or in the aggregate) or waive any claims or rights of substantial value; or (vi) waive the benefits of, or agree to modify in any manner, any exclusivity, standstill or similar agreement benefiting Airobotics or any of its subsidiaries;
- forgive any loans or advances to any officers, employees or directors of Airobotics or its subsidiaries, or any of their respective affiliates, or change its existing borrowing or lending arrangements for or on behalf of any of such persons pursuant to an Airobotics Plan or otherwise, except in the ordinary course of business;
- except to the extent required under Airobotics Plans or employee agreements in existence prior to the date of the Merger Agreement, (a) establish, adopt, enter into any new, amend, terminate, or take any action to accelerate rights under, any Airobotics benefit plan or any plan, program, policy, practice, agreement or

arrangement that would be an Airobotics Plan if it had been in effect on the date of the Merger Agreement (except that Airobotics and its subsidiaries may enter into offer letters and employment agreements with newly hired employees in the ordinary course of business so long as such offer letters and agreements are pursuant to the standard form agreement used by Airobotics and its subsidiaries in the applicable jurisdiction and do not provide for any notice or severance pay in excess of amounts required under Applicable Law); (b) grant or pay, or commit to grant or pay, any bonus or incentive award or payment; (c) increase, or commit to increase, the amount of the compensation or benefits of any employee of Airobotics or any of its subsidiaries, provided that Airobotics may adopt a retention plan, reasonably acceptable to Ondas, to motivate and incentivize certain employees to continue to work for Airobotics after the date of the Merger Agreement; (d) accelerate the time of payment or funding of any amounts under, or increase the amount of funding required pursuant to, any Airobotics Plan; (e) hire or make an offer to hire, or promote, any employee to the position of (1) Chief Executive Officer, or (2) a position that directly reports to the Chief Executive Officer; or (f) terminate the employment of any such employee referred to in clause (e) other than for cause;

- (i) acquire or agree to acquire (a) by merging or consolidating with, or by purchasing a substantial equity interest in or portion of the assets of, or by any other manner, any business or any corporation, partnership, joint venture, association or other business organization or division thereof, or (b) any assets that are material, individually or in the aggregate, to Airobotics, except purchases of inventory in the ordinary course of business consistent with past practice; (ii) sell, lease, license, transfer, otherwise dispose of, mortgage, sell and leaseback, pledge or otherwise encumber or subject to any lien (other than a lien permitted by the Merger Agreement) any material properties or assets of Airobotics or any of its subsidiaries or any interests therein in any single transaction or series of related transactions, other than sales of Airobotics products and services in the ordinary course of business consistent with past practices; or (iii) enter into any exclusive license, distribution, marketing, sales or other agreement that is or would reasonably be expected to be material to Airobotics or any of its subsidiaries;
- change any of the accounting methods, principles, or practices used by Airobotics, except as required by IFRS or by a Governmental Entity or a competent quasi-Governmental Entity;
- (i) enter into any contract that if entered into prior to the date of the Merger Agreement would constitute a Company Material Contract under the Merger Agreement or materially modify, materially amend, accelerate, waive any material right under, or terminate any Company Material Contract; or (ii) authorize or make any new capital expenditure or expenditures not included in the current annual budget of Airobotics or any of its subsidiaries;
- (i) make or change any material tax election; (i) file or amend any tax return; (ii) settle or compromise any audit or action, arbitration, charge, claim, complaint, demand, dispute, governmental audit, grievance, hearing, inquiry, investigation, litigations, proceeding, qui tam action, suit with respect to material tax matters; (iii) adopt or change any material accounting method; (iv) agree to an extension or waiver of the statute of limitations with respect to material taxes; (v) surrender any right to claim a material tax refund; or (vi) enter into any agreement with a tax authority;
- make capital expenditures in an aggregate amount that exceeds 10% of the budgeted amounts set forth in the applicable schedule of the Merger Agreement for the respective periods set forth therein;
- cancel, forfeit, fail to renew, fail to continue to prosecute, abandon or allow to lapse (except with respect to patents expiring in accordance with their terms) any material Company IP Rights;
- (i) institute any action, arbitration, charge, claim, complaint, demand, dispute, governmental audit, grievance, hearing, inquiry, investigation, litigations, proceeding, qui tam action, suit, or (ii) release, compromise, assign, settle, or agree to settle any pending or threatened action, arbitration, charge, claim, complaint, demand, dispute, governmental audit, grievance, hearing, inquiry, investigation, litigations, proceeding, qui tam action, suit, other than settlements that result solely in monetary obligations of Airobotics or its subsidiaries (without the admission of wrongdoing or a nolo contendere or similar plea, the imposition of injunctive or other equitable relief, or restrictions on the future activity or conduct on or by Parent, the Company or any of their respective Subsidiaries) of an amount not greater than \$100,000 in the aggregate;

- allow any permit that was issued to Airobotics that otherwise relates to its business as currently conducted or anticipated to be conducted to lapse or terminate;
- fail to keep in force the insurance policies as specified in the Merger Agreement or replacement or revised policies providing insurance coverage with respect to the assets, operations and activities of Airobotics or its subsidiaries as are currently in effect;
- make any material changes in policies, procedures, or practices with respect to credit, collection, payment, accounts receivable or accounts payable, except, in each case, to the extent required to conform with IFRS;
- discontinue any material line of business;
- extend the date an Airobotics Stock Option may be exercised following the date that the holder of a Airobotics Stock Option ceases to be employed by Airobotics or its subsidiaries or provide services to Airobotics or its subsidiaries; or
- commit or agree (in writing or otherwise) to take any of the actions described in the above bullets (and it shall use commercially reasonable efforts not to take any action that would make any of the representations or warranties of Airobotics contained in the Merger Agreement untrue or incorrect).

Conduct of Business of Ondas

Ondas has agreed that, except as expressly provided in the Merger Agreement, without the prior written consent of Airobotics, which shall not be unreasonably withheld, conditioned or delayed, and to the extent permitted under Applicable Law, during the Interim Period, Ondas will not and will cause each of its subsidiaries to: (i) not take any action that would or would reasonably be expected to prevent, materially impair or materially delay the ability of Airobotics, Ondas, or Merger Sub to consummate the transactions contemplated by the Merger Agreement or the other Transaction Agreements, (ii) conduct its operations in all material respects in the ordinary and usual course of business consistent with past practice, and (iii) use its reasonable best efforts to preserve intact its corporate existence.

Without limiting the generality of the foregoing, except as expressly provided in the Merger Agreement, without the prior written consent of Airobotics, which shall not be unreasonably withheld or delayed, during the Interim Period, Ondas will not and will not permit any of its subsidiaries to (unless required by Applicable Law after consultation with counsel): (i) make or pay any dividend or other distribution (whether in cash, stock or property, any combination thereof or otherwise) in respect of its Capital Stock or any other equity securities or equity equivalents of Ondas or any of its subsidiaries, or (ii) purchase or otherwise acquire any of its securities; provided that Ondas may repurchase or otherwise acquire shares in connection with (a) the applicable plans, agreements or arrangements pursuant to which any option, warrant or other right to purchase equity interests of Ondas (each, an “**Ondas Option**”) has been issued or may be issued in effect as of the date of the Merger Agreement, (b) the acceptance of Ondas common stock as payment for the per share exercise price of any Ondas Option or as payment for taxes incurred in connection with the exercise, vesting and/or settlement of any Ondas Option, in each case in accordance with the applicable plans described in clause (a) of this paragraph, or (c) the forfeiture of any Ondas Option.

Form S-4; Shareholder Meeting and Board Recommendation

The prospectus forms part of a Registration Statement on form S-4, which has been filed by Ondas with the SEC. Each of Ondas and Airobotics has agreed to have the Form S-4 declared effective under the Securities Act as promptly as practicable after such filing and prior to the effective date of the Form S-4, take all action reasonably required to be taken under any applicable state or other securities Laws in connection with the issuance of the Ondas common stock in connection with the Merger and to keep the Form S-4 effective through the Closing Date in order to permit the consummation of the Merger.

The Merger Agreement requires Airobotics to as soon as reasonably practicable, take all action necessary under Applicable Law to set a record date for, duly call, give notice of, convene and hold a special meeting of its shareholders (together with any adjournment or postponement of the special meeting) for the purpose of seeking the requisite approval of the Merger Agreement and the transactions contemplated thereby. Airobotics will submit the

proposal for the approval of the Merger Agreement and the transactions contemplated thereby to its shareholders at such meeting and not submit any other proposal in connection with such meeting without Ondas' prior written consent, which consent shall not be unreasonably held, conditioned or delayed, other than (a) a customary proposal regarding adjournment of the meeting, (b) any proposal that Airobotics is required to submit under Applicable Law, and (c) any proposal that is related or inherent to the Merger. Airobotics is only entitled to adjourn or postpone the special meeting with Ondas' consent (not to be unreasonably withheld, conditioned or delayed) or (1) after consultation with Ondas, if adjournment or postponement is necessary to ensure any supplement or amendment to the proxy statement relating to the shareholder meeting is provided to shareholders within a reasonable amount of time in advance of the special meeting, or (2) to a date that is in the aggregate not more than 30 days following the originally scheduled date (or the date rescheduled per the prior clause) if there are not sufficient votes at such meeting to constitute a quorum or to obtain the required approval of the Merger Agreement and the transactions contemplated thereby, in to allow reasonable additional time for solicitation of proxies.

If the Airobotics Board has not made an Adverse Recommendation Change (as defined below under “ — *Adverse Recommendation Change; Certain Prohibited Actions*”) in accordance with the terms of the Merger Agreement, the Merger Agreement requires that the Airobotics Board (1) recommend that Airobotics shareholders approve the Merger Agreement and the transactions contemplated therein (the “**Airobotics Recommendation**”), (2) include the Airobotics Recommendation in the proxy statement relating to the shareholder meeting and (3) use its reasonable best efforts to (a) solicit from its shareholders proxies in favor of the Merger Agreement and the transactions contemplated thereby, and (b) otherwise seek to obtain shareholder approval at the shareholder meeting.

Even if an Adverse Recommendation Change has been made pursuant to the terms of the Merger Agreement, unless the Merger Agreement has been terminated in accordance with its terms, the obligations of the parties under the Merger Agreement will continue in full force and effect. Unless the Merger Agreement has been terminated in accordance with its terms, neither the commencement, public proposal, public disclosure or communication to Airobotics of any Third Party Acquisition Proposal, nor the making of any Adverse Recommendation Change will affect the obligations of Airobotics to set a record date for, duly call, give notice of, convene and hold a special meeting of the Airobotics shareholders in accordance with the terms of the Merger Agreement.

Appropriate Action; Consents; Filings

Each of Ondas and Airobotics has agreed to cooperate with each other and use (and cause their respective subsidiaries to use) their respective reasonable best efforts to complete the transactions contemplated by the Merger Agreement and to cause the conditions to the completion of the Merger to be satisfied as promptly as reasonably practicable, including, using reasonable best efforts to accomplish the following as promptly as reasonably practicable:

- the obtaining of all actions or non-actions, consents, approvals, registrations, waivers, permits, authorizations, orders, expirations or terminations of waiting periods, and other confirmations from any Governmental Entity or other Person that are or may become necessary, proper or advisable in connection with the transactions contemplated by the Merger Agreement;
- the preparation and making of all registrations, filings, forms, notices, petitions, statements, submissions of information, applications, and other documents (including filings with Governmental Entities) that are or may become necessary, proper or advisable in connection with the consummation of the transactions contemplated by the Merger Agreement;
- the taking of all steps as may be necessary, proper, or advisable to obtain an approval from, or to avoid a legal, administrative or other similar proceeding by, any Governmental Entity or other Person in connection with the consummation of the transactions contemplated by the Merger Agreement;
- the defending of any lawsuits or other legal, administrative or other similar proceedings or actions, whether judicial or administrative, challenging the Merger Agreement or that would otherwise prevent or delay the consummation of the transactions contemplated by the Merger Agreement in accordance with the terms of the Merger Agreement, including seeking to have any stay, temporary restraining order or injunction entered by any court or other Governmental Entity vacated or reversed; and
- the execution and delivery of any additional instruments that are or may become reasonably necessary, proper or advisable to complete the transactions contemplated by the Merger Agreement and to carry out fully the purposes of the Merger Agreement.

To the extent not prohibited by Applicable Law or by the applicable Governmental Authority, each party has agreed to consult and cooperate with one another, and consider in good faith the views of one another, in connection with any analyses, appearances, presentations, letters, white papers, memoranda, briefs, arguments, opinions or proposals made or submitted by or on behalf of either such party in connection with the proceedings under or relating to any foreign, national, federal or state antitrust, anticompetition or fair trade law. Each of the parties to the Merger Agreement will promptly inform the other of any material communication between such party and any national, federal, foreign or state antitrust or competition Governmental Entity regarding the transactions contemplated by the Merger Agreement. Each of Ondas and Merger Sub will, and will cause their respective subsidiaries to (if applicable) on the one hand, and Airobotics on the other hand will: (i) furnish to the other such necessary information and reasonable assistance as the other may request in connection with the preparation of any governmental filings, submissions or other documents, (ii) give the other reasonable prior notice of any such filing, submission or other document and, to the extent reasonably practicable, of any communication with or from any Governmental Entity regarding the transactions contemplated by the Merger Agreement, and permit the other to review (to the extent not prohibited by Applicable Law or the applicable Governmental Entity) and discuss in advance, and consider in good faith the views, and secure the participation of the other in connection with any such filing, submission, document or substantive communication and (iii) cooperate in responding as promptly as reasonably practicable to any investigation or other inquiry from a Governmental Entity or in connection with any Proceeding initiated by a Governmental Entity or private party. In addition, each of the parties to the Merger Agreement will give reasonable prior notice to and consult with the other in advance of any meeting, conference or substantive communication with any Governmental Entity, or in connection with any Proceeding by a private party, with any other Person, and to the extent not prohibited by Applicable Law or by the applicable Governmental Entity, not participate or attend any meeting or conference or engage in any communication with any Governmental Entity or such other Person in respect of the transactions contemplated by the Merger Agreement without offering the other party the possibility to participate, attend or engage in such meetings, conferences or communications, and in the event one party is prohibited from, or unable to participate, attend or engage in, any such meeting, conference or substantive communication, keep such party apprised with respect thereto. Each party to the Merger Agreement will provide the other with copies of all filings, submissions, correspondence and communications between it and its subsidiaries and their respective representatives, on the one hand, and any Governmental Entity or members of any Government Entity's staff (or any other Person in connection with any legal, administrative or other similar proceeding or action initiated by a private party), on the other hand, with respect to the transactions contemplated by the Merger Agreement.

Israeli Approvals

Each of the parties to the Merger Agreement shall use their respective reasonable best efforts to deliver and file, as promptly as practicable after the date of Merger Agreement, each notice, report, or other document required to be delivered by such party or any subsidiary to or filed by such party or any subsidiary of such party with, and to obtain any required approval of, any Israeli Governmental Entity with respect to the Merger. Without limiting the generality of the foregoing:

- as promptly as practicable after the date of the Merger Agreement, Ondas and Airobotics will prepare and file the notifications required, if any, to the Israeli Competition Authority (the "ICA") under the Israeli Economic Competition Law (1998) (the "**Competition Law**"), in connection with the Merger;
- Ondas and Airobotics shall respond as promptly as practicable to any inquiries or requests received from the General Director of the ICA for additional information or documentation;
- Ondas and Airobotics shall use their reasonable best efforts to obtain, as promptly as practicable after the date of the Merger Agreement, any consents and approvals from Israeli Governmental Entities, if any, that may be required in connection with the Merger; and
- Airobotics shall inform the IIA regarding the transactions under the Merger Agreement as required under the Law for the Encouragement of Research, Development and Technological Innovation – 5744-1984 and the rules and regulations promulgated thereunder (the "**R&D Law**"); Ondas shall provide to the IIA, the General Director of the ICA, and the ISA any information reasonably requested by such authorities and shall execute an undertaking in customary form to comply with the R&D Law.

Each of the parties to the Merger Agreement shall (i) give the other parties prompt notice of the commencement of any legal, administrative or other similar proceeding against it by or before any Governmental Entity with respect to the Merger, (ii) keep the other parties reasonably informed as to the status of any such legal, administrative or other similar proceeding and (iii) promptly inform the other parties of any communication to or from the General Director of the ICA, the IIA, the Israeli Investment Center, the ISA, the Companies Registrar, the TASE or any other Israeli Governmental Entity regarding the Merger or any of the other transactions contemplated by the Merger Agreement. The parties to the Merger Agreement will consult and cooperate with one another and will consider in good faith the views of one another, in connection with any analysis, appearance, presentation, memorandum, brief, argument, opinion or proposal made or submitted in connection with any Israeli legal, administrative or other similar proceeding relating to the Merger. In addition, except as may be prohibited by any Israeli Governmental Entity or by any Israeli legal requirement, in connection with any such legal, administrative or other similar proceeding under or relating to the Israeli Competition Law and any applicable Guidelines of the ICA or any other Israeli antitrust or fair trade law, each party to the Merger Agreement will permit authorized representatives of the other party to be present at each meeting or conference relating to any such legal, administrative or other similar proceeding and to have access to and be consulted in connection with any document, opinion or proposal made or submitted to any Israeli Governmental Entity in connection with any such legal, administrative or other similar proceeding.

None of Ondas, Airobotics or Merger Sub will be obligated to pay any consideration or offer to grant, or agree to, any financial or other accommodation to any Person from whom any such approval or consent is requested or otherwise in connection with, or as a condition to obtaining, any such approval or consent (other than nominal fees which individually or in the aggregate do not exceed \$100,000).

Merger Proposal; Certificate of Merger

Subject to the ICL and the regulations promulgated thereunder, as soon as reasonably practicable following the date of the Merger Agreement, Airobotics, Ondas and Merger Sub will, as applicable, take the following actions:

- As promptly as practicable following the date of the Merger Agreement, cause the Merger Proposal to be executed in accordance with the ICL;
- Deliver the Merger Proposal to the Companies Registrar;
- Cause a copy of the Merger Proposal to be delivered to its secured creditors, if any, no later than 3 days after the date on which the Merger Proposal is delivered to the Companies Registrar;
- Publish a notice to its creditors stating that a Merger Proposal was submitted to the Companies Registrar and that the creditors may review the Merger Proposal at the office of the Companies Registrar, at Airobotics' registered office or Merger Sub's registered office, as applicable, and at such other locations as the Airobotics or Merger Sub, as applicable, may determine, in 2 daily Hebrew newspapers on the day that the Merger Proposal is submitted to the Companies Registrar and in a popular newspaper outside of Israel as may be required by Applicable Law;
- Within 4 business days from the date of submitting the Merger Proposal to the Companies Registrar, send a notice by registered mail to all substantial creditors (as defined in the regulations promulgated under the ICL) that the Company or Merger Sub, as applicable, is aware of, in which it shall state that a Merger Proposal was submitted to the Companies Registrar and that the creditors may review the Merger Proposal at such additional locations, if such locations were determined in notice as described above;
- Send to the Company's "employees committee", if any, or display in a prominent place at the Company's premises a copy of the notice published in a daily Hebrew newspaper no later than 3 business days following the day on which such Merger Proposal was submitted to the Companies Registrar;
- Promptly after the Company and Merger Sub, as applicable, have complied with the third through sixth bullet points above, but in no event more than 3 days following the date on which such notice was sent to creditors, inform the Companies Registrar in accordance with the ICL that notice was given to their respective creditors, if any, under the ICL and regulations promulgated thereunder;
- Not later than 3 days after the date on which the Airobotics shareholders approve the Merger Agreement and the transactions contemplated thereby, inform the Companies Registrar of such approval; and

- In accordance with the customary practice of the Companies Registrar, request that the Companies Registrar declare the Merger effective and issue the Certificate of Merger upon such date, that in no event shall be prior to the lapse of 50 days from the filing of the Merger Proposal with the Companies Registrar and 30 days from the date on which the Airobotics shareholders approve the Merger Agreement and the transactions contemplated thereby, as the Company and Merger Sub shall advise the Companies Registrar.

Other Proposals

Without the prior written consent of Ondas, during the Interim Period, Airobotics will not, and will not authorize or permit any of its subsidiaries or affiliates or its or their respective officers, directors, employees, stockholders, investment bankers, financial advisors, auditors, legal counsel, agents and other representatives (“**Representatives**”) to, directly or indirectly, (i) discuss, pursue, solicit, initiate or knowingly, or take any action which would be reasonably expected to, encourage or facilitate (including by way of furnishing information) or take any other action to facilitate knowingly any inquiries or the making of any proposal which constitutes or may reasonably be expected to lead to a Third Party Acquisition Proposal from any Person (provided that, if Airobotics receives, prior to the Airobotics shareholder vote required to approve the Merger Agreement and the transactions contemplated thereby being obtained, a bona fide Third Party Acquisition Proposal that did not result from a breach of the no shop covenants in the Merger Agreement, Airobotics may contact the person who has made such Third Party Acquisition Proposal solely for purposes of requesting a clarification of any ambiguous terms and conditions thereof (and not for purposes of negotiating or engaging in any discussions regarding or relating thereto) so that Airobotics may inform itself about such Third Party Acquisition Proposal solely to the extent necessary to comply with the fiduciary duties of the Airobotics Board under Applicable Law), (ii) enter into, continue, engage in or otherwise participate in any discussions or negotiations relating to or furnish to any Person any confidential information with respect to or that could reasonably be expected to lead to, any Third Party Acquisition Proposal (except to notify the third party of the existence of these provisions), or (iii) approve, recommended or publicly propose to approve or recommend, or enter into any contract with respect to, agree to, approve or recommend any Third Party Acquisition Proposal.

Airobotics may at any time prior to the time that the Airobotics shareholder vote required to approve the Merger Agreement and the transactions contemplated thereby is obtained:

- engage in discussions or negotiations with any person, entity or group other than Ondas, Merger Sub or any affiliate thereof (a “**Third Party**”) (and may furnish such Third Party information concerning Airobotics, its subsidiaries or their respective businesses, properties or assets) who (without any solicitation, initiation, encouragement, discussion or negotiation, directly or indirectly, by or with Airobotics or the Representatives after the date of the Merger Agreement and without any other breach by Airobotics of its obligations under the no shop covenants in the Merger Agreement) makes an unsolicited bona fide written Third Party Acquisition Proposal that the Airobotics Board concludes constitutes (or is reasonably likely to result in) a Superior Proposal (as defined below); provided that (1) the Airobotics Board shall conclude in good faith, after (x) consultation with, and taking into account the advice of, its outside legal counsel and financial advisor, that such Third Party Acquisition Proposal constitutes (or is reasonably likely to result in) a Superior Proposal, (y) considering Applicable Law, and (z) consultation with, and taking into account the advice of, its outside legal counsel, that such action is necessary for the Airobotics Board to act in a manner consistent with its fiduciary duties under Applicable Law (provided, however, that in order to determine the appropriate standards that would apply to such fiduciary duties, the Airobotics Board (or a committee thereof) may also consider and act on the basis of the fiduciary duties owed by a board of directors to the shareholders of a company under Delaware Applicable Law), (2) prior to furnishing such information to or entering into discussions or negotiations with such Third Party, Airobotics receives from such Third Party an executed confidentiality agreement in substantially the form of the confidentiality agreement entered into by Ondas and Airobotics with respect to the transactions contemplated by the Merger Agreement, provided that any information provided to such Third Party has also previously been provided to Ondas or is provided to Ondas prior to or substantially concurrently with the time it is provided to such Third Party, and (3) Airobotics shall have fully complied with the no shop covenants in the Merger Agreement;
- Make an Adverse Recommendation Change (as defined below); or

- c. accept a Superior Proposal (which Superior Proposal did not result from a breach of the no shop covenants in the Merger Agreement) if the Airobotics Board concludes, after consultation with, and taking into account the advice of outside counsel, that the failure to take such action would be inconsistent with its fiduciary duties under Applicable Law (provided, however, that in order to determine the appropriate standards that would apply to such fiduciary duties, the Airobotics Board (or a committee thereof) may also consider and act on the basis of the fiduciary duties owed by a board of directors to the shareholders of a company under Delaware Applicable Law), and which the Airobotics Board has determined in good faith, after consultation with, and taking into account the advice of, its financial advisor and its outside counsel, constitutes a Superior Proposal;

provided, however, that Airobotics shall not execute a definitive agreement with respect to a Superior Proposal unless immediately thereafter Airobotics shall have terminated the Merger Agreement and has paid the Termination Fee; and provided further that Airobotics may not terminate the Merger Agreement as set forth above or make an Adverse Recommendation Change until after the fourth (4th) business day following receipt by Ondas of written notice (a “**Notice of Superior Proposal**”) from Airobotics advising Ondas that the Airobotics Board intends to take such actions and specifying the reasons therefor, including the material terms and conditions of (and documents relating to) such Superior Proposal (and the identity of the Third Party making such Superior Proposal) that is the basis of the proposed action by the Airobotics Board and a statement that the Airobotics Board intends to terminate the Merger Agreement in accordance with the terms thereof or make such Adverse Recommendation Change, as applicable. If requested by Ondas, Airobotics and its Representatives shall engage in good faith negotiations with Ondas and its Representatives, for a period of 4 Business Days, to, among other things, amend the Merger Agreement and the other Transaction Agreements in such a manner that (i) the Third Party Acquisition Proposal which was determined to constitute a Superior Proposal no longer is a Superior Proposal, and (ii) the failure of Airobotics to accept such a Superior Proposal or make such Adverse Recommendation Change would no longer be inconsistent with its fiduciary duties under Applicable Laws (it being understood and agreed that (x) any amendment to the financial terms or any other material amendment of such Superior Proposal shall require a new Notice of Superior Proposal and a new three business day period, and (y) in determining whether to cause or permit Airobotics to so terminate the Merger Agreement or make such Adverse Recommendation Change, the Airobotics Board shall take into account any changes to the financial or other terms of the Merger Agreement and the other Transaction Agreements proposed in writing by Ondas to Airobotics in response to a Notice of Superior Proposal or otherwise, and the Airobotics Board at the end of the negotiation period, after consultation with, and taking into account the advice of, outside legal counsel and its financial advisor, shall have in good faith reaffirmed its determination that such bona fide Third Party Acquisition Proposal constitutes a Superior Proposal).

Airobotics shall and shall cause its subsidiaries and direct its Representatives to immediately cease and terminate any existing solicitation, initiation, encouragement, activity, discussion or negotiation with any Third Party conducted heretofore by Airobotics or its Representatives with respect to the foregoing, shall terminate data room access of all such Third Parties and shall request the prompt return or destruction of all confidential information previously furnished in connection therewith. Airobotics shall (i) notify Ondas in writing of any Third Party Acquisition Proposal received after the date of the Merger Agreement (including the material terms and conditions of any such Third Party Acquisition Proposal and the identity of the Person making it), within forty-eight (48) hours of the receipt thereof, and (ii) keep Ondas informed of the status and details of any such Third Party Acquisition Proposal and any material developments with respect to such Third Party Acquisition Proposal or request for information or other inquiry (including any material changes thereto).

Without derogating from the mechanism described above with respect to a Superior Proposal, during the Interim Period, Airobotics shall not terminate, amend, modify or waive any provision of any confidentiality or standstill contracts to which it or any of its subsidiaries is a party (i) with any Third Party that has made or has indicated that it is considering making a Third Party Acquisition Proposal, or (ii) outside the ordinary course of business, without the prior written consent of Ondas. Without derogating from the mechanism described above with respect to a Superior Proposal, during the Interim Period, Airobotics shall enforce, as permitted under Applicable Law, the provisions of any such contracts, including obtaining injunctions to prevent any breaches of such contracts, and enforcing specifically the terms and provisions thereof in any court of competent jurisdiction.

Adverse Recommendation Change

Except as permitted by the Merger Agreement in the case of a Superior Proposal and under Applicable Law, the Airobotics Board will not (i) withdraw, qualify or modify, or publicly propose to withdraw, qualify or modify the Airobotics Recommendation, (ii) fail to include the Airobotics Recommendation in the proxy statement relating to the Airobotics shareholder meeting for the approval of the Merger Agreement and the transactions contemplated thereby, (iii) publicly recommend or declare advisable any Third Party Acquisition Proposal, (iv) adopt, authorize or approve any letter of intent, memorandum of understanding, merger agreement, acquisition agreement, option agreement, joint venture agreement, partnership agreement or other similar agreement providing for any Third Party Acquisition Proposal, other than as permitted by the no shop covenants of the Merger Agreement, or (v) fail to publicly reaffirm the Airobotics Recommendation within ten days after Ondas' request (any action described in the foregoing clauses (i) through (iv) of this paragraph, an "**Adverse Recommendation Change**").

Other than in connection with a bona fide Third Party Acquisition Proposal that constitutes a Superior Proposal, at any time prior to the time that Airobotics shareholder approval required to approve the Merger Agreement and the transactions contemplated thereby is obtained, the Airobotics Board may make an Adverse Recommendation Change in response to a Company Intervening Event, if the Airobotics Board has determined in good faith after consultation with Airobotics' outside legal counsel and financial advisors that the failure to take such action would be inconsistent with the directors' fiduciary duties under Applicable Israeli Law (provided, however, that in order to determine the appropriate standards that would apply to such fiduciary duties, the Airobotics Board may also consider and act on the basis of the fiduciary duties owed by a board of directors to the shareholders of a company under Delaware Law); provided further that prior to making such Adverse Recommendation Change, (A) the Airobotics Board shall have given Ondas at least three (3) Business Days' prior written notice of its intention to take such action and a description of the reasons for the Adverse Recommendation Change (it being understood that any material change in respect of such Company Intervening Event shall require a new notice but with an additional two (2) Business Day (instead of three (3) Business Day) notice period, (B) Airobotics shall have negotiated, and shall have caused its subsidiaries and shall have used its reasonable best efforts to cause its representatives to negotiate in good faith with Ondas during such notice period after the giving of such notice to the extent Ondas wishes to negotiate, to make such adjustments to the terms and conditions of the Merger Agreement so that the need for making such Adverse Recommendation Change would be obviated, and (C) at the end of such notice period, the Airobotics Board shall have considered in good faith such adjustments and shall have determined in good faith, after consultation with its outside legal counsel and financial advisor, that it is required to make such Adverse Recommendation Change in order to comply with its fiduciary duties to the shareholders of the Airobotics as a result of such Company Intervening Event.

Affiliates; Tax Rulings

As soon as practicable after the date of the Merger Agreement, Airobotics shall instruct its Israeli counsel, advisors and/or accountants to prepare and file with the ITA an application for a ruling confirming that (i) the assumption and exchange of the Section 102 Options, Section 102 Non Trustee Options and Section 3(i) Options for the Assumed Options in accordance with the Merger Agreement and the exchange of Section 102 Shares and Section 102 Non Trustee Shares for Section 102 Share Consideration (the "**Roll Over**") shall not constitute a taxable event so long the Section 102 Awards are deposited with the 102 Trustee and issued in accordance with the Airobotics Plan assumed by Ondas; and (ii) tax continuity shall apply with respect to the Roll Over (which ruling may be subject to customary conditions regularly associated with such a ruling) (the "**Options Tax Ruling**"). Airobotics shall include in the request for the Options Tax Ruling a request to exempt Ondas, the surviving corporation, the Exchange Agent and their respective agents from any withholding obligation with respect to the Section 102 Awards and Section 3(i) Options. The Options Tax Ruling may be a separate tax ruling or may be incorporated into the 104H Tax Ruling. If the Options Tax Ruling is not granted prior to the closing of the Merger or in accordance with the instructions of the ITA, Airobotics shall seek to obtain prior to the closing of the Merger an interim tax ruling confirming, among other things, that Ondas, Merger Sub, Paying Agent or any Person acting on their behalf (including the Exchange Agent and the Israeli Sub-Agent) shall be exempt from Israeli withholding tax in relation to any payments and the issuance of Assumed Options in exchange for Section 102 Options, Section 102 Non Trustee Options and Section 3(i) Options in connection with the Merger (the "**Interim Options Tax Ruling**"). To the extent that prior to the closing of the Merger an Interim Options Tax Ruling shall have been obtained, then all references in the Merger Agreement to the Options Tax Ruling shall be deemed to refer to such Interim Options Tax Ruling, until such time that a final definitive Options Tax Ruling is obtained.

As soon as practicable after the date of the Merger Agreement, Airobotics shall instruct its Israeli counsel, advisors and/or accountants to prepare and file with the ITA an application for a tax ruling permitting any certain shareholders who are covered by such tax ruling (each, an “**Covered Seller**”) to defer any applicable Israeli tax with respect to any consideration in Ondas common stock that such Covered Seller will receive pursuant to the Merger Agreement in accordance with the provisions of Section 104H of the Ordinance or as otherwise determined by the ITA (it being agreed that in connection therewith, Ondas shall not object to any restrictions, conditions or obligations that are either statutorily required pursuant to Section 104H or other applicable sections of the Ordinance, or are otherwise customary conditions regularly associated with such a ruling or reasonably required by the ITA, including the deposit of the new Ondas common stock with a designated 104H trustee) (the “**104H Tax Ruling**”). Airobotics shall include in the request for the 104H Tax Ruling to exempt Ondas, the surviving corporation, the Exchange Agent, and their respective agents from any withholding obligation in connection with issuing Ondas common stock. If the 104H Tax Ruling is not granted prior to the closing of the Merger or in accordance with the instructions of the ITA, Airobotics shall seek to obtain prior to the closing of the Merger an interim tax ruling confirming, among other things, that (i) the cancellation and exchange of the Airobotics ordinary shares (other than Section 102 Awards and Section 3(i) Options) as part of the transaction shall not constitute a taxable event, and (ii) Ondas and any Person acting on its behalf (including the Exchange Agent and the Israeli Sub-Agent) shall be exempt from Israeli withholding tax in relation to issuance of Ondas common stock in exchange for exchange of Airobotics ordinary shares in connection with the Merger (the “**Interim 104H Tax Ruling**”). To the extent that prior to the closing of the Merger an Interim 104H Tax Ruling shall have been obtained, then all references in the Merger Agreement to the 104H Tax Ruling will be deemed to refer to such Interim 104H Tax Ruling, until such time that a final definitive 104H Tax Ruling is obtained.

To the extent it becomes reasonably apparent to Airobotics that the ITA will not provide the 104H Tax Ruling in the form requested or that, if obtained, certain shareholders may not be covered under the 104H Tax Ruling then as soon as practicable following the date of the Merger Agreement, Airobotics shall instruct its Israeli counsel, advisors, and accountants to prepare and file with the ITA an application for a ruling (the “**Withholding Tax Ruling**”, and, together with the Options Tax Ruling and the Interim Options Tax Ruling, the 104H Tax Ruling and the Interim 104H Tax Ruling — the “**Tax Rulings**”) that:

- a) with respect to holders of Airobotics ordinary shares (other than Section 102 Awards and Section 3(i) Options) that are non-Israeli residents (as defined in the Ordinance or as will be determined by the ITA), (i) exempting Ondas, the Exchange Agent, the surviving corporation and their respective agents from any obligation to withhold Israeli tax at the source from any consideration payable or otherwise deliverable pursuant to the Merger Agreement or clarifying that no such obligation exists, or (ii) clearly instructing Ondas, the Exchange Agent, the surviving corporation and their respective agents on how such withholding at the source is to be implemented, and in particular, with respect to the classes or categories of holders of the Airobotics ordinary shares from which tax is to be withheld (if any), the rate or rates of withholding to be applied and how to identify any such non-Israeli residents;
- b) with respect to holders of Airobotics ordinary shares that are Israeli residents (as defined in the Ordinance or as will be determined by the ITA) (other than Covered Sellers and the holders of Section 102 Awards and Section 3(i) Options for which such tax ruling shall explicitly and in writing defer to the 104H Ruling (or the Interim 104H Ruling) and the Options Tax Ruling (or the Interim Options Tax Ruling), as applicable, (i) exempting Ondas, the Exchange Agent, the surviving corporation and their respective agents from any obligation to withhold Israeli tax at the source from any consideration payable or otherwise deliverable pursuant to the Merger Agreement, or (ii) clearly instructing Ondas, the Exchange Agent, the surviving corporation and their respective agents on how such withholding at the source is to be executed, and in particular, with respect to the classes or categories of holders of the Airobotics ordinary shares from which tax is to be withheld (if any), the rate or rates of withholding to be applied; and
- c) with respect to holders of Airobotics stock options that are not Section 102 Awards or Section 3(i) Options, who are non-Israeli residents (as defined in the Ordinance or as will be determined by the ITA), (i) exempting Ondas, the Exchange Agent, the surviving corporation and their respective agents from any obligation to withhold Israeli tax at the source from any consideration payable or otherwise deliverable pursuant to the Merger Agreement, or clarifying that no such obligation exists, or (ii) instructing Ondas, the Exchange Agent, the surviving corporation and their respective agents on how such withholding at the source is to be executed, the rate or rates of withholding to be applied and how to identify any such non-Israeli residents.

The text of the applications for, filing relating to, and the final text of the Tax Rulings will be subject to the prior written confirmation of Ondas or its counsel, not to be unreasonably withheld, conditioned or delayed. Airobotics and its counsel and advisors will not make any application to, or conduct any material negotiations with the ITA with respect to matters relating to the subject matter of the Tax Rulings, without prior coordination with Ondas or its counsel, and will enable Ondas' counsel to participate in all discussions and meetings relating thereto. To the extent that Ondas' counsel elects not to participate in any meeting or discussion, Airobotics' representatives will provide Ondas' counsel with a full report of the discussions held within two business days of such meeting or discussion.

Ondas will, and will cause each of its subsidiaries to, use commercially reasonable efforts to promptly take, or cause to be taken, all actions necessary to assist Airobotics to obtain the Tax Rulings. Airobotics will, and will cause each of its subsidiaries to, use commercially reasonable efforts to promptly take, or cause to be taken, all actions necessary to assist Ondas and Merger Sub to obtain the Tax Rulings. Ondas will comply and cause its subsidiaries to comply with all of the terms and conditions of the Tax Rulings and refrain from taking or failing to take such actions, which actions or omissions would or would be reasonably expected to breach, jeopardize or adversely change the effectiveness of, and/or the favorable tax treatment prescribed under, such Tax Rulings.

For more information regarding such tax rulings, see "*The Merger — Certain Israeli Tax Consequences of the Merger*". In the event that any of the tax ruling has not been received in accordance with the terms of the Merger Agreement, Ondas may make such payments and withhold any applicable taxes as described above in the section "*— Conversion of Shares; Exchange Procedures; Withholding*".

Directors' and Officers' Indemnification and Insurance

The parties have agreed that all rights, existing at the time of the Merger Agreement, to indemnification and exculpation from liabilities (including advancement of expenses) for acts or omissions occurring at or prior to the Effective Time, in favor of the current or former directors, officers or employees of Airobotics (the "**D&O Indemnified Parties**") as provided in the articles of association of Airobotics or in any indemnification contract between such person and Airobotics (in each case as in effect on and in the case of indemnification contracts, to the extent made available to Ondas, prior to the date of the Merger Agreement) will survive the Merger and will continue in full force and effect. For seven years after the Effective Time, Ondas will cause the surviving corporation to maintain in effect the exculpation, indemnification and advancement of expenses equivalent to the provisions of the articles of association of Airobotics as in effect immediately prior to the Effective Time with respect to acts or omissions occurring prior to the Effective Time and will not amend, repeal or otherwise modify any such provisions in any manner that would adversely affect the rights thereunder of any of the D&O Indemnified Parties.

At or prior to the Effective Time, Airobotics will use reasonable best efforts to obtain a directors' and officers' liability insurance policy covering Airobotics' officers and directors. At the Closing, Airobotics will use reasonable best efforts to obtain, maintain and fully pay for irrevocable "tail" or "runoff" insurance policies naming the D&O Indemnified Parties as direct beneficiaries with a claims period of at least seven years from the Closing Date (each, a "**D&O Tail Policy**") in an amount and scope at least as favorable to Airobotics' directors and officers as Airobotics' existing policies (if any) with respect to matters existing or occurring at or prior to the Closing Date. If Airobotics obtains a prepaid D&O Tail Policy, Ondas and the surviving corporation shall maintain such policies in full force and effect for their full term. In the event Airobotics is unable to purchase a D&O Tail Policy prior to the Effective Time, Ondas will purchase or allow Airobotics to purchase a D&O Tail Policy following the Effective Time; provided that the cost of such D&O Tail Policy does not exceed 300% of the current annual premium.

Israeli Securities Authority Approval; Dual Listing

Prior to the execution of the Merger Agreement, the counsels for the parties jointly prepared and Airobotics filed an application with the ISA for a No-Action Letter (the "**ISA Exemption Application**" and an "**ISA Exemption**", respectively). Ondas shall use reasonable best efforts to obtain the ISA Exemption. If an ISA Exemption has not been obtained by the date that is forty-five (45) days after the execution of the Merger Agreement, Ondas shall prepare and use reasonable best efforts to receive a permit from TASE for a registration statement with respect to the dual listing of the Ondas common stock, including all shares of common stock underlying shares of Ondas' convertible securities, at the TASE (the "**Dual Listing Permit**") or a permit from the ISA and the TASE to publish a prospectus which would also apply to the Merger Consideration, as the case may be (the "**Israel Prospectus Permit**", and any subsequent action taken on the basis of a Dual Listing Permit or an Israel Prospectus Permit, an "**Israel Prospectus**").

Airobotics and Ondas shall cooperate in connection with (i) the preparation and filing of all documents pertaining to the Dual Listing Permit or the Israel Prospectus Permit, as applicable, and (ii) the preparation of any written or oral submissions that may be necessary, proper or advisable to obtain the ISA Exemption, ISA Options Exemption or to receive the Dual Listing Permit or the Israel Prospectus Permit, as applicable, or otherwise needed for the offering of the Merger Consideration to comply with the Israeli Securities Law. Each of Airobotics and Ondas shall promptly notify the other upon the receipt of any comments from the ISA or the TASE or any request from the ISA or the TASE, including with respect to amendments or supplements to (x) the request for the ISA Exemption and ISA Options Exemption, or (y) the request for the Dual Listing Permit or the Israel Prospectus Permit, and shall provide the other with copies of all correspondence between it and its representatives, on the one hand, and the ISA or the TASE, on the other hand, with respect thereto. Each of Airobotics and Ondas shall use its reasonable best efforts to respond as soon as reasonably practicable to any comments from the ISA and the TASE, including with respect to the ISA Exemption Application, ISA Options Exemption Application, the ISA Exemption, the ISA Options Exemption, the Dual Listing Permit or the Israel Prospectus Permit, as applicable. Notwithstanding the foregoing, the final version of the ISA Exemption Application, ISA Options Exemption Application, the ISA Exemption, the ISA Options Exemption, the Dual Listing Permit, or the Israel Prospectus Permit, as applicable, including any documents and exhibits enclosed thereto need to be approved by both Ondas and Airobotics, provided that such approval shall not be unreasonably withheld.

In the event that the No-Action Letter has not been obtained by the date that is forty-five (45) days after the execution of the Merger Agreement, Ondas shall take all necessary action in order to obtain an exemption under Section 15D of the Israeli Securities Law with respect to the assumption of the Airobotics stock options (the “**ISA Options Exemption Application**” and an “**ISA Options Exemption**”, respectively).

Other Covenants and Agreements

The Merger Agreement contains additional covenants and agreements relating to, among other matters:

- consultation and consent rights regarding any press releases or other public statements with respect to the Merger Agreement, the Merger, or the other transactions contemplated by the Merger Agreement;
- the approval for the listing of the Ondas common stock to be issued in connection with the merger on Nasdaq;
- the delisting of Airobotics ordinary shares from the TASE;
- notification of certain matters that occur during the Interim Period and notice, cooperation and coordination relating to transaction-related litigation, if any;
- access to information and confidentiality;
- repayment of the loan due from Airobotics to OurCrowd General Partner, Limited Partnership;
- negotiation of a secured bridge loan between Ondas and Airobotics; and
- resignations of Airobotics directors.

Conditions to the Merger

Conditions to the Obligations of the Parties to Complete the Merger

The obligations of each of Ondas, Merger Sub and Airobotics to complete the Merger are subject to the satisfaction or waiver of the following conditions:

- the Merger Agreement and the Merger shall have been approved and adopted by the requisite vote of the Airobotics shareholders;
- no statute, rule, regulation, executive order, decree, ruling, Applicable Law, order or injunction shall have been enacted, entered, promulgated, or enforced which remains in effect by any United States federal or state, Israeli or foreign court or United States or Israeli or foreign Governmental Entity that prohibits, restrains, enjoins, or materially restricts the consummation of the Merger;

- all consents of, or declarations or filings with, and all expirations or early terminations of waiting periods required from, any Governmental Entity under Applicable Law, that are listed in the relevant schedule to the Merger Agreement shall have been filed, have occurred or been obtained, and all such permits, approvals, filings and consents and the lapse of all such waiting periods shall be in full force and effect;
- the registration statement on Form S-4, of which the prospectus forms a part, shall have become effective under the Securities Act, and not shall not be the subject of any stop order or proceedings by the SEC seeking a stop order;
- at least fifty (50) days shall have elapsed after the filing of the Merger Proposal with the Companies Registrar and at least thirty (30) days shall have elapsed after obtaining the vote required to approve the Merger Agreement and the transactions contemplated thereby by the Airobotics shareholders and by the sole shareholder of Merger Sub;
- Ondas, Merger Sub, and Airobotics shall have obtained the consents and approvals from third-parties as required in the relevant schedule to the Merger Agreement;
- Airobotics or Ondas, as the case may be, shall have obtained the (i) ISA Exemption, or (ii) to the extent that no such ISA Exemption has been obtained, (A) a Dual Listing Permit or an Israel Prospectus Permit shall have been obtained and the Israel Prospectus shall have been filed, and (B) the ISA Options Exemption shall have been obtained; and
- the shares of Ondas common stock to be issued in connection with the Merger shall have been approved for listing on Nasdaq.

Conditions to the Obligations of Airobotics to Complete the Merger

In addition, the obligations of Airobotics to complete the Merger are subject to the satisfaction or waiver of the following conditions:

- (i) the accuracy as of the Closing Date in all material respects of Ondas' representations and warranties set forth in the Merger Agreement with respect to (A) organization and qualification; (B) authority relative to the Merger Agreement; and (C) no violations; and (ii) the accuracy as of the Closing Date of all of the other representations and warrants of Ondas and Merger Sub set forth in the Merger Agreement, disregarding all qualifications and exceptions contained therein relating to materiality or Material Adverse Effect or any similar standard or qualification (other than representations or warranties that address only as of a certain date, which shall be true and correct as of such date), except where the failure of such representations and warranties to be true and correct, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect on Ondas;
- each of the covenants and obligations of Ondas and Merger Sub to be performed at or before the Effective Time pursuant to the terms of the Merger Agreement shall have been duly performed in all material respects at or before the Effective Time;
- Ondas shall not have suffered a Material Adverse Effect since the date of the Merger Agreement;
- Ondas shall have delivered to Airobotics, duly executed by an executive officer of Ondas, dated as of the Closing Date, attesting the satisfaction of the conditions set forth above;
- Ondas shall have duly executed and delivered to Airobotics, the customary undertaking towards the IIA;
- the 104H Ruling or the Interim 104H Tax Ruling shall have been obtained and the Options Tax Ruling or an Interim Options Tax Ruling shall have been obtained; and
- Ondas shall have submitted the Nasdaq Notification in accordance with Nasdaq Rules and Nasdaq shall not have objected to such Nasdaq Notification on or prior to the Closing Date.

Conditions to the Obligations of Each of Ondas and Merger Sub to Complete the Merger

In addition, the obligations of Ondas and Merger Sub to complete the Merger are subject to the satisfaction or waiver of the following conditions:

- (i) the accuracy as of the Closing Date in all material respects of the representations and warranties of Airobotics set forth in the Merger Agreement with respect to (A) organization and qualification; (B) certain matters relating to capitalization of Airobotics and its subsidiaries; (C) authority relative to the Merger Agreement and recommendation; (D) absence of a Material Adverse Effect; and (E) brokers, other than, solely with respect to (B) above for de minimis inaccuracies; and (ii) the accuracy as of the Closing Date of all of the other representations and warranties of Airobotics set forth in the Merger Agreement, disregarding all qualifications and exceptions relating to materiality or Material Adverse Effect or any similar standard or qualification (other than representations or warranties that address matters only as of a certain date, which shall be true and correct as of such date), except where the failure of such representation and warranties to be true and correct, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect on Airobotics;
- each of the covenants and obligations of Airobotics to be performed at or before the Effective Time pursuant to the terms of the Merger Agreement shall have been duly performed in all material respects at or before the Effective Time (except for the no shop covenants set out in the Merger Agreement that shall have been complied with in all respects);
- Airobotics shall not have suffered a Material Adverse Effect after the date of the Merger Agreement; and
- Airobotics shall have delivered to Ondas a certificate, duly executed by an executive officer of Airobotics, dated as of the Closing Date, attesting the satisfaction of the conditions set forth above.

Termination

The Merger Agreement may be terminated at any time prior to the Effective Time as follows:

- by mutual written consent of Ondas and Airobotics;
- by either Ondas or Airobotics if:
 - the closing of the Merger shall not have occurred on or before January 15, 2023 (the “**Termination Date**”); provided, however, that this termination right will not be available to Ondas or Airobotics if such Person’s material breach of or material failure to fulfill any obligation under the Merger Agreement has been the cause of, or resulted in, the failure of the closing of the Merger to occur on or before the Termination Date;
 - if a Governmental Entity having competent jurisdiction shall have issued or entered any Order or taken any action, or enacted any Applicable Law, which, in any such case permanently restrains, enjoins or prohibits the consummation of the transactions contemplated by the Merger Agreement, and such order shall have become final and non-appealable or such Applicable Law is in effect, provided, however that, the party seeking to terminate the Merger Agreement shall have used reasonable best efforts to remove such order or Applicable Law or reverse such action; or
 - if the Airobotics shareholder approval required for approval of the Merger Agreement and the transactions contemplated thereby shall fail to have been obtained at the Airobotics shareholder meeting, including any adjournments thereof;
- by Airobotics if:
 - Ondas or Merger Sub shall have breached, or failed to comply with, any of its covenants or obligations under the Merger Agreement, or any representation or warranty made by Ondas or Merger Sub set forth in the Merger Agreement shall have been incorrect in any respect when made or shall have since ceased to be true and correct in any respect, such that the closing conditions regarding (1) the accuracy of Ondas’ and Merger Sub’s representations and warranties or (2) the performance or compliance in all material respects with Ondas’ or Merger Sub’s obligations under the Merger

Agreement required to be performed or complied with on or prior to the Closing of the Merger would not be satisfied, and, in each case, such breach shall not have been cured or is not capable of being cured prior to the earlier of (x) the date which is thirty (30) days after delivery by Airobotics to Ondas of notice of such breach, and (y) the Termination Date, except that Airobotics will not have the right to terminate the Merger Agreement for this reason if Airobotics is then in material breach of any of its obligations under the Merger Agreement; or

- in accordance with the no shop provisions in the Merger Agreement, Airobotics executes a definitive agreement with respect to a Superior Proposal substantially concurrent with the termination of the Merger Agreement and Airobotics pays the Termination Fee (as defined below) to Ondas, substantially concurrently with such termination;
- by Ondas if:
 - Airobotics shall have breached, or failed to comply with, any of its covenants or obligations under the Merger Agreement, or any representation or warranty made by Airobotics set forth in the Merger Agreement shall have been incorrect in any respect when made or shall have since ceased to be true and correct in any respect, such that the closing conditions regarding (1) the accuracy of Airobotics' representations and warranties or (2) the performance or compliance in all material respects with Airobotics' obligations under the Merger Agreement required to be performed or complied with on or prior to the closing of the Merger would not be satisfied, and, in each case, such breach shall not have been cured or capable of being cured prior to the earlier of (x) the date which is thirty (30) days after delivery by Ondas to Airobotics of notice of such breach, and (y) the Termination Date, except that Ondas will not have the right to terminate the Merger Agreement for this reason if Ondas is then in material breach of any of its obligations under the Merger Agreement; or
 - (i) the Airobotics Board or any committee thereof shall withdraw or modify in any adverse manner its approval or recommendation of the Merger Agreement; (ii) within 10 days after Ondas' request, the Airobotics Board or any committee thereof shall fail to reaffirm such approval or recommendation; (iii) the Airobotics Board or any committee thereof shall approve or recommend a Third Party Acquisition, a Third Party Acquisition Proposal or a Superior Proposal; (iv) a tender offer or exchange offer for any of the outstanding shares of Airobotics shall have been commenced or a registration statement with respect thereto shall have been filed by a Third Party and the Airobotics Board or any committee thereof shall have recommended that the shareholders of Airobotics tender their shares in such tender or exchange offer or publicly announce its intention to take no position with respect to such tender or exchange offer; (v) Airobotics shall have authorized, entered into or publicly announced its intention to enter into, a contract with respect to a Third Party Acquisition, a Third Party Acquisition Proposal or a Superior Proposal; (vi) if Airobotics shall have breached its obligations under the no shop covenant in the Merger Agreement, (vii) if Airobotics shall have breached its obligations to set a record date for, duly call, give notice of, convene and hold the Airobotics shareholder meeting for the approval of the Merger Agreement and the transactions contemplated thereby; or (viii) the Airobotics Board or any committee thereof shall resolve to take any of the actions specified in this paragraph.

Effect of Termination

In the event of termination of the Merger Agreement, the Merger Agreement will become void and there shall be no liability on the part of any of the parties to the Merger Agreement (or any stockholder, director, officer, employee, agent, consultant or representative of such party) except for the confidentiality obligations, the obligations to pay a Termination Fee (if any) and the miscellaneous provisions of the Merger Agreement, and nothing therein shall relieve any party to the Merger Agreement from liability for any material breach thereof occurring prior to such termination or for fraud.

Termination Fee

Airobotics shall pay Ondas a cash termination fee of Eight Hundred Thousand Dollars (\$800,000) (the “**Termination Fee**”) (x) in the case of (i) below, immediately prior to the earlier of the entering into an agreement with respect to, or the consummating of a Third Party Acquisition; (y) in the case of (ii)(B) below, immediately upon such termination; or (z) in the case of (ii)(A) or (ii)(C) below, within two (2) Business Days after such termination if:

- (i) the Merger Agreement is terminated by (A) Airobotics for failure of the Merger to close on or before the Termination Date, and at the time of such termination, Ondas had the right to terminate the Merger Agreement for a breach by Airobotics of the no shop covenant or a change in its recommendation in favor of the Merger Agreement and the transactions contemplated thereunder, (B) by either Ondas or Airobotics if the Airobotics shareholder vote is not obtained at the Airobotics shareholder meeting, or (C) by Ondas if Airobotics shall have breached, or failed to comply with, any of its covenants or obligations under the Merger Agreement, or any representation or warranty made by Airobotics set forth in the Merger Agreement shall have been incorrect in any respect when made or shall have since ceased to be true and correct in any respect which breach would result in the failure of a closing condition to be satisfied, and such breach had not been cured in requisite time, and, in each case, (i) following the execution and delivery of the Merger Agreement and prior to the time of such termination of the Merger Agreement, a Third Party Acquisition Proposal shall have been made to the senior management or the Airobotics Board or shall have been publicly announced or publicly made known to the shareholders of Airobotics (the “**Original Third Party Acquisition Proposal**”); and (ii) within twelve months after termination of the Merger Agreement, Airobotics shall have entered into a binding agreement with respect to a Third Party Acquisition, or a Third Party Acquisition is consummated (in each case, whether or not such Third Party Acquisition is the same as the Original Third Party Acquisition Proposal); or
- (ii) the Merger Agreement is terminated (A) by for a breach by Airobotics of the no shop covenant or a change in its recommendation in favor of the Merger Agreement and the transactions contemplated thereunder; (B) by Airobotics in connection with the execution of a definitive agreement with respect to a Superior Proposal substantially concurrent with the termination of the Merger Agreement; or (C) by Ondas or Airobotics pursuant to the failure to obtain Airobotics shareholder approval and at the time of such termination, Ondas has the right to terminate the Merger Agreement for a breach by Airobotics of the no shop covenant or a change in its recommendation in favor of the Merger Agreement and the transactions contemplated thereunder.

Upon the termination of the Merger Agreement by either Ondas or Airobotics for the failure to obtain Airobotics shareholder approval (in addition to the Ondas’ remedy described above, if any), Airobotics shall reimburse Ondas for the reasonable costs, fees and expenses incurred or paid by Ondas or on its behalf in connection with the Merger Agreement, the Merger and the consummation of all transactions contemplated by the Merger Agreement and the other Transaction Agreements or related to the authorizations, preparations, negotiations, execution and performance of the Merger Agreement and the other Transaction Agreements, in each case, including fees and expenses payable to investment bankers, counsel, accountants and consultants up to an amount of \$1,000,000 (“**Ondas Expenses**”); provided, however, that Airobotics shall have no obligation to reimburse Ondas for Ondas Expenses in the event that the Termination Fee has been paid; and provided further that in the event that the Termination Fee is to be paid after the reimbursement of Ondas Expenses, the Termination Fee shall be reduced by the amount of Ondas Expenses so reimbursed (provided that if the Ondas Expenses exceeds the amount of the Termination Fee, the Termination Fee shall be deemed to be \$0).

Ondas’ receipt of the Termination Fee and Ondas Expenses to the extent owed pursuant to the Merger Agreement, will be the sole and exclusive monetary remedy of Ondas and Merger Sub and each of their respective affiliates against (A) Airobotics, its subsidiaries and each of their respective affiliates; and (B) the former, current and future holders of any equity, controlling persons, directors, officers, employees, agents, attorneys, affiliates, members, managers, general or limited partners, stockholders and assignees of each of Airobotics, its subsidiaries and each of their respective affiliates (collectively, the “**Airobotics Related Parties**”) in respect of the Merger Agreement and the transactions contemplated thereby, and upon payment of such amount, none of the Airobotics Related Parties will have any further monetary liability or obligation to Ondas or Merger Sub relating to or arising out of the Merger Agreement, or the transactions contemplated thereby. Nothing in the foregoing should be construed as barring Ondas and Merger Sub from pursuing specific performance of Airobotics’ obligation to consummate the Merger.

Expenses

Except as otherwise described under “ — *Termination Fee*” above, all legal, accounting, investment, banking, advisory, printing, filing and other fees, costs and expenses incurred in connection with the Merger, the Merger Agreement and the other Transaction Agreements and the transactions contemplated by the Merger Agreement and the other Transaction Agreements shall be paid by the party incurring such fees, costs, and expenses. Airobotics agrees that such fees, costs, and expenses incurred by or on behalf of Airobotics, its subsidiaries, officers, directors, and their respective affiliates for which Airobotics or any of its subsidiaries will be or have been responsible for payment will not exceed \$700,000 in aggregate.

Amendment and Waiver

Amendment

The Merger Agreement may be amended by action taken by Airobotics, Ondas and Merger Sub at any time before or after approval of the Merger by the shareholders of Airobotics, but after any such approval no amendment shall be made that requires the approval of such shareholders under Applicable Law without such approval. The Merger Agreement may be amended only by an instrument in writing signed on behalf of Airobotics, Ondas and Merger Sub.

Waiver

At any time prior to the Effective Time, each party may:

- extend the time for the performance of any of the obligations or other acts of the other party;
- waive any inaccuracies in the representations and warranties of the other party to the Merger Agreement contained in the Merger Agreement or in any document, certificate, or writing delivered pursuant to the Merger Agreement; or
- waive compliance by the other party with any agreement or condition in the Merger Agreement.

Any such extension or waiver will only be valid if set forth in an instrument in writing signed by the party or parties to be bound. No failure by any party in exercising any right under the Merger Agreement will operate as a waiver of such right.

Parties in Interest

The Merger Agreement shall be binding upon and inure solely to the benefit of each party to the Merger Agreement and its successors and permitted assigns and, nothing in the Merger Agreement is intended to or shall confer upon any other Person any rights, benefits, or remedies of any nature whatsoever under or by reason of the Merger Agreement, other than as expressly set forth in the Merger Agreement.

Governing Law; Jurisdiction; Waiver of Jury Trial

Governing Law; Jurisdiction

Except to the extent that the Applicable Laws of the State of Israel apply in respect of the procedural aspects of the Merger as set forth in the Merger Agreement, the Merger Agreement shall be governed by, and construed in accordance with, the Applicable Laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of laws of any jurisdictions other than those of the State of Delaware. Each of the parties to the Merger Agreement (a) consents to submit itself to the personal jurisdiction of the Court of Chancery of the State of Delaware or any federal court within the District of Delaware in the event any dispute arises out of the Merger Agreement or the transactions contemplated by the Merger Agreement, (b) agreed that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (c) agreed that it will not bring any action relating to the Merger Agreement or the transactions contemplated by the Merger Agreement in any court other than the Court of Chancery of the State of Delaware or any federal court within the District of Delaware, and (d) waives, to the fullest extent permitted by Applicable Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in the Court of Chancery of the State of Delaware or such federal court. Each party to the Merger Agreement agreed that

a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Applicable Law. Any judgment from any such court described above may, however, be enforced by any party to the Merger Agreement in any other court in any other jurisdiction.

Waiver of Jury Trial

Each party to the Merger Agreement acknowledged and agreed that any controversy which may arise under the Merger Agreement is likely to involve complicated and difficult issues, and therefore each such party thereby irrevocably and unconditionally waived, to the fullest extent permitted by Applicable Law, any right it may have to a trial by jury in respect of any suit, action or other proceeding arising out of or relating to the Merger Agreement or the transactions contemplated thereby.

Enforcement

Each of the parties to the Merger Agreement shall have and retain all rights and remedies, at law or in equity, including rights to specific performance and injunctive or other equitable relief, arising out of or relating to a breach or threatened breach of the Merger Agreement, including in the event that the Merger Agreement is terminated due to failure to satisfy a condition or otherwise. Without limiting the generality of the foregoing, the parties to the Merger Agreement acknowledged and agreed that the failure of any party to the Merger Agreement to perform its agreements and covenants thereunder, including its failure to take all actions as are necessary on its part to the consummation of the Merger, will cause irreparable injury to the other parties to the Merger Agreement, for which damages, even if available, will not be an adequate remedy. Accordingly, each party to the Merger Agreement consented to the issuance of injunctive relief by any court of competent jurisdiction to compel performance of such party's obligations and to the granting by any court of the remedy of specific performance of its obligations thereunder, without the necessity of posting a bond or other security or proving irreparable harm and without regard to the adequacy of any remedy at Applicable Law. A party's right to specific performance and injunctive relief shall be in addition to all other legal or equitable remedies available to such party to the Merger Agreement.

AIROBOTICS LTD.
Consolidated Statements of Financial Position

		As of December 31,	
	Note	2021	2020
		U.S. dollars in thousands	
<u>Current assets</u>			
Cash and cash equivalents	5	6,686	780
Restricted cash	14B	62	49
Accounts receivables	6	250	128
Inventory	7	1,210	—
Other accounts receivables	8	393	280
		<u>8,601</u>	<u>1,237</u>
<u>Non-current assets</u>			
Long-term deposits		34	—
Right-of-use-assets	9	674	892
Property and equipment, net	10	3,142	6,111
Intangible assets, net	2J	26	52
		<u>3,876</u>	<u>7,055</u>
Total assets		<u>12,477</u>	<u>8,292</u>
<u>Current liabilities</u>			
Current maturities of long-term bank loans	13	—	999
Accounts payables		312	220
Lease liability	9	328	271
Government grants liability	14	134	143
Other payables	11	1,517	1,409
		<u>2,291</u>	<u>3,042</u>
<u>Noncurrent liabilities</u>			
Government grants liability	14	1,348	1,032
Long-term lease liabilities	9	452	697
Convertible loans	14	—	8,567
		<u>1,800</u>	<u>10,296</u>
Total liabilities		<u>4,091</u>	<u>13,338</u>
<u>Equity</u>			
Ordinary share capital		51	153
Share premium and reserves		149,094	116,323
Foreign currency translation reserve		(2)	466
Accumulated deficit		(140,757)	(121,988)
Total equity (deficiency)		<u>8,386</u>	<u>(5,046)</u>
Total liabilities and equity		12,477	8,292

The attached Notes constitute an integral part of the consolidated financial statements.

September 22, 2022	Ron Stern	Meir Kliner	Yishay Curelaru
Financial statements approval date	Chairman	CEO and Director	CFO & COO

AIROBOTICS LTD.
Consolidated Statements of Comprehensive Income

	Note	Year Ended December 31,	
		2021	2020
		U.S. dollars in thousands	
Revenues	15	3,287	1,609
Cost of revenues	16	3,661	3,477
Gross loss		374	1,868
Research and development expenses	19	7,702	6,387
Sales and marketing expenses	17	3,219	847
General and administrative expenses	18	6,033	2,671
Other expenses (income), net	20	146	(81)
Operating loss		17,474	11,692
Financing expenses	21	1,383	2,693
Financing income	21	88	77
Loss for the period		18,769	14,308
<u>Other comprehensive loss</u>			
<u>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods (net of tax):</u>			
Exchange differences on translation of foreign operation		2	91
Loss from disposal of foreign operation		466	—
Total other comprehensive loss, net of tax		468	91
Total comprehensive loss		19,237	14,399

The attached Notes constitute an integral part of the consolidated financial statements.

AIROBOTICS LTD.
Consolidated Statements of Changes in Equity (Equity Deficit)

	Ordinary Share capital	Share premium and reserves	Foreign currency translation reserve	Accumulated deficit	Total
U.S. dollars in thousands					
<u>Balance as of January 1, 2020</u>	153	113,147	557	(107,680)	6,177
Loss for the period	—	—	—	(14,308)	(14,308)
Other comprehensive loss	—	—	(91)	—	(91)
Equity component in a convertible loan	—	2,489	—	—	2,489
Share-based payments	—	687	—	—	687
<u>Balance as of December 31, 2020</u>	153	116,323	466	(121,988)	(5,046)
Loss for the period	—	—	—	(18,769)	(18,769)
Other comprehensive loss	—	—	(468)	—	(468)
Exercise of options	2	39	—	—	41
Equity component in a convertible loan(**)	—	217	—	—	217
Share-based payments(*)	—	7,185	—	—	7,185
Conversion of convertible loan(**)	775	14,123	—	—	14,898
Shareholders contribution to equity(**)	—	3,436	—	—	3,436
Reduction of share par value(*)	(896)	896	—	—	—
Conversion of SAFE liability(**)	8	4,464	—	—	4,472
Issuance of share capital, net of issuance costs(*)	9	5,847	—	—	5,856
Issue costs related to conversion of convertible loan(**)	—	(3,436)	—	—	(3,436)
<u>Balance as of December 31, 2021</u>	<u>51</u>	<u>149,094</u>	<u>(2)</u>	<u>(140,757)</u>	<u>8,386</u>

(*) See note 12.

(**) See note 13.

The attached Notes constitute an integral part of the consolidated financial statements.

AIROBOTICS LTD.
Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2021	2020
	U.S. dollars in thousands	
<u>Operating activities</u>		
Loss	(18,769)	(14,308)
<u>Adjustments to reconcile loss to net cash flows from operating activities</u>		
Depreciation and impairment of property and equipment and right-of-use assets	1,861	1,055
Amortization and impairment of intangible assets	32	71
(Gain) or loss on disposal or sale of Property and equipment	(292)	(89)
Share-based payments	7,185	687
Financing expenses, net	1,361	2,732
Revaluation of a government grants	(203)	(247)
Loan forgiveness guaranteed by the US government	(166)	—
Income from disposal of foreign operation	(466)	—
Loss from early termination of leases	—	96
Remeasurement of options	38	—
	9,350	4,305
Changes in items of assets and liabilities:		
Decrease (increase) in accounts receivable	(122)	438
Decrease (increase) in other accounts receivable	(108)	794
Increase (decrease) in accounts payable	92	(79)
Increase in other payables	114	28
	(24)	1,181
Net cash used in operating activities	(9,443)	(8,822)
<u>Investing activities</u>		
Change in restricted cash, net	(14)	94
Investments in deposits	(4)	—
Proceeds from sale of Property and equipment	997	2
Purchase of Property and equipment	(518)	(1,063)
Net cash provided by (used in) Investing activities	461	(967)
<u>Financing activities</u>		
Repayment of loans received	(833)	(816)
Proceeds from exercise of options, net	4	—
Payment of interest for loans and leases	(66)	(170)
Payment of lease liability	(319)	(485)
Receipt of a guaranteed loan from the US government	—	166
Proceeds from issuance of share capital, net	5,856	—
Proceeds from government grants	416	517
Payment of government grant royalties	(69)	(70)
Proceeds from convertible loan ^(*)	5,446	8,004
Proceeds from SAFE	4,455	—
Cash provided by financing activities	14,890	7,146
Exchange rate differences of cash balances and cash equivalents	(2)	(114)

AIROBOTICS LTD.
Consolidated Statements of Cash Flows — (Continued)

	Year Ended December 31,	
	2021	2020
	U.S. dollars in thousands	
Net Increase (decrease) in cash and cash equivalents during the year	5,906	(2,757)
Cash and cash equivalents at the beginning of the year	780	3,537
Cash and cash equivalents at the end of the year	6,686	780
(a) Significant non-cash transactions:		
Right-of-use asset recognized with corresponding lease liability	64	740
Non-cash share issuance	6	—
Change of use of Property and equipment to inventory	1,210	—
Conversion of convertible loan, SAFE liability & Warrants	19,402	—

(*) See note 13

The attached Notes constitute an integral part of the consolidated financial statements.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 1 — General:

- a. Airobotics Ltd. (“Company”) was incorporated in Israel on August 5, 2014 and began operations on that date.
- b. The Company collects, analyses, and provides access to information automatically using a UAV (“unmanned aerial vehicle”—multi-motor drone). The Company has developed systems that include data collection and data processing for valuable insights for customers, in an automated process, which does not require human contact and without human intervention, and provides its customers with end-to-end service, which enables the extraction of value from data collected from the airspace using an automated UAV, automatically, quickly, safely, and efficiently.

As of December 31, 2021, considering the expansion of the Company’s operations in the United Arab Emirates, the Company intend to sell the UAV equipment itself (a system that includes the docking station, 2 Drones and Mast), in addition to its service package as described above.

- c. On September 22, 2021 the Company completed its initial public offering (IPO) on the Tel Aviv Stock Exchange (“TASE”). For further information, see Note 12.
- d. As of December 31, 2021, the Company has Wholly Owned Subsidiaries in the United States, Singapore, and Dubai.

The Company’s subsidiary, Airobotics Inc., was incorporated in the United States in 2016 and began operations in 2018. The subsidiary, Airobotics PTI, was incorporated in Singapore during the second quarter of 2019. As of reporting date, the subsidiaries have no sales and marketing activities.

The subsidiary Airobotics PTE was incorporated in Singapore during the second quarter of 2019. As of the reporting date, the subsidiary has no sales and marketing activities.

The subsidiary Airobotics Gulf DMCC was incorporated in Dubai on March 8, 2022. The subsidiary will concentrate sales and marketing activities in the United Arab Emirates and the Persian Gulf countries.

The subsidiary, Airobotics PTY., was incorporated in Australia in 2016 and began operations in June 2017. At the end of 2019, the subsidiary in Australia closed its operations and completed its voluntary liquidation process in June 2021. The Company recorded a gain as a result of the disposal of its operations in Australia.

The subsidiary, Airobotics K.K., was incorporated in Japan during the second quarter of 2019 and, in the first quarter of 2020 closed its operations and was dissolved.

- e. The Company has significant losses since its establishment. During the years the Company has financed its operations mainly through equity, convertible loans from shareholders; bank loans, and grants from the Israel Innovation Authority. The Company has negative cash flow from operating activities of \$9,443 thousand and a comprehensive loss of \$18,769 thousand for the year ended December 31, 2021, and an accumulated deficit of \$140,757 thousand as of December 31, 2021. The Company has not yet signed a new contract with a material customer for 2022, a contract that the Company expected to be a significant part of its future growth. In addition, as of the reporting date, there are no signed orders from customers. The shareholder’s obligation to the Company, as noted in note 1 e (4) below depends on the agreement between the parties and as stated has not been fully realized through the date of approval of the financial statements.

The Company will be required to obtain additional financing in the short term in order to support its operation. The Company’s ability to successfully carry out its business plan is primarily dependent upon the continued financial support from its shareholders and its ability to raise sufficient additional capital. There are no assurances, however, that the Company will be successful in obtaining an adequate level of financing needed to support its operations.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 1 — General: (cont.)

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

The management's plans include, among other things, the following:

1. On August 4, 2022, the Company entered into a binding merger agreement with Ondas, which is a public company traded on Nasdaq, for further information See also Note 24 (e) .
2. Efficiency and improving profitability — during 2020 and 2021, the Company's workforce was reduced. As a result the salary expenses was reduced along with other operating expenses. in order to improve profitability and significantly reduce the operating loss. The Company will consider further reductions in the future, as necessary, if the Company's plan in connection with the acquisition of the Company by the third party does not succeed, in a manner that does not harm the Company's current activities and the Company's ability to provide service to its customers.
3. Raising additional capital and debt — the Company will act to raise funds from additional sources in the form of capital and/or debt from existing and new shareholders and/or act to receive financing from external sources as needed.
4. On February 10, 2022, the Company received from a related party a letter of obligation to support the Company as needed, without limit of amount, for a period of at least 24 months from the date of the letter, through capital investment under terms to be agreed between the Company and the related party and pursuant to a board of directors' resolution to be made. The Company and its legal counsel believe that the letter of obligation is considered a legal agreement that is binding on the related party to invest funds if the Company needs those funds as needed. Also, according to the Company, the related party has the sources of funding to meet the obligation. In addition, in May 2022, the Company received a loan from the related party, as stated in Note 24 (d).
5. The Company will work to expand its activities in new markets.
6. In September 20, 2022, the Company entered into a loan agreement according to which Ondas shall provide the Company with credit of up to \$1.5 million (see note 24 (g)).

f. COVID-19 pandemic:

In December 2019, a novel coronavirus ("COVID-19") was reported in China. During March 2020, it was declared a pandemic by the World Health Organization ("WHO").

The global COVID-19 pandemic crisis has affected the Company, inter alia, due to traffic restrictions imposed in Israel and world-wide, which cause delays in the scheduling of various projects and limits the ability of Company employees to provide customer site support, canceling business trips and marketing events. At the same time, the COVID-19 pandemic has accelerated the implementation of advanced remote listening measures to assist the work of security and public health institutions around the world. For example, as part of the Singapore government's efforts to protect public health during the COVID-19 pandemic, Singapore's Science and Technology Agency (HTX) used Airobotics systems to increase Singapore Police efforts in monitoring gatherings using real-time aerial information transmitted by the

Company's unmanned aerial vehicle technology. The use of Airobotics' systems included over 1,200 operational flights over a period of 3 months in a populated area, in the urban area of Singapore.

As of reporting date, the Company believes that its business activity will not be significantly affected. by the COVID-19 pandemic.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 2 — Significant Accounting Policies:

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Company’s financial statements have been prepared on a cost basis, except for financial assets and liabilities (including derivatives) which are presented at fair value through profit or loss.

The Company has elected to present the profit or loss items using the function of expense method.

b. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the USD.

The Group determines the functional currency of each Group entity.

Assets, including fair value adjustments upon acquisition, and liabilities of an investee which is a foreign operation, are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive loss.

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive loss is carried to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the amount recognized in other comprehensive income is reattributed to non-controlling interests.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or accounted for as hedging transactions in equity, are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

c. Cash Equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment.

d. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 2 — Significant Accounting Policies: (cont.)

e. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

f. Operating Cycle:

The Company's normal operating period is one year.

g. Revenue recognition:

Revenue from contracts with customers is recognized when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

Revenue from the sale of goods:

Revenue from sale of goods is recognized in profit or loss at the point in time when the control of the goods is transferred to the customer, generally upon delivery of the goods to the customer.

Revenue from rendering of services:

Revenue from rendering of services is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by the Company's performance. The Company charges its customers based on payment terms agreed upon in specific agreements.

h. Taxes on income:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

Current Taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

i. Property and equipment:

Property and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with equipment.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 2 — Significant Accounting Policies: (cont.)

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Docking stations and Drones	20 – 33
Computers and peripheral equipment	33
Office furniture and equipment	6 – 33
Motor vehicles	20
Leasehold improvements	(*)

- (*) Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the useful life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

j. Intangible Assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized on a straight-line basis over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

The intangible assets of the Company consist of software.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Software	33

Research and development expenditures:

Research expenditures are recognized in profit or loss when incurred.

Costs incurred in an internal development project are recognized as an intangible asset when the following conditions are met:

- The Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The Company's intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset;
- How the intangible asset will generate future economic benefits;
- The availability of adequate technical, financial and other resources to complete the intangible asset; and-
- The ability to measure reliably the expenditures attributable to the intangible asset during its development.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 2 — Significant Accounting Policies: (cont.)

When an internally developed intangible asset cannot be recognized, the development costs are recognized as an expense in profit or loss as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

The Company focuses on improving existing technology and related software, and is in various stages of project examination and development. As of reporting date, there is no certainty as to the existence of technical, financial and other resources to complete these processes, and accordingly, the Company did not recognize the asset in its financial statements. In light of the above, development expenses up to reporting date did not meet such conditions, and were therefore charged to the statement of comprehensive income when incurred.

k. **Impairment of Non-Financial Assets:**

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

l. **Financial Instruments:**

1. **Financial Assets:**

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:

- The Company's business model for managing financial assets; and
- The contractual cash flow terms of the financial asset.

a) Debt instruments are measured at amortized cost when:

The Company's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 2 — Significant Accounting Policies: (cont.)

2. Impairment of Financial Assets:

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of loss allowances:

- a) Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low — the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date (12-month ECLs); or;
- b) Debt instruments whose credit risk has increased significantly since initial recognition, and whose credit risk is not low — the loss allowance recognized is measured at an amount equal to the expected credit losses over the instrument's remaining term (lifetime ECLs).

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset.

The Company has short-term financial assets such as accounts receivables in respect of which the Company applies the simplified approach in IFRS 9 and measures the loss allowance in an amount equal to the lifetime expected credit losses.

3. Derecognition of Financial Assets:

A financial asset is derecognized only when:

- The contractual rights to the cash flows from the financial asset has expired; or
- The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

4. Financial Liabilities:

a) Financial Liabilities Measured at Amortized Cost:

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method, except for: Financial liabilities measured at fair value through profit or loss such as derivatives;

b) Financial Liabilities Measured at Fair Value Through Profit or Loss:

At initial recognition, the Company measures these financial liabilities at fair value. Transaction costs are recognized in profit or loss.

After initial recognition, changes in fair value are recognized in profit or loss.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 2 — Significant Accounting Policies: (cont.)

5. Derecognition of Financial Liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or canceled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

When there is a modification in the terms of an existing financial liability, the Company evaluates whether the modification is substantial, taking into account qualitative and quantitative information.

If the terms of an existing financial liability are substantially modified or a liability is exchanged for another liability from the same lender with substantially different terms, the modification or exchange is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss.

If the modification in the terms of an existing liability is not substantial or if a liability is exchanged for another liability from the same lender whose terms are not substantially different, the Company recalculates the carrying amount of the liability by discounting the revised cash flows at the original effective interest rate and any resulting difference is recognized in profit or loss.

6. Complex Financial Instruments:

Convertible loans, which contain both an equity component and a liability component are separated into two components. This separation is performed by first determining the liability component based on the fair value of an equivalent non-convertible liability. The value of the conversion component is determined to be the residual amount. Directly attributable transaction costs are apportioned between the equity component and the liability component based on the allocation of proceeds to the equity and liability components.

7. Extinguishing financial liabilities with equity instruments:

Equity instruments issued to replace a debt are measured at the fair value of the equity instruments issued if their fair value can be reliably measured. If their fair value cannot be reliably measured, the equity instruments are measured based on the fair value of the financial liability extinguished on the date of extinguishment. The difference between the carrying amount of the financial liability extinguished and the fair value of the equity instruments issued is recognized in profit or loss.

m. Inventory:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

Raw materials — at cost of purchase using the “first-in, first-out” method.

Work in progress and finished goods — on the basis of average costs including materials, labor and other direct and indirect manufacturing costs based on normal capacity.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 2 — Significant Accounting Policies: (cont.)

Change of Use — From Property and equipment to Inventory:

Considering the expansion of the Company's operations in the United Arab Emirates, the Company intend to sell some of the UAV equipment to customers as part of its business model (a system that includes the docking station, 2 Drones and Mast), in addition to its service package as described above. Therefore, as of December 31, 2021, the company has decided to transfer the UAV equipment, that were classified as property, plant, and equipment, to Inventory.

n. Fair value measurement:

Fair value is 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.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — inputs other than quoted prices included within Level 1 that are observable directly or indirectly.

Level 3 — inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

o. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

Following are the types of provisions included in the financial statements:

Legal Claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 2 — Significant Accounting Policies: (cont.)

p. Employee benefit liabilities:

The Group has several employee benefits plans:

1. Short Term Employee Benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-Employment Benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans.

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

All employees of the Company in Israel are subject to Section 14 of Severance Compensation Law, 1963.

q. Share-Based Payment Transactions:

The Company's employees or other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions.

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments granted.

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied and ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 2 — Significant Accounting Policies: (cont.)

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is canceled, it is accounted for as if it had vested on the cancellation date and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the canceled grant and is identified as a replacement grant on the grant date, the canceled and new grants are accounted for as a modification of the original grant, as described above.

r. Government Grants:

Government grants are recognized when there is reasonable assurance that the grants will be received, and the Company will comply with the attached conditions.

Government grants received from the Israel Innovation Authority (formerly: the Office of the Chief Scientist in Israel, “the IIA”) are recognized upon receipt as a liability if future economic benefits are expected from the research project that will result in royalty-bearing sales.

A liability for grants received is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a government grant and recognized as a reduction of research and development expenses.

After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with IAS 37.

At each reporting date, the Company evaluates whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties) based on the best estimate of future sales and using the original effective interest method, and if so, the appropriate amount of the liability is derecognized against a corresponding reduction in research and development expenses.

Amounts paid as royalties are recognized as settlement of the liability.

s. Leases:

The Company accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

1. The Group as lessee:

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the Company has elected to apply the practical expedient in IFRS 16 and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 2 — Significant Accounting Policies: (cont.)

Leases which entitle employees to a company car as part of their employment terms are accounted for as employee benefits in accordance with the provisions of IAS 19 and not as subleases.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life and the lease term.

2. Variable lease payments that depend on an index:

On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are capitalized (without a change in the discount rate applicable to the lease liability) to the right-of-use asset and recorded as an adjustment of the lease liability, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

3. Lease extension and termination options:

A non-cancelable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

4. Lease modifications:

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

If a lease modification reduces the scope of the lease, the Company recognizes a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Company subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

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Notes to Consolidated Financial Statements

Note 3 — Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. The Judgments:

Determining the Fair Value of a Share-Based Payment:

The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

Development Costs:

The Company's management consider whether the criteria for recognizing costs in respect of development projects as intangible assets are met.

In all the reporting periods, the criteria for recognizing development project costs as an intangible asset have not been met. Accordingly, all development costs were recognized in profit or loss.

b. Estimates and Assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are recognized in the period the change in estimate was made.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustments to the carrying amounts of assets and liabilities in the financial statements within the next financial year are discussed below:

Financial Instruments:

In examining the classification of financial instruments as equity or debt, the Company considers whether the conversion option in the convertible instruments, including convertible loans, complies with the fixed for fixed rule. See also note 13 F below.

Legal Claims:

In assessing the likelihood of the outcome of the legal claims filed against the Company and its investees, the companies relied on the opinion of their legal counsel. These assessments are based on the legal counsel's best professional judgment, taking into account the stage of the proceedings, and legal precedents in respect of the different issues. As the outcome of the claims will be determined by the courts, the actual results may differ from these estimates.

Government Grants:

Government grants received from the Israel Innovation Authority at the Ministry of Economy and Industry, are recognized as a liability if future economic benefits are expected from the research and development activities that will result in royalty-bearing sales. There is uncertainty regarding the estimated future cash flows used to measure the amount of the liability.

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Notes to Consolidated Financial Statements

Note 3 — Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements: (cont.)

Determining the Fair Value of unquoted Financial Instruments:

The fair value of unquoted financial instruments classified at level 3 in the fair value hierarchy is determined using valuation techniques, generally using future cash flows discounted at current rates applicable for items with similar terms and risk characteristics. Changes in the estimated future cash flows and estimated discount rates, after consideration of risks such as liquidity risk, credit risk, and volatility, may affect the fair value of these instruments.

Note 4 — Disclosure of New Standards in the Period Prior to their Adoption:

a. Amendments to IAS 1 — Presentation of Financial Statements:

In January 2020, the IASB issued an amendment to IAS 1, “Presentation of Financial Statements” (“the Amendment”) regarding the criteria for determining the classification of liabilities as current or non-current.

The Amendment includes the following clarifications:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The Amendment is effective for annual periods beginning on or after January 1, 2023 and must be applied retrospectively. Early application is permitted.

In the Company’s opinion, the Amendments are not expected to have a material effect on its financial statements.

b. Amendment to IAS 16, “Property and equipment”:

In May 2020, the IASB issued an amendment to IAS 16, “Property and equipment” (“the Amendment”). The Amendment prohibits a company from deducting from the cost of Property and equipment (“PP&E”) consideration received from the sales of items produced while the company is preparing the asset for its intended use. Instead, the company should recognize such consideration and related costs in profit or loss.

The Amendment is effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Amendment is to be applied retrospectively, but only to items of PP&E made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the Amendment. The company should recognize the cumulative effect of initially applying the Amendment as an adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.

In the Company’s opinion, the Amendment is not expected to have a material effect on its financial statements.

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Note 4 — Disclosure of New Standards in the Period Prior to their Adoption: (cont.)

c. Amendment to IAS 8, “Accounting Policies, Changes to Accounting Estimates and Errors”:

In February 2021, the IASB issued an amendment to IAS 8, “Accounting Policies, Changes to Accounting Estimates and Errors” (“the Amendment”), in which it introduces a new definition of “accounting estimates”.

Accounting estimates are defined as “monetary amounts in financial statements that are subject to measurement uncertainty”. The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is to be applied prospectively for annual reporting periods beginning on or after January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted.

The Company is evaluating the effects of the Amendment on its financial statements.

d. Amendment to IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”:

In May 2020, the IASB issued an amendment to IAS 37, regarding which costs a company should include when assessing whether a contract is onerous (“the Amendment”).

According to the Amendment, costs of fulfilling a contract include both the incremental costs (for example, raw materials and direct labor) and an allocation of other costs that relate directly to fulfilling a contract (for example, depreciation of an item of Property and equipment used in fulfilling the contract).

The Amendment is effective for annual periods beginning on or after January 1, 2022 and applies to contracts for which all obligations in respect thereof have not yet been fulfilled as of January 1, 2022. Early application is permitted.

The Company estimates that the application of the Amendment is not expected to have a material impact on the financial statements.

Note 5 — Cash and Cash Equivalents:

	December 31,	
	2021	2020
	U.S. dollars in thousands	
Cash and cash equivalents, in Dollars	3,060	676
Cash and cash equivalents, in NIS	3,534	101
Cash and cash equivalents, in other currencies	92	3
	<u>6,686</u>	<u>780</u>

Note 6 — Accounts Receivable:

a. Trade Receivable, net:

	December 31,	
	2021	2020
	U.S. dollars in thousands	
Open accounts	<u>250</u>	<u>128</u>

As of December 31, 2021, the Company has recognized bad debts totaling \$10 thousands.

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Notes to Consolidated Financial Statements

Note 6 — Accounts Receivables: (cont.)

As of December 31, 2021 and 2020, no allowance for expected credit losses was recognized by the Company.

As of December 31, 2021 and 2020, the Company had a major customer in Singapore for which revenue constitutes approximately 86% and 63% of the Company's revenues in each year, respectively.

- b. Following is information about the credit risk exposure of the Company's accounts receivable:

	Accounts receivables – Open Accounts (without Delays in Collection)	Past due accounts receivable					
		Up to 30 Days	31-60 Days	61-90 Days	91-120 Days	Over 120 Days	Total
		U.S. dollars in thousands					
		December 31, 2021					
Gross carrying amounts	69	—	120	—	—	61	250
		December 31, 2020					
Gross carrying amounts	108	—	20	—	—	—	128

Note 7 — Inventory:

	December 31,	
	2021	2020
	U.S. dollars in thousands	
Finished product	1,210	—
	1,210	—

Please see Note 2 (m) for further details regarding transfer of property and equipment to inventory

Note 8 — Other Accounts Receivable:

	December 31,	
	2021	2020
	U.S. dollars in thousands	
Government authorities	160	82
Prepaid expenses	215	182
Other items	18	16
	393	280

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Note 9 — Leases:

As of December 31, 2021, and 2020, the Company's leases include office real estate and vehicles (mainly offices) for average lease of 3.5 years.

a. Details of Lease Transactions:

	December 31,	
	2021	2020
	U.S. dollars in thousands	
Interest expense on lease liability	55	115
Total cash paid for leases	490	629

- b. The Company has three agreements for leases of offices. The Company's operations are carried out mainly from its offices in Petah Tikva, which the Company leases under three agreements with the same landlord. The agreements are valid until December 31, 2023, February 28, 2024, and November 30, 2024.

The Company also leases one property in Houston, Texas — a warehouse for the Company's equipment and systems, which the Company rents on a monthly basis.

In addition, the Company leases several vehicles, and during 2021 it also temporarily leased an office in Dubai for the period of January 1, 2021 until December 31, 2021.

- c. Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	U.S. dollars in thousands
<u>Balance as of January 1, 2020</u>	913
Depreciation expenses	(360)
Changes in the Consumer Price Index	(5)
Additions during the year	740
Termination of leases	(396)
<u>Balance as of December 31, 2020</u>	892
Depreciation expense	(296)
Update due to changes in the Consumer Price Index	15
Additions during the year	63
<u>Balance as of December 31, 2021</u>	674

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Notes to Consolidated Financial Statements

Note 10 — Property and equipment:

	Vehicles	Docking stations and drones ⁽¹⁾⁽²⁾	Computers and peripheral equipment	Machinery, Office furniture and Equipment	Leasehold Improvements	Total
U.S. dollars in thousands						
Cost:						
Balance as of January 1, 2020	55	4,488	1,231	842	1,175	7,791
Additions during the year:						
Purchases	—	980	10	43	—	1,033
Adjustments arising from translating financial statements of foreign operations	—	13	—	—	—	13
Decreases during the year:						
Disposals	(4)	(438)	—	(57)	—	(499)
Balance as of December 31, 2020	51	5,043	1,241	828	1,175	8,338
Additions during the year:						
Purchases	—	402	59	49	3	513
Decreases during the year:						
Classification to inventory ⁽³⁾	—	(1,374)	—	—	—	(1,374)
Sales	(36)	(625)	—	(14)	—	(675)
Disposals	—	(52)	(1,094)	(401)	(5)	(1,552)
Balance as of December 31, 2021	15	3,394	206	462	1,173	5,250
Accumulated Depreciation and impairment:						
Balance as of January 1, 2020	19	445	935	436	284	2,119
Additions during the year:						
Depreciation	10	337	204	99	117	767
Decreases during the year:						
Reversal of an impairment loss	—	(206)	—	—	—	(206)
Disposals	(2)	(438)	—	(13)	—	(453)
Balance as of December 31, 2020	27	138	1,139	522	401	2,227
Additions during the year:						
Depreciation	3	371	97	77	120	668
Impairment	—	955	—	—	—	955
Decreases during the year:						
Classification to inventory ⁽³⁾	—	(164)	—	—	—	(164)
Sales	(15)	—	—	(11)	—	(26)
Disposals	—	(52)	(1,094)	(401)	(5)	(1,552)
Balance as of December 31, 2021	15	1,248	142	187	516	2,108
Depreciated cost as of December 31, 2020	24	4,905	102	306	774	6,111
Depreciated cost as of December 31, 2021	—	2,146	64	275	657	3,142

(1) This group includes docking stations and drones in the construction process, at a net cost after impairments of \$1,883 thousand and \$2,428 thousand, as of December 31, 2021, and 2020, respectively.

(2) In the year ended December 31, 2021, the Company recognized impairment losses of \$955 thousand, because of technological equipment obsolescence. The impairment was charged to other expenses in the 2021 Statement of Comprehensive Income.

(3) See Note 2 (m)

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Notes to Consolidated Financial Statements

Note 11 — Other Payables:

	December 31,	
	2021	2020
	U.S. dollars in thousands	
Employees and payroll accruals	664	705
Provision for vacation pay	669	513
Accrued expenses	163	135
Other payables	21	56
	<u>1,517</u>	<u>1,409</u>

Note 12 — Equity:

On September 12, 2021, the Company completed its initial public offering (IPO) on the Tel Aviv Stock Exchange. As part of the IPO, 16,560,599 shares of the Company were registered for trading on the Tel Aviv Stock Exchange.

3,027,000 Ordinary Shares of NIS 0.01 par value were issued to the public at a price of NIS 7.07 per share. The proceeds to the Company from the initial public offering was NIS 21,401 thousand and issuance costs were \$1,348 thousand. \$819 thousand of the issuance costs were classified to Equity and \$529 thousand were classified to profit or loss.

On September 12, 2021 the Company's board of directors approved a 1:28 reverse share split. In addition, the par value per share was reduced to NIS 0.01 per share. As a result, options' exercise price was adjusted to reflect the reverse share split.

The Company's share capital as of December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Issued and outstanding	Authorized	Issued and outstanding	Authorized
	Number of shares			
Ordinary Shares, NIS 0.01 par value	16,617,397	110,714,286	54,396,834	690,000,000
Ordinary "A" Shares, NIS 0.01 par value	—	—	—	10,000,000
	<u>16,617,397</u>	<u>110,714,286</u>	<u>54,396,834</u>	<u>700,000,000</u>

a. **Shareholders' Rights:**

Rights attached to ordinary shares are the right to be notified of General Meetings of the Company, participate and vote in those meetings, and the right to receive dividends, if declared.

On June 15, 2021 and July 19, 2021, the Company's Board of Directors and the General Meeting of the Company's shareholders approved, respectively, that from the date of completion of the IPO, all Ordinary "A" Shares of the Company would be converted into Ordinary Shares.

b. **Share based payment:**

1. **Share based payment:**

According to a share-based payment plan established in 2015 ("Share Plan"), each option granted under this plan can be exercised until its expiration date. Options that are canceled or forfeited before expiration date, will become available for future grant. An option granted under the plan will expire no later than ten years after the grant date.

The range of exercise prices for share options outstanding as of December 31, 2021 are between NIS 0.28 to NIS 7.07. The range of exercise prices for share options outstanding as of December 31, 2020 are between and NIS 0.01 — NIS 4.5.

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Notes to Consolidated Financial Statements

Note 12 — Equity: (cont.)

Grants for the year ended 2021:

- a) In January 2021, the Company granted to its employees and service providers 1,698,390 options to purchase Ordinary Shares of the Company. The options have a contractual term of 10 years. The options will vest over a period of up to two years.
- b) In September 2021, the Company granted 4,336,471 options to Company's employees, service providers, and a consultant as specified below:
 - 1) 1,164,744 options were granted to Company's employees and service providers to purchase 1,164,744 Ordinary Shares of the Company. The exercise price range of the stock options is NIS 0.28 and NIS 1, respectively. The options have a contractual term of 10 years. The options will vest over a period of up to two years.
 - 2) 1,035,000 options were granted to a consultant, to purchase 1,035,000 Ordinary Shares of the Company, at an exercise price of NIS 7.07. Each option can be exercised to an Ordinary Share of the Company and have a contractual term of 10 years. The options will vest over a period of up to two years.
 - 3) 2,136,727 options were granted to members of Company management to purchase 2,136,727 Ordinary Shares of the Company, as follows: (1) 2/3 of the options at an exercise price of NIS 7.07; (2) 1/3 of the options at an exercise price of NIS 14.14. The options will vest over a period of 4 years.
- c) In December 2021, the Company granted 381,616 options to employees, a service provider and a consultant as follows:
 - 1) 116,236 options were granted to employees and service providers to purchase 116,236 Ordinary Shares of the Company. The exercise price range of the options is NIS 0.28 and NIS 1, respectively. The options have a contractual term of 10 years. The options will vest over a period of up to two years.
 - 2) 132,700 options were granted to a consultant, to purchase 132,700 Ordinary Shares of the Company, at an exercise price of NIS 7.07. The options have a contractual term of 10 years. The options will vest over a period of up to two years.
 - 3) 132,680 options were granted to two external directors of the Company to purchase 132,680 Ordinary Shares of the Company at an exercise price of NIS 7.07. Each option can be exercised to an Ordinary Share of the Company and have a contractual term of 4 years. The options will vest over a period of up to three years.

2. Purchase of Ordinary "A" Shares:

On May 18, 2020 and June 23, 2020, the Company's Board of Directors and the General Meeting of the Company's shareholders approved, respectively, a "Carve-Out" option plan for the purchase of Ordinary "A" shares of the Company. The option vests over a period of up to two years. The options that are canceled or forfeited before the expiration date will become available for future grant. Ordinary "A" Shares bear the same rights as Ordinary Shares also have and a preferred right to receive 16% of the consideration to be received upon any liquidation event or acquisition of the Company event, if the total consideration is greater than \$20.2 million (divided by quantity of shares that each recipient will have according to the plan at that time), together with the repayment of the convertible loan (refer to Note 13 (f)) whereas the lenders will be entitled to receive the consideration up to the maximum amount to which they are entitled according to the convertible loan agreement.

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Notes to Consolidated Financial Statements

Note 12 — Equity: (cont.)

The fair value of the options for Ordinary “A” shares approximates zero, because of the voluntary conversion of the convertible loan — see Note 13f (4).

On June 15, 2021 and July 19, 2021, the Company’s Board of Directors and the General Meeting of the Company’s Shareholders, respectively, confirmed that from the date of completion of the IPO according to the prospectus, the shares to be issued under this program, will be Ordinary Shares instead of Ordinary “A” shares, the cancellation of the preferred right and update of the plan, respectively.

Following the Lead Lenders decision to convert the CLA into a fixed number of shares, which left a certain percentage of shares for the option plan, (although at the lead lenders could have converted the CLA close to 100%) this decision according to the company’s management reflects as if the carve-out options were re-granted. The value determined for this award is approx. \$633 thousand.

Under the plan, 351,570 options were granted to employees in 2020.

3. The following table presents the movement in share options and the weighted average exercise prices of share options:

	Year Ended December 31, 2021		
	Number of options	Weighted Average-Exercise Price	Weighted Average remaining contractual term in years
Share options outstanding at beginning of year	5,544,611	\$ 0.678	3.82
1:28 reverse options split(*)	(5,346,589)	—	—
Share options granted during the year	6,768,045	\$ 0.2304	9.72
Share options exercised during the year	(59,510)	\$ 0.09	—
Share options forfeited/expired during the year	(142,342)	\$ 0.6783	—
Share options outstanding at end of year	6,764,215	\$ 0.2972	9.73
Share options exercisable at end of year	2,861,715	\$ 0.2849	9.71

- (*) The number of options was adjusted due to the reverse share split of 1:28. In addition, the weighted average exercise price was also adjusted.

	Year Ended December 31, 2020		
	Number of options	Weighted Average-Exercise Price	Weighted Average remaining contractual term in years
Share options outstanding at beginning of year	5,860,030	\$ 0.677	4.59
Share options forfeited/expired during the year	(315,419)	\$ 0.334	—
Share options outstanding at end of year	5,544,611	\$ 0.678	3.82
Share options exercisable at end of year	4,269,167	\$ 0.504	4.5

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Notes to Consolidated Financial Statements

Note 12 — Equity: (cont.)

4. Measurement Fair Value

The following table lists the inputs to the binomial model used for the fair value measurement of equity-settled share options:

	Year ended December 31, 2021
Dividend yield (%)	0%
Expected volatility in share prices (%)	56.08% – 77.3%
Risk-free interest rate (%)	0.10% – 1.401%
Predicted life of share (in years)	2.25 – 10
Share price (NIS)	5.295 – 7.07

5. Share-Based Payment Expenses:

The Company recognized expenses in respect of share-based payments for employees and non-employee service providers in its consolidated financial statements for the years ended December 31, 2021 and 2020 as follows: (See also Note 12B)

	Year Ended December 31, 2021	
	2021	2020
	U.S. dollars in thousands	
Cost of revenues	603	4
Research and development expenses	1,607	89
Sales and marketing expenses	1,770	12
General and administrative expenses	3,205	582
Total expenses – share-based payments plan	<u>7,185</u>	<u>687</u>

Note 13 — Financial Instruments:

a. Financial Liabilities, Interest-Bearing Loans:

	Original maturity date	December 31,	
		2021	2020
		U.S. dollars in thousands	
Bank loans ⁽¹⁾	30.6.2021	—	833
PPP loans in the United States ⁽²⁾	—	—	166
Convertible loan ⁽³⁾	31.3.2022	—	8,567
		<u>—</u>	<u>9,566</u>

The fair value of the loans above is not materially different from their carrying amount.

- (1) On June 1, 2021, the Company repaid the principal and interest on a loan from Silicon Valley Bank (SVB) and thereby settled its obligations in connection with this loan. The liens recorded in favor of the bank in connection with this loan were also removed.
- (2) On May 25, 2020, the Company received a loan under the Paycheck Protection Program (“PPP”), administered by the United States Department of Small Business. The loan is intended to be used to finance salary expenses, rent and bills for 24 weeks. Under the rules of the program, the Company was entitled to a waiver from the bank. The Company recorded income due to settlement of the loan in 2021.
- (3) The annual interest rate on the loan is 6%. Upon completion of the IPO according to the prospectus in September 2021, the debt was converted to shares. The Company has no additional obligations to the lenders in connection with the convertible loan agreement. For further details regarding the convertible loan, in connection with the effective interest rate, the repayment date and additional conditions, see note 13 f below.

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Note 13 — Financial Instruments: (cont.)

b. Management's Objectives and Policies Regarding Financial Risk Management:

The Group is exposed to market risks (foreign exchange risk, consumer price index risk, interest rate risk and price risk), credit risk and liquidity risk.

1. Market Risks:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Market risk includes three types of risk: currency risk, interest rate risk and price risk. Financial instruments affected by market risk include, among others, loans and credits, deposits, short-term investments and derivative financial instruments.

a) Foreign Currency Risk:

Foreign currency risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to the exchange rate risk resulting from exposure to various currencies, especially the New Israel Shekel in connection with salary costs in Israel.

b) Interest Rate Risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The Company's exposure to the risk of changes in market interest rates relates primarily to its short-term liabilities at variable interest rates.

2. Credit Risk:

Credit risk is the risk that the counter party will not meet its obligations as a customer or its obligations arising from a financial instrument and as a result the Group will incur a loss. The Group is exposed to credit risk as a result of its operating activities (mainly accounts receivable and contract assets) and its financing activity, including deposits with banks and other financial institutions.

3. Liquidity Risk:

The Group monitors the risk to a shortage of funds using a liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility by using overdrafts, bank loans and convertible loans.

The following table shows the maturity of the Group's financial liabilities according to its contractual terms on contractual undiscounted payments (including interest payments):

December 31, 2021:

	Up to One Year	One Year to Two Years	Two Years to Three Years	Three Years to Five Years	Total
U.S. dollars in thousands					
Accounts payables	311	—	—	—	311
Other payables	1,517	—	—	—	1,517
Government grants liability	147	271	499	1,511	2,427
Lease liability	382	357	98	—	837
	<u>2,357</u>	<u>628</u>	<u>597</u>	<u>1,511</u>	<u>5,092</u>

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Notes to Consolidated Financial Statements

Note 13 — Financial Instruments: (cont.)

December 31, 2020:

	Up to One Year	One Year to Two Years	Two Years to Three Years	Three Years to Four Years	Total
U.S. dollars in thousands					
Bank loans	1,004	—	—	—	1,004
Accounts payables	220	—	—	—	220
Other payables	1,409	—	—	—	1,409
Convertible loans	—	8,567	—	—	8,567
Government grants liability	169	285	755	694	1,903
Lease liability	364	342	319	81	1,106
	<u>3,166</u>	<u>9,194</u>	<u>1,074</u>	<u>775</u>	<u>14,209</u>

c. Loans and Options:

On December 19, 2016, the Company entered into a loan agreement with Silicon Valley Bank ("SVB"), pursuant to which the Company obtained a loan in the aggregate principal amount of \$5,000 thousand. The loan will mature in 48 months from issuance date, and carries variable interest at an annual rate of Prime plus 3.5%.

In connection with the loan agreement, the Company issued options to SVB, which may be exercised, in part or in full, for 193,243 Preferred "B" shares of the Company (upon the CLA, the right was converted into Ordinary Shares of the Company(see note f below)). The exercise price of the options is \$1.81119 per share option. The option is convertible, in part or in full, up to the earliest of: (I) 15 years after the option was granted, or (II) the sale of the Company, in exchange for cash and/or shares of a publicly traded company.

The loan and the issuance of the options was accounted for as an issuance of a package of securities. Accordingly, the Company first measured the fair value of the options which constitutes a financial liability that will be measured at fair value through profit or loss. The residual of the consideration was attributed to a loan that constitutes a financial liability that is measured at amortized cost.

On August 16, 2018, the Company signed an amendment to the loan agreement with SVB, under which SVB granted the Company an additional loan of \$5,000 thousand. The loan is for a period of 7 months and carries a variable interest rate of Prime plus 2.25%. The loan was repaid in one installment on October 3, 2018. As part of the loan agreement, the Company issued options to SVB, which can be exercised, in part or in full, for 138,312 Preferred "C" shares of the Company (upon the CLA, the right was converted to Ordinary Shares of the Company (see note f below)), up to 15 years, from the date of grant of the option. The exercise price of the options is, \$2.5305 per share.

1. The Loan Amount (together with accrued interest thereon) and the Pull-Through Amount have conversion options due to the following events:

- a) Automatic conversion upon qualified financing- the Loan Amount (together with accrued interest thereon) and the Pull-Through Amount will automatically convert into a new kind of equity securities at a conversion price equal to 80% of the per-share price paid by the investors in such qualified financing.
- b) voluntary conversion at any time- the investors holding more than 51% of the total.

outstanding loan amount have the right to voluntarily convert the Loan Amount (together with accrued interest thereon) and the Pull-Through Amount into equity of the Company upon any terms as may be determined by the aforesaid majority.

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Notes to Consolidated Financial Statements

Note 13 — Financial Instruments: (cont.)

2. Under an amendment to the convertible loan agreement of December 22, 2020, various amendments were made, the primary ones of which are: the date for which funds can be invested under the convertible loan agreement has been extended until March 31, 2022 so that the remaining \$5,000 thousand balance can be invested. In addition, the manner of calculation of the consideration that will be paid to lenders in the event of liquidation, in the event of the Company's acquisition, with the maximum eligibility of the lenders in the distribution event will be to receive benefits of a maximum amount that does not exceed \$99,197 thousand. In addition, it was determined that in the event of a voluntary conversion, the loan and the Pull-Through Amount, will be converted into the Company's capital, all in accordance with the mechanism and internal conversion ratio between the predetermined lenders (it should be clarified that this is not the conversion ratio of the debt to capital but rather the internal division between the lenders as determined in advance).
3. As part of another loan amendment of January 22, 2021, the convertible loan agreement was amended so that lenders could convert the loan and Pull Through Amount also into two parts if they so wish — first converting the Pull Through Amount, and then converting the loan amount itself into Company shares, and all in accordance with a predetermined mechanism and conversion ratio between lenders. The Company was advised by the lenders that they intend to convert the balance of the debt into Ordinary Shares of the Company, in accordance with the conversion loan agreement.

It should be noted that, after the debt conversions and the allocation of the shares as noted above, the debt will be considered fully paid and the Company will not have any additional obligations to the lenders in connection with the convertible loan agreement.

As, in accordance with the terms of the conversion loan the lenders may elect, in their sole discretion, to convert the entire outstanding Debt and aggregate Pull-Through Loan Amount into equity of the Company upon any terms as may be determined in the discretion of the Lead Lenders (including a holding of 100%), the Company treated the conversion option as an equity instrument. Accordingly, the Company treated the conversion loan as a complex instrument that includes a liability component measured at amortized cost ("ordinary loan") and an equity component in respect of the conversion option. At the time of obtaining the loan, the Company first measured the fair value of the ordinary loan in accordance with an annual market interest rate of 41% and attributed the difference between the consideration and the fair value to as the shareholders' contribution to equity.

Due to the amendment to the agreement of December 22, 2020 and since this is a material change in quantitative terms, the Company re-measured the loan at fair value in accordance with the capitalization of cash flows according to the annual market interest rate of 10.41% . Given the above, due to the possibility of converting the loan into Ordinary Shares on upon any terms as may be determined in the discretion of the Lead Lenders, the Company imputed the difference between the loan amount recognized in the financial statements on the date of the terms change and the loan amount calculated after changing the terms directly to capital.

Accordingly, in 2020 the Company raised a total of \$2,489 thousand in financing as part of loans received. In 2020, the Company recognized financial expenses of \$ 2,344 thousand in respect of such convertible loans. In 2021, the Company charged \$217 thousand to equity in connection with loans received. In 2021, the Company recognized financial expenses of \$1,102 thousand in respect of said convertible loans.

On the date of completion of the IPO, based on the prospectus, the debt was converted to ordinary shares. The debt is considered repaid in full, and the Company has no additional obligations to the lenders in connection with the convertible loan agreement. The number of the shares granted was 248,081,491 and after a reverse share split of 1:28, 8,860,053 shares. In addition, on the day of the conversion of the convertible loan, the Company recorded a contribution to equity, against the issuance expenses deducted from share premium relating to the conversion of the convertible loan, in the amount

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 13 — Financial Instruments: (cont.)

of \$3,436 thousand. These are not costs of the Company but with the consent of the lenders not to convert the convertible loan in exchange for a full dilution of the existing shareholders. The convertible loan holders decided to cede to the shareholders who participated in the Company's previous issuance rounds but did not participate in the convertible loan agreement, 9% of the Company's capital at the time of the loan conversion, and another 2% to shareholders who did not participate in previous rounds.

- d. During May 2021, the Company entered into a Simple Agreement for Future Equity (SAFE) in amount of \$4.4 million. The number of shares allocated to investors was calculated, based on the invested amounts as 75% of the effective price of the shares under the issuance, that is, 2,712,329 Ordinary Shares of the Company, NIS 0.01 par value. The issuance of shares under the SAFE agreements was made at the date of completion of the issuance under the prospectus (after the conversion of the debt according to the CLA and the reverse share split), and before the listing of the Company's securities on the stock exchange according to the prospectus. In addition, according to the SAFE agreements, investors were granted options to purchase additional shares of the Company, such that the number of options will be equal to the number of shares allocated to investors, and a total of 2,712,329 options for Ordinary Shares NIS 0.01 par value. The option can be exercised from the date of completion of the issuance and up to 36 months after the date of granting the option. The exercise price reflects 75% of the price of the Company's shares in the issuance, which is NIS 5.3025. In addition, each investor may exercise his options through a cashless exercise for a number of shares that will be calculated in accordance with the mechanism prescribed by the option, in accordance with the difference between the fair market value¹ of the shares and the exercise price.
- e. The Company signed a consulting agreement with a broker, in connection with the SAFE agreements, according to which the broker was granted 50,320 options that can be exercised for 50,320 Ordinary Shares of the Company. The option is exercisable from the date of completion of the issuance until the expiration of 36 months from the date of granting the option, at an exercise price of NIS 7.07.
- f. Under the underwriting agreement with the underwriters, 706,844 exercisable options were granted, available for conversion into 706,844 Ordinary Shares of the Company, as well as 19,978 options each exercisable for one Ordinary Share of the Company, which were granted to the IPO sale agent. The options can be exercised from the date of completion of the issuance until the expiration of 18 months from that date, at an exercise price of NIS 7.07.
- g. Sensitivity Tests for Change in Market Factors

Foreign Currency Sensitivity Analysis:

The following table demonstrates the sensitivity test to a reasonably possible change in Shekel exchange rates, with all other variables held constant. The impact on the Company's Loss before tax is due to changes in the fair value of the financial liabilities.

Sensitivity Test For Changes in the Exchange Rate of the Shekel		
Gain (Loss) – Change		
	5% Increase in the Exchange Rate of the Shekel	5% Decrease in the Exchange Rate of the Shekel
	U.S. dollars in thousands	
2021	135	(135)
2020	109	(109)

¹ The closing price of the Company's shares on the stock exchange on the business day before the exercise date.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 13 — Financial Instruments: (cont.)

Interest Rate Sensitivity Analysis:

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans. With all other variables held constant, the effect of the changes in interest rates on the Company's Loss before tax is as follows:

	Sensitivity Test for Changes in the Interest Rates	
	Gain (Loss) – Change	
	5% Increase in the Interest Rate	5% Decrease in the Interest Rate
	U.S. dollars in thousands	
2021	(4)	4
2020	(60)	60

Note 14 — Contingent Liabilities, Commitments, Liens, Claims, and Guarantees

a. Commitments:

1. Royalties to the Israel Innovation Authority

The Company has received grants from the Israel Innovation Authority ("IIA") to finance its research and development programs in Israel, through which the Company received IIA participation payments in the aggregate amount of \$2.6 million through December 31, 2021. All of these are royalty-bearing grants.

In return, the Company is committed to pay IIA royalties at a rate of 3-3.5% of future sales of the developed products, up to 100% of the amounts of grants received plus interest at LIBOR.

Through December 31, 2021, an amount of \$365 thousand royalties has been paid to the IIA.

The Company's royalty liability to the IIA at December 31, 2021, including grants received by the Company and the associated LIBOR interest on all such grants totaled to \$2.4 million.

b. Liens:

- On June 1, 2021, the Company repaid the principal and interest on its loan with Silicon Valley Bank (SVB) and thus ended its obligations in connection with this loan. The liens recorded in favor of the bank in connection with this loan were also removed.
- As of December 31, 2020, the Company has restricted cash in respect of credit card facilities of \$49 thousand. As of December 31, 2021, the Company has restricted cash in respect of credit card facilities of \$62 thousand.

c. Legal claims contingency:

- On September 11, 2020, a former employee of the Company sued the U.S. subsidiary for \$50 thousand in a court in Arizona. On January 20, 2021, the employee filed a motion to dismiss the claim, and it was deleted. The employee later filed a motion to open arbitration proceedings in New York. On November 22, 2021, the Company signed a settlement agreement with the former employee for an immaterial amount and the arbitration procedure was immediately terminated.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 14 — Contingent Liabilities, Commitments, Liens, Claims, and Guarantees (cont.)

2. On August 26, 2021, a claim was filed in Texas against a Company subsidiary in the United States and against a former employee of the subsidiary. The plaintiff claimed personal injury damages following a car accident between him and a former company employee. As of reporting date, the case is still in the early stages of discovery. U.S. insurance company attorneys believe, upon initial review, the likelihood of a lawsuit at 50%, and, based on the information available at this time, believe the amount of compensation at about \$50 thousand.

The limitations of the federal insurance company's commercial vehicle policy covering the U.S. subsidiary in this case are \$1 million ("base policy") per event for personal injury claims. In addition, the U.S. subsidiary has a federal insurance company's excess insurance policy that provides an additional \$5 million over the coverage in the base policy. Based on the information available to date, it does not appear that the Plaintiff's claim will exceed these limits by either settlement or judgment.

Note 15 — Revenue:

The Company has service agreements for collecting and making information accessible according to the customer's needs.

Set out below is the disaggregation of the Group's revenue by geographical markets:

	Year Ended December 31,	
	2021	2020
	U.S. dollars in thousands	
Singapore	2,841	1,259
Israel	326	249
United States	—	101
United Arab Emirates	120	—
	<u>3,287</u>	<u>1,609</u>

Set out below is the disaggregation of the Group's revenue by type of customer:

	Year Ended December 31,	
	2021	2020
	U.S. dollars in thousands	
Supervisory and Police Authorities ('Smart City')	2,961	1,259
Industry	326	245
Security	—	105
	<u>3,287</u>	<u>1,609</u>

Note 16 — Cost of Revenue:

	Year Ended December 31,	
	2021	2020
	U.S. dollars in thousands	
Wages, salaries, and benefits	1,308	1,537
Offsite contracting and travel	441	818
Depreciation and amortization	266	326
Distribution to customers	267	176
Materials usage	136	75
Share-based payment	603	4
Office maintenance	242	198
Other items	398	343
	<u>3,661</u>	<u>3,477</u>

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 17 — Sales and Marketing Expenses:

	Year Ended December 31,	
	2021	2020
	U.S. dollars in thousands	
Wages, salaries, and benefits	788	477
Advertising and marketing expenses	505	215
Travel	27	47
Share-based payment	1,770	12
Depreciation and amortization	4	6
Other items	125	90
	<u>3,219</u>	<u>847</u>

Note 18 — General and Administrative Expenses:

	Year Ended December 31,	
	2021	2020
	U.S. dollars in thousands	
Wages, salaries, and benefits	1,349	1,005
Share-based payment (see Note 12B (1))	3,205	582
Depreciation and amortization	492	660
Initial public offering related expenses	486	—
IT, legal, consulting, and others	189	217
Rents and maintenance	312	207
	<u>6,033</u>	<u>2,671</u>

Note 19 — Research and Development Expenses:

	Year Ended December 31,	
	2021	2020
	U.S. dollars in thousands	
Wages, salaries, and benefits	4,772	4,435
Offsite contracting and travel	484	1,073
Other research and development expenses	648	749
Depreciation and amortization	177	206
Share-based payment (see Note 12B (1))	1,607	89
Materials usage	216	82
	<u>7,904</u>	<u>6,634</u>
Less – changes in estimated government grants	(202)	(247)
	<u>7,702</u>	<u>6,387</u>

Note 20 — Other expenses (income), net:

	Year Ended December 31,	
	2021	2020
	U.S. dollars in thousands	
Impairment losses (Reversal of an impairment loss) ⁽¹⁾	955	(206)
Loss (capital gain) from sale and disposal of fixed assets ⁽²⁾	(343)	29
Gain on realization of translation differences – foreign operations	(466)	—
Other items	—	96
	<u>146</u>	<u>(81)</u>

(1) See note 9

(2) The sale of Property and equipment of the Company's systems to a government body in the United Arab Emirates in the amount of \$1 million was recorded net, as a capital gain under other income in the amount of \$343 thousand.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 21 — Financial Income and Expenses:

	Year Ended December 31,	
	2021	2020
	U.S dollars in thousands	
Financial expenses:		
Interest expenses on loans	11	104
Financial expenses in respect of the convertible loan	1,102	2,344
Financial expenses in respect of a lease liability	55	64
Financial expenses in respect of a commitment to the Israel Innovation Authority	163	164
Remeasurement of options	38	—
Bank commissions	14	17
	<u>1,383</u>	<u>2,693</u>
	Year Ended December 31,	
	2021	2020
	U.S dollars in thousands	
Financial income:		
Exchange rate differences	88	77
	<u>88</u>	<u>77</u>

Note 22 — Income Taxes:

The Company's net income in Israel is subject to corporate tax at a rate of 23%.

A company is liable to tax on capital gains at the rate of corporation tax beginning in the year of sale.

According to law, the limitation period for self-assessments is 4 years from the end of the tax year in which the assessment was submitted.

The U.S. subsidiary is liable to federal tax at a rate of 21% in addition to the state tax and local city tax.

The income of the subsidiary incorporated in Singapore is subject to corporate tax at a rate of 17%.

The subsidiary incorporated in Australia is subject to corporate tax at a rate of 27.5%.

Deferred Taxes

The Company did not recognize deferred tax assets in respect of losses available for carry forward purposes of \$107,368 thousand because their utilization in the foreseeable future is not probable and the lack of deferred tax liability balances against which it was permitted to create such an asset.

Theoretical Tax

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year Ended December 31,	
	2021	2020
	U.S dollars in thousands	
Loss before tax	18,769	14,308
Statutory tax rate	23%	23%
Theoretical tax	(4,317)	(3,291)
Adjustments:		
Deferred taxes not recognized on losses	4,317	3,291
Actual tax	<u>—</u>	<u>—</u>

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 23 — Balances and Transactions with Related Parties

a. Balances with Related Parties:

	Year Ended December 31,	
	2021	2020
	U.S dollars in thousands	
Other payables – key management personnel	237	217
Equity reserve for share-based payment	5,419	1,579
CLA capital reserve	—	2,836
Convertible loan liability	—	8,567

Regarding the convertible loan received from shareholders, see Note 13 F.

b. Benefits to and other transactions with Related Parties and Key Management Personnel

	Year Ended December 31,	
	2021	2020
	US \$, in Thousands	
Wages and benefits for employees by or on behalf of the company	1,359	1,160
Share-based payment	3,887	544
Financial expenses on convertible loan	1,102	2,344
	6,348	4,048
The number of people to whom the salary and benefits relate		
Related parties, related parties, and key management personnel employed by or on behalf of the Company		
	5	4
Directors who are not employed by the company and are not remunerated	4	3

Note 24 — Material Events After Balance Sheet Date:

- a. On May 10, 2022, the Company received a letter from a government body in the United Arab Emirates informing the Company of its intention to purchase two of the Company's systems during the current year, and that USD 2 million dollars was allocated for the purchase. As stated in the letter, the parties will remain in contact until the procedures required by the governmental body in the United Arab Emirates to carry out the purchase are completed. It is noted that as of the publication date of the report, the order had not yet been placed.
- b. In February 2022, the Company granted Mr. Moshe Maor, an independent director of the Company, 66,340 options to purchase 66,340 ordinary shares of NIS 0.01 par value each of the Company, in accordance with the Company's Israeli options plan. Each of the options will be exercisable to a Company share, subject to its vesting, during the exercise period in exchange for an exercise price, not linked, of NIS 7.07 per share for four years from the commencement date of the vesting period. The options will vest over three years. The valuation of the option price was based on the market value of the Company using the Black and Scholes model as of the grant date. The fair value of all the options granted, as of the grant date, is NIS 104,389.
- c. In June 2022, the Company granted an employee of the Company 30,000 options to purchase ordinary shares of NIS 0.01 par value shares of the Company, in accordance with the Company's Israeli options plan. Each of the options will be exercisable to a Company share, subject to its vesting, during the exercise period in exchange for an exercise price, not linked, of NIS 0.28 per share for ten years from the grant date of the options, or termination of the contract between the Company and the employee, the earlier of which.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 24 — Material Events After Balance Sheet Date: (cont.)

All the options vested in one tranche on June 16, 2022. The valuation of the option price was based on the market value of the Company using the Black and Scholes model as of the grant date. The fair value of all the options granted, as of the grant date, is NIS 64,889.

- d. On May 19, 2022, the Company entered into a loan agreement (the “Agreement”) with the OurCrowd Group, an related party in the Company (the “Lender”), according to which the Lender will provide the Company, upon signing the agreement, with a loan of USD 1.1 million dollars (the “Loan Principal”), at an annual interest of 6% (the “Interest”). The principal will be repaid in one lump sum on May 19, 2027 or within 30 business days from the date on which the Company will raise capital, either in one round or in several rounds, totaling together USD 2 million dollars or more (“Round”), whichever comes first (“Maturity Date”). The interest will be paid annually on December 31 of each calendar year for the past year or part of it, as the case may be, or on the Maturity Date as defined above, or on an early maturity date, as stated below. It is clarified that the loan and/or any other loan taken by the Company will not be counted for the purpose of calculating the cumulative total capital raised.

The Company may repay the loan (Principal and Interest) early, in whole or in part, at any time and for any reason, with advance notice in writing to the Lender 7 days prior to the early repayment, at its sole discretion, and without an early repayment fee. The repayment of the loan will not be secured by a lien, or any other collateral and the loan is not convertible to equity.

The Company undertook that starting from the date of signing the Agreement, and as long as the loan Principal and the accrued Interest have not been repaid in full, the Company will not take a loan and/or any other financing with a higher priority than the loan from any party other than the Lender, without the prior consent in writing of the Lender. It is clarified that the Company may take a loan and/or any other financing from any other party at any time and without the Lender’s approval, if the loan and/or other financing will be used, among other things, to repay the Loan in full.

If the Company does not make any payment to the Lender under the Agreement, the Company must pay the Lender immediately upon its first demand, for the amount in arrears, interest on arrears for the period in arrears at a rate of 5% per year plus VAT (in addition to the Interest, as defined above), without prejudice to the right of the Lender to other remedies.

As this is a loan on favorable terms from a shareholder of the Company, the beneficial component was classified as a capital contribution from related party. The discount rate was calculated using the WACC (weighted average cost of capital) model. The WACC is the weighted rate of return required by the holders of capital and debt. The WACC was valued at about 19.27%.

The rate of return on equity was calculated using the CAPM (capital asset pricing model) model. According to this model, the rate of return on equity is derived from risk-free interest plus a market risk premium multiplied by the Company’s systematic risk level in relation to the standard deviation of the market portfolio. The average duration was calculated for the owner’s loan at the measurement date, according to the projected duration of the loan (December 31, 2022), in accordance with the binding merger agreement with Ondas.

The total fair value of the loan at the measurement date was USD 1,022,258. The remaining amount of the loan, USD 77,742, was classified as a capital contribution from related party.

- e. On July 5, 2022, the Company entered into a Memorandum of Understanding with Ondas Holdings Inc. (“Ondas”), a Nevada corporation publicly traded on the Nasdaq and which develops and supplies private wireless networks, as well as providing automatic data solutions using drones, for the acquisition of the Company by Ondas through a reverse triangular merger wherein a wholly owned Israeli subsidiary of Ondas (“Talos”), to be incorporated for such purpose, would merge into and be absorbed by the Company and, as a result, Ondas would become the sole shareholder of the Company (the “Merger”).

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 24 — Material Events After Balance Sheet Date: (cont.)

On August 4, 2022, the Company entered into a Merger Agreement with Ondas and Talos for the purpose of defining the terms and conditions of the Merger. According to the Merger Agreement, each holder of an Ordinary Share of the Company, par value of NIS 0.01 each, immediately prior to the date of the Merger, would receive, in exchange for such share, 0.16806 shares of Ondas, par value of US\$ 0.0001 each. This compensation was considered by the Company's Audit Committee prior to approval.

As a result of the Merger: (i) the Company will continue to exist and will become an Israeli private subsidiary company wholly owned by Ondas; (ii) the shares of the Company will be delisted from the Tel Aviv Stock Exchange ("TASE") and it will cease to be considered a "reporting company"; (iii) the securities of the Company will be exchanged for shares of Ondas; and (iv) Talos will merge into the Company and be dissolved without liquidation and shall be removed from the Israeli Registrar of Companies' registry.

As of August 4, 2022, the compensation reflected a price per share of US\$ 0.89 (approximately NIS 3.00), which was calculated based on the representative USD:ILS exchange rate and the known closing price of Ondas' shares on the last day prior to August 4, 2022. It represented an approximately forty-eight percent (48%) premium on the average share price weighted with the trading cycles of the Company on the TASE in the thirty days prior to August 4, 2022 and an approximately seventy-one percent (71%) premium on the known closing price of the Company's shares on the TASE on August 4, 2022.

Following the date of the Agreement, Ondas will grant the company up to \$1.5 million credit amount for the financing of the ongoing activities of the Company (see note g below).

The closing of the Merger shall take place on a date to be set by the parties but no later than two business days following the completion or waiver of all the required terms of the Merger Agreement.

The Merger Agreement included obligations and restrictions on all parties for the period between August 4, 2022 and the closing of the Merger (or a terminate date), including, amongst others, the repayment of the US\$ 1,100,000 loan owed to OurCrowd by the Company (the "OurCrowd Loan") immediately following the closing of the Merger if the Company chooses not to pay off the OurCrowd Loan prior to the closing of the Merger.

The Merger Agreement included certain circumstances in which, if they occur, the Company will be required to pay Ondas a termination fee of US\$ 800,000 (the "Termination Fee"), in addition to payment for expenses of up to US\$ 1,000,000 (the "Termination Cap"), provided that the Company is not required to pay more than the Termination Cap in the aggregate, including the Termination Fee.

- f. On August 4, 2022, the Company received letters of waiver from three company officers, Meir Kliner, CEO and Director; Yishay Curelaru, CFO and COO; and Eitan Rotberg, VP of Product and Sales. In the letters, the officers waive the salary update for the Company's officers following the initial public offering and any rights by virtue thereof as set forth in the waivers. It is clarified that due to a voluntary salary reduction from the month of October 2021, the actual salary update does not actually apply to the CFO and COO and to the VP of Product and Sales, and regarding the Company's CEO, a partial update was affected.
- g. In September 20, 2022, the company entered into a Credit and Guaranty Agreement according to which Ondas shall provide the Company with credit of up to USD 1.5 million, which shall be utilized for the purpose of financing the Company's ongoing activities, subject to customary conditions, including the delivery of documents and standard approvals to the Lender.

The conditions of the loan are as followed:

The Credit amount will be available to the company starting October 3, 2022.

Date of Repayment will be the earliest of: (a) February 1, 2023; or (b) Date of termination of the Merger Agreement due to a breach of its terms by the Company.

AIROBOTICS LTD.
Notes to Consolidated Financial Statements

Note 24 — Material Events After Balance Sheet Date: (cont.)

The Company has the right to early repayment, partial or in full (with no additional fee).

Interest rate of the loan will be a fixed interest at a rate of 6% on the principal drawn down.

An additional 2% of interest will be added in the event of a breach. The Loan's principal and accrued interest shall be repaid in one payment on the due date.

Guarantees and collateral: (1) A first-degree floating charge in favor of the Lender, on all of the Company's assets, rights, and property, of any kind and type, both existing and future (including, but not limited to, intellectual property), with the exception of all of the assets, rights, and property that were excluded in the Agreement. (2) A first-degree fixed charge on the Company's intellectual property, equipment, and other fixed assets, with the exception of the equipment and assets that were excluded in the Agreement. (3) AIROBOTICS INC, an American subsidiary (100%) of the Company, shall guarantee the payment of the Company's obligations and shall grant a charge in favor of the Lender on all of its existing and future assets, rights, and property.

AIROBOTICS LTD.
Consolidated Statements of Financial Position

	As of		As of
	June 30		December 31
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Current assets</u>			
Cash and cash equivalents	2,849	4,556	6,686
Restricted cash	57	60	62
Accounts receivables	356	122	250
Inventory	1,126	—	1,210
Other accounts receivables	307	652	393
	4,695	5,390	8,601
<u>Non-current assets</u>			
Long-term deposits	46	32	34
Right-of-use-assets	508	777	674
Property and equipment, net	2,772	5,557	3,142
Intangible assets, net	15	39	26
	3,341	6,405	3,876
Total assets	8,036	11,795	12,477
<u>Current liabilities</u>			
Accounts payables	85	447	312
Lease liability	309	310	328
Government grants liability	78	196	134
Convertible loans	—	13,282	—
Loan from related party	1,043	—	—
Other Payables	1,281	1,722	1,517
	2,796	15,957	2,291
<u>Non-current liabilities</u>			
Government grants liability	1,528	1,352	1,348
Long-term lease liabilities	223	545	452
SAFE liability	—	4,497	—
	1,751	6,394	1,800
Total liabilities	4,547	22,351	4,091
<u>Equity</u>			
Ordinary share capital	52	153	51
Share premium and reserves	150,331	119,949	149,094
Foreign currency translation reserve	(2)	(3)	(2)
Accumulated deficit	(146,892)	(130,655)	(140,757)
Total equity (deficiency)	3,489	(10,556)	8,386
Total liabilities and equity	8,036	11,795	12,477

The attached Notes constitute an integral part of the interim consolidated financial statements.

September 22, 2022	Ron Stern	Meir Kliner	Yishay Curelaru
Financial statements approval date	Chairman	CEO and Director	CFO & COO

AIROBOTICS LTD.
Consolidated Statements of Comprehensive Income

	For the six months ended June 30		For the year ended on December 31 2021
	2022	2021	
	Unaudited		Audited
	U.S. dollars in thousands		
Revenues (see Note 3)	544	1,646	3,287
Cost of revenues	1,299	2,225	3,661
Gross loss	755	579	374
Research and development expenses	2,103	4,255	7,702
Sales and marketing expenses	1,104	799	3,219
General and administrative expenses	1,646	2,787	6,033
Other expenses (income), net	287	(880)	146
Operating loss	5,895	7,540	17,474
Financing expenses	330	1,141	1,383
Financing income	90	14	88
Loss for the period	6,135	8,667	18,769
<u>Other comprehensive loss</u>			
<u>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods (net of tax):</u>			
Loss from exchange differences on translation of foreign operations	—	3	2
Loss from disposal of foreign operation	—	466	466
Total other comprehensive loss, net of tax	—	469	468
Total comprehensive loss	6,135	9,136	19,237

The attached Notes constitute an integral part of the interim consolidated financial statements.

AIROBOTICS LTD.
Consolidated Statements of Changes in Equity (Equity Deficit)

	Ordinary share capital	Share premium and reserves	Foreign currency translation reserve	Accumulated deficit	Total
Unaudited					
U.S. dollars in thousands					
<u>Balance as of January 1, 2022</u>	51	149,094	(2)	(140,757)	8,386
Loss for the period	—	—	—	(6,135)	(6,135)
Capital contribution from related party ^(*)	—	78	—	—	78
Exercise of options by employees	1	15	—	—	16
Share-based payments	—	1,144	—	—	1,144
<u>Balance as of June 30, 2022</u>	<u>52</u>	<u>150,331</u>	<u>(2)</u>	<u>(146,892)</u>	<u>3,489</u>

(*) See Note 4 (d).

	Ordinary share capital	Share premium and reserves	Foreign currency translation reserve	Accumulated deficit	Total
Unaudited					
U.S. dollars in thousands					
<u>Balance as of January 1, 2021</u>	153	116,323	466	(121,988)	(5,046)
Loss for the period	—	—	—	(8,667)	(8,667)
Other comprehensive loss	—	—	(469)	—	(469)
Equity component in a convertible loan	—	183	—	—	183
Exercise of options by employees	—	3	—	—	3
Share-based payments	—	3,440	—	—	3,440
<u>Balance as of June 30, 2021</u>	<u>153</u>	<u>119,949</u>	<u>(3)</u>	<u>(130,655)</u>	<u>(10,556)</u>

The attached Notes constitute an integral part of the interim consolidated financial statements.

AIROBOTICS LTD.
Consolidated Statements of Changes in Equity (Equity Deficit) — (Continued)

	Ordinary share capital	Share premium and reserves	Foreign currency translation reserve	Accumulated deficit	Total
U.S. dollars in thousands					
<u>Balance as of January 1, 2021</u>	153	116,323	466	(121,988)	(5,046)
Loss for the period	—	—	—	(18,769)	(18,769)
Other comprehensive loss	—	—	(468)	—	(468)
Exercise of options	1	34	—	—	35
Equity component in a convertible loan	—	217	—	—	217
Share-based payments	—	7,185	—	—	7,185
Conversion of convertible loan	775	14,123	—	—	14,898
Shareholders' contribution to equity	—	3,436	—	—	3,436
Reduction of share par value	(896)	896	—	—	—
Conversion of SAFE liability	8	4,464	—	—	4,472
Issuance of share capital, net of issuance costs	9	5,847	—	—	5,856
Issue costs related to conversion of convertible loan	—	(3,436)	—	—	(3,436)
Exercise of options	1	5	—	—	6
<u>Balance as of December 31, 2021</u>	<u>51</u>	<u>149,094</u>	<u>(2)</u>	<u>(140,757)</u>	<u>8,386</u>

The attached Notes constitute an integral part of the interim consolidated financial statements.

AIROBOTICS LTD.
Consolidated Statements of Cash Flow

	For the six months ended June 30		For the year ended on December 31
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Operating activities</u>			
Loss	(6,135)	(8,667)	(18,769)
<u>Adjustments to reconcile loss to net cash flows from operating activities</u>			
Depreciation and impairment of property and equipment and right-of-use assets	729	435	1,861
Amortization and impairment of intangible assets	11	18	32
(Gain) or loss on disposal or sale of property and equipment	26	(355)	(292)
Impairment of inventory	84	—	—
Share-based payments	1,144	3,440	7,185
Financing expenses, net	135	1,109	1,361
Revaluation of government grants	(37)	(144)	(203)
Loan forgiveness guaranteed by the US government	—	(166)	(166)
Income from disposal of foreign operation	—	(466)	(466)
Remeasurement of options	—	—	38
	2,092	3,871	9,350
Changes in items of assets and liabilities:			
Decrease (increase) in accounts receivable	(106)	6	(122)
Decrease (increase) in other accounts receivable	29	(373)	(108)
Increase (decrease) in accounts payable	(227)	193	92
Increase (decrease) in other payables	(188)	297	114
	(492)	123	(24)
Net cash used in operating activities	(4,535)	(4,673)	(9,443)
<u>Investing activities</u>			
Change in restricted cash, net	—	(11)	(14)
Investments in deposits	(6)	(2)	(4)
Proceeds from sale of property and equipment	7	983	997
Purchase of property and equipment	(235)	(334)	(518)
Net cash provided by (used in) investing activities	(234)	636	461
<u>Financing activities</u>			
Repayment of loans received	—	(833)	(833)
Proceeds from exercise of options, net	12	3	4
Payment of interest for loans and leases	(24)	(38)	(66)
Payment of lease liability	(162)	(155)	(319)
Loan from related party ^(*)	1,100	—	—
Proceeds from issuance of share capital, net	—	—	5,856
Proceeds from government grants	64	335	416
Payment of government grant royalties	(57)	(12)	(69)
Proceeds from convertible loan	—	4,063	5,446
Proceeds from SAFE	—	4,455	4,455
Cash provided by financing activities	933	7,818	14,890
Exchange rate differences of cash balances and cash equivalents	(1)	(5)	(2)
Net Increase (decrease) in cash and cash equivalents during the year	(3,837)	3,776	5,906
Cash and cash equivalent at the beginning of the period	6,686	780	780
Cash and cash equivalent balance at the end of the period	2,849	4,556	6,686

AIROBOTICS LTD.
Consolidated Statements of Cash Flow — (Continued)

	For the six months ended June 30		For the year ended on December 31 2021
	2022	2021	
	Unaudited		Audited
	USD thousands		
(a) <u>Significant non-cash transactions:</u>			
Purchase of property and equipment on credit	14	34	—
Right-of-use asset recognized with corresponding lease liability	(10)	28	64
Non-cash share issuance	3	—	6
Conversion of convertible loan, SAFE & Warrant liability	—	—	19,402

The attached Notes constitute an integral part of the interim consolidated financial statements.

(*) See Note 4(d).

AIROBOTICS LTD.
Notes to the Interim Consolidated Financial Statements

NOTE 1: General

- a. Airobotics Ltd. ("Company") was incorporated in Israel on August 5, 2014 and began operations on that date.
- b. The Company collects, analyses, and provides access to information automatically using a UAV ("unmanned aerial vehicle"—multi-motor drone). The Company has developed systems that include data collection and data processing for valuable insights for customers, in an automated process, which does not require human contact and without human intervention, and provides its customers with end-to-end service, which enables the extraction of value from data collected from the airspace using an automated UAV, automatically, quickly, safely, and efficiently.

As of December 31, 2021, considering the expansion of the Company's operations in the United Arab Emirates, the Company intend to sell the UAV equipment itself (a system that includes the docking station, 2 Drones and Mast), in addition to its service package as described above.

- c. On September 22, 2021, the Company completed its initial public offering (IPO) on the Tel Aviv Stock Exchange Ltd. ("TASE").
- d. As of June 30, 2022 the Company has wholly-owned subsidiaries in the United States, Singapore and Dubai.

The Company's subsidiary Airobotics Inc. was incorporated in the United States in 2016 and began operations during 2018. The subsidiary operates in sales, marketing and support of the Company's products in the United States.

The subsidiary Airobotics PTE was incorporated in Singapore during the second quarter of 2019. As of the reporting date, the subsidiary has no sales and marketing activities.

The subsidiary Airobotics Gulf DMCC was incorporated in Dubai on March 8, 2022. The subsidiary will concentrate sales and marketing activities in the United Arab Emirates and the Persian Gulf countries.

- e. These financial statements were prepared in a condensed form as of June 30, 2022 and for the six-month period that ended on that date (hereinafter: Interim Consolidated Financial Statements). These statements should be reviewed in connection with the Company's annual financial statements as of December 31, 2021 and for the year that ended on that date and the notes accompanying them (hereinafter: the Annual Consolidated Financial Statements).
- f. The Company has significant losses since its establishment. During the years the Company has financed its operations mainly through equity, convertible loans from shareholders; bank loans, and grants from the Israel Innovation Authority. The Company has negative cash flow from operating activities of \$4,535 thousand, and a comprehensive loss of \$6,135 thousand for the six-month period that ended on June 30, 2022, and an accumulated deficit of \$146,892 thousand as of June 30, 2022. The Company has not yet signed a new contract with a material customer for 2022, a contract that the Company expected to be a significant part of its future growth. In addition, as of the reporting date, there are no signed orders from customers. The shareholder's obligation to the Company, as noted in note 1 e (4) below depends on the agreement between the parties and as stated has not been fully realized through the date of approval of the financial statements.

The Company will be required to obtain additional financing in the short term in order to support its operation. The Company's ability to successfully carry out its business plan is primarily dependent upon the continued financial support from its shareholders and its ability to raise sufficient additional capital. There are no assurances, however, that the Company will be successful in obtaining an adequate level of financing needed to support its operations.

AIROBOTICS LTD.
Notes to the Interim Consolidated Financial Statements

NOTE 1: General (cont.)

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

The management's plans include, among other things, the following:

1. On August 4, 2022, the Company entered into a binding merger agreement with Ondas, which is a public company traded on Nasdaq, for further information See also Note 5 (a).
2. Efficiency and improving profitability — during 2020 and 2021, the Company's workforce was reduced. As a result, the salary expenses was reduced along with other operating expenses. in order to improve profitability and significantly reduce the operating loss. The Company will consider further reductions in the future, as necessary, if the Company's plan in connection with the acquisition of the Company by the third party does not succeed, in a manner that does not harm the Company's current activities and the Company's ability to provide service to its customers.
3. Raising additional capital and debt — the Company will act to raise funds from additional sources in the form of capital and/or debt from existing and new shareholders and/or act to receive financing from external sources as needed.
4. On February 10, 2022, the Company received from a related party a letter of obligation to support the Company as needed, without limit of amount, for a period of at least 24 months from the date of the letter, through capital investment under terms to be agreed between the Company and the related party and pursuant to a board of directors' resolution to be made. The Company and its legal counsels believe that the letter of obligation is considered a legal agreement that is binding on the related party to invest funds if the Company needs those funds as needed. Also, according to the Company, the related party has the sources of funding to meet the obligation. In addition, in May 2022, the Company received a loan from the related party, as stated in Note 4 (c).
5. The Company will work to expand its activities in new markets.
6. In September 20, 2022, the Company entered into a loan agreement according to which Ondas shall provide the Company with credit of up to \$1.5 million (see note 5 (c)).

NOTE 2: Summary of Significant Accounting Policies

- a. Basis for preparing the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting".

The significant accounting policies applied in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements, except as described below:

- b. Initial adoption of amendments to existing financial reporting and accounting standards:

1. Amendment to IAS 16, "Property and equipment":

In May 2020, the IASB issued an amendment to IAS 16, "Property and equipment" ("the Amendment"). The Amendment prohibits a company from deducting from the cost of property and equipment ("PP&E") consideration received from the sales of items produced while the company is preparing the asset for its intended use. Instead, the company should recognize such consideration and related costs in profit or loss.

AIROBOTICS LTD.
Notes to the Interim Consolidated Financial Statements

NOTE 2: Summary of Significant Accounting Policies (cont.)

The Amendment is effective for annual reporting periods beginning on or after January 1, 2022.

The application of the Amendment did not have a material impact on the Company's interim financial statements.

2. Amendments to IFRS 3, "Business Combinations":

In May 2020, the IASB issued Amendments to IFRS 3, "Business Combinations — Reference to the Conceptual Framework", which are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting, that was issued in March 2018, without significantly changing its requirements.

The IASB added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately.

The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine at the acquisition date whether as a result of a past event, a present obligation exists or whether the event that creates an obligation to pay the levy occurred by the acquisition date.

The Amendments also clarify that contingent assets do not qualify for recognition at the acquisition date.

The Amendments are applied prospectively for annual reporting periods beginning on or after January 1, 2022.

The application of the Amendments did not have a material impact on the Company's interim financial statements.

3. Annual improvements to IFRSs 2018-2020:

In May 2020, the IASB issued certain amendments in the context of the Annual Improvements to IFRSs 2018-2020 Cycle. The main amendment is to IFRS 9, "Financial Instruments" ("the Amendment"). The Amendment clarifies which fees a company should include in the "10% test" described in paragraph B3.3.6 of IFRS 9 when assessing whether the terms of a debt instrument that has been modified or exchanged are substantially different from the terms of the original debt instrument.

According to the Amendment, fees paid net of any fees received that are included in the cash flows are only those fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The Amendment is effective for annual periods beginning on or after January 1, 2022. The Amendment is applied to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the Amendment, that is from January 1, 2022.

AIROBOTICS LTD.
Notes to the Interim Consolidated Financial Statements

NOTE 3: Revenue from services

The company has service agreements for collecting information and making it accessible, according to customer requirements.

	For the six months ended on June 30		For the year ended on December 31 2021
	2022	2021	
	Unaudited		Audited
	USD thousands		
Revenue by geographical markets:			
Singapore	149	1,495	2,841
Israel	275	151	326
United Arab Emirates	120	—	120
	<u>544</u>	<u>1,646</u>	<u>3,287</u>
Breakdown of revenues by customers:			
Monitoring and policing authorities ("Smart City")	269	1,495	2,961
Industry	<u>275</u>	<u>151</u>	<u>326</u>
	<u>544</u>	<u>1,646</u>	<u>3,287</u>

NOTE 4: Material Events during the Reporting Period

- a. On May 10, 2022, the Company received a letter from a government body in the United Arab Emirates informing the Company of its intention to purchase two of the Company's systems during the current year, and that \$2 million was allocated for the purchase. As stated in the letter, the parties will remain in contact until the procedures required by the governmental body in the United Arab Emirates to carry out the purchase are completed. It is noted that as of the approval date of the report, the order had not yet been placed.
- b. Share-based compensation:
 1. In February 2022, the Company granted Mr. Moshe Maor, an independent director of the Company, 66,340 options to purchase 66,340 ordinary shares of NIS 0.01 par value each of the Company, in accordance with the Company's Israeli options plan. Each of the options will be exercisable to a Company share, subject to its vesting, during the exercise period in exchange for an exercise price, not linked, of NIS 7.07 per share for four years from the commencement date of the vesting period. The options will vest over three years. The valuation of the option price was based on the market value of the Company using the Black and Scholes model as of the grant date. The fair value of all the options granted, as of the grant date, is NIS 104,389.
 2. In June 2022, the Company granted an employee of the Company 30,000 options to purchase ordinary shares of NIS 0.01 par value shares of the Company, in accordance with the Company's Israeli options plan. Each of the options will be exercisable to a Company share, subject to its vesting, during the exercise period in exchange for an exercise price, not linked, of NIS 0.28 per share for ten years from the grant date of the options, or termination of the contract between the Company and the employee, the earlier of which. All the options vested in one tranche on June 16, 2022. The valuation of the option price was based on the market value of the Company using the Black and Scholes model as of the grant date. The fair value of all the options granted, as of the grant date, is NIS 64,889.

AIROBOTICS LTD.
Notes to the Interim Consolidated Financial Statements

NOTE 4: Material Events during the Reporting Period (cont.)

c. Related party disclosures:

On May 19, 2022, the Company entered into a loan agreement (the “Agreement”) with the OurCrowd Group, an related party in the Company (the “Lender”), according to which the Lender will provide the Company, upon signing the agreement, with a loan of USD 1.1 million dollars (the “Loan Principal”), at an annual interest of 6% (the “Interest”). The principal will be repaid in one lump sum on May 19, 2027 or within 30 business days from the date on which the Company will raise capital, either in one round or in several rounds, totaling together USD 2 million dollars or more (“Round”), whichever comes first (“Maturity Date”). The interest will be paid annually on December 31 of each calendar year for the past year or part of it, as the case may be, or on the Maturity Date as defined above, or on an early maturity date, as stated below. It is clarified that the loan and/or any other loan taken by the Company will not be counted for the purpose of calculating the cumulative total capital raised.

The Company may repay the loan (Principal and Interest) early, in whole or in part, at any time and for any reason, with advance notice in writing to the Lender 7 days prior to the early repayment, at its sole discretion, and without an early repayment fee. The repayment of the loan will not be secured by a lien, or any other collateral and the loan is not convertible to equity.

The Company undertook that starting from the date of signing the Agreement, and as long as the loan Principal and the accrued Interest have not been repaid in full, the Company will not take a loan and/or any other financing with a higher priority than the loan from any party other than the Lender, without the prior consent in writing of the Lender. It is clarified that the Company may take a loan and/or any other financing from any other party at any time and without the Lender’s approval, if the loan and/or other financing will be used, among other things, to repay the Loan in full.

If the Company does not make any payment to the Lender under the Agreement, the Company must pay the Lender immediately upon its first demand, for the amount in arrears, interest on arrears for the period in arrears at a rate of 5% per year plus VAT (in addition to the Interest, as defined above), without prejudice to the right of the Lender to other remedies.

As this is a loan on favorable terms from a shareholder of the Company, the beneficial component was classified as a capital contribution from related party. The discount rate was calculated using the WACC (weighted average cost of capital) model. The WACC is the weighted rate of return required by the holders of capital and debt. The WACC was valued at about 19.27%.

The rate of return on equity was calculated using the CAPM (capital asset pricing model) model. According to this model, the rate of return on equity is derived from risk-free interest plus a market risk premium multiplied by the Company’s systematic risk level in relation to the standard deviation of the market portfolio. The average duration was calculated for the owner’s loan at the measurement date, according to the projected duration of the loan (December 31, 2022), in accordance with the binding merger agreement with Ondas.

The total fair value of the loan at the measurement date was USD 1,022,258. The remaining amount of the loan, USD 77,742, was classified as a capital contribution from related party.

NOTE 5: Material Events after the Reporting Period

- a. On July 5, 2022, the Company entered into a Memorandum of Understanding with Ondas Holdings Inc. (“Ondas”), a Nevada corporation publicly traded on the Nasdaq and which develops and supplies private wireless networks, as well as providing automatic data solutions using drones, for the acquisition of the Company by Ondas through a reverse triangular merger wherein a wholly owned Israeli subsidiary of Ondas (“Talos”), to be incorporated for such purpose, would merge into and be absorbed by the Company and, as a result, Ondas would become the sole shareholder of the Company (the “Merger”).

AIROBOTICS LTD.
Notes to the Interim Consolidated Financial Statements

NOTE 5: Material Events after the Reporting Period (cont.)

On August 4, 2022, the Company entered into a Merger Agreement with Ondas and Talos for the purpose of defining the terms and conditions of the Merger. According to the Merger Agreement, each holder of an Ordinary Share of the Company, par value of NIS 0.01 each, immediately prior to the date of the Merger, would receive, in exchange for such share, 0.16806 shares of Ondas, par value of US\$ 0.0001 each. This compensation was considered by the Company's Audit Committee prior to approval.

As a result of the Merger: (i) the Company will continue to exist and will become an Israeli private subsidiary company wholly owned by Ondas; (ii) the shares of the Company will be delisted from the Tel Aviv Stock Exchange ("TASE") and it will cease to be considered a "reporting company"; (iii) the securities of the Company will be exchanged for shares of Ondas; and (iv) Talos will merge into the Company and be dissolved without liquidation and shall be removed from the Israeli Registrar of Companies' registry.

As of August 4, 2022, the compensation reflected a price per share of US\$ 0.89 (approximately NIS 3.00), which was calculated based on the representative USD:ILS exchange rate and the known closing price of Ondas' shares on the last day prior to August 4, 2022. It represented an approximately forty-eight percent (48%) premium on the average share price weighted with the trading cycles of the Company on the TASE in the thirty days prior to August 4, 2022 and an approximately seventy-one percent (71%) premium on the known closing price of the Company's shares on the TASE on August 4, 2022.

Following the date of the Agreement, Ondas will grant the company up to \$1.5 million credit amount for the financing of the ongoing activities of the Company (see note c below).

The closing of the Merger shall take place on a date to be set by the parties but no later than two business days following the completion or waiver of all the required terms of the Merger Agreement.

The Merger Agreement included obligations and restrictions on all parties for the period between August 4, 2022 and the closing of the Merger (or a terminate date), including, amongst others, the repayment of the US\$ 1,100,000 loan owed to OurCrowd by the Company (the "OurCrowd Loan") immediately following the closing of the Merger if the Company chooses not to pay off the OurCrowd Loan prior to the closing of the Merger.

The Merger Agreement included certain circumstances in which, if they occur, the Company will be required to pay Ondas a termination fee of US\$ 800,000 (the "Termination Fee"), in addition to payment for expenses of up to US\$ 1,000,000 (the "Termination Cap"), provided that the Company is not required to pay more than the Termination Cap in the aggregate, including the Termination Fee.

- b. On August 4, 2022, the Company received letters of waiver from three company officers, Meir Kliner, CEO and Director; Yishay Curelaru, CFO and COO; and Eitan Rotberg, VP of Product and Sales. In the letters, the officers waive the salary update for the Company's officers following the initial public offering and any rights by virtue thereof as set forth in the waivers. It is clarified that due to a voluntary salary reduction from the month of October 2021, the actual salary update does not actually apply to the CFO and COO and to the VP of Product and Sales, and regarding the Company's CEO, a partial update was affected.
- c. In September 20, 2022, the company entered into a Credit and Guaranty Agreement according to which Ondas shall provide the Company with credit of up to USD 1.5 million, which shall be utilized for the purpose of financing the Company's ongoing activities, subject to customary conditions, including the delivery of documents and standard approvals to the Lender.

The conditions of the loan are as followed:

The Credit amount will be available to the company starting October 3, 2022.

AIROBOTICS LTD.
Notes to the Interim Consolidated Financial Statements

NOTE 5: Material Events after the Reporting Period (cont.)

Date of Repayment will be the earliest of: (a) February 1, 2023; or (b) Date of termination of the Merger Agreement due to a breach of its terms by the Company.

The Company has the right to early repayment, partial or in full (with no additional fee).

Interest rate of the loan will be a fixed interest at a rate of 6% on the principal drawn down.

An additional 2% of interest will be added in the event of a breach. The Loan's principal and accrued interest shall be repaid in one payment on the due date.

Guarantees and collateral: (1) A first-degree floating charge in favor of the Lender, on all of the Company's assets, rights, and property, of any kind and type, both existing and future (including, but not limited to, intellectual property), with the exception of all of the assets, rights, and property that were excluded in the Agreement. (2) A first-degree fixed charge on the Company's intellectual property, equipment, and other fixed assets, with the exception of the equipment and assets that were excluded in the Agreement. (3) AIROBOTICS INC, an American subsidiary (100%) of the Company, shall guarantee the payment of the Company's obligations and shall grant a charge in favor of the Lender on all of its existing and future assets, rights, and property.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On August 4, 2022, Ondas Holdings, Inc. (the “Company”) entered into a Plan of Merger and Equity Purchase Agreement (the “Agreement”) with Airobotics Ltd., an Israeli publicly traded company limited by shares.

Airobotics Ltd collects, analyses, and accesses information automatically using a UAV (“unmanned aerial vehicle” — multi-motor drone). Airobotics Ltd has developed systems that include data collection and data processing for valuable insights for customers, in an automated process, which does not require human contact and without human intervention, and provides its customers with end-to-end service, which enables the extraction of value from data collected from the airspace using an automated UAV, automatically, quickly, safely, and efficiently.

Pursuant to the Agreement, in exchange for every share of stock, warrant or option to purchase stock held by Airobotics Stockholders, Airobotics Ltd. Stockholders received 0.16806 shares of the Company’s stock, which included (i) 2,824,995 shares of the Company’s common stock; (ii) options exercisable for 1,087,706 shares issued under the Company’s incentive stock plan, of which 661,428 shares are vested; (iii) warrants exercisable for 588,430 shares of the Company’s common stock. Also, on September 20, 2022, the Company and Airobotics Ltd. entered into a Credit and Guaranty Agreement pursuant to which the Company has agreed to make a revolving loan available to Airobotics Ltd., commencing from October 3, 2022, in a principal amount of up to \$1,500 thousand (the “Bridge Loan”). Amounts borrowed may be prepaid without penalty and reborrowed. The loan will accrue interest at a rate of 6% per annum and matures on the earlier to occur of February 1, 2023 and the termination of the Merger Agreement as a result of a breach or violation thereof by Airobotics Ltd. The Bridge Loan is secured by substantially all of the assets of Airobotics Ltd. In addition, Airobotics Inc., a subsidiary of Airobotics Ltd, has guaranteed its obligations under the Bridge Loan.

The following unaudited pro forma condensed combined financial statements are based on the Company’s audited and unaudited interim historical consolidated financial statements and Airobotics Ltd.’s audited historical and unaudited interim financial statements as adjusted to give effect to the Company’s acquisition of Airobotics Ltd. The unaudited pro forma condensed combined balance sheet as of June 30, 2022 gives effect to these transactions as if they occurred on June 30, 2022. The unaudited pro forma condensed combined statements of operations for the twelve months ended December 31, 2021 and the six months ended June 30, 2022 give effect to these transactions as if they occurred on January 1, 2021.

The unaudited pro forma condensed combined financial statements should be read together with the Company’s audited historical financial statements, which are included in the Company’s most recent Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 22, 2022, and the most recent Quarterly Report on Form 10-Q, which was filed with the Securities and Exchange Commission on August 9, 2022, and Airobotics Ltd.’s audited historical financial statements as of and for the year ended December 31, 2021 and unaudited financial statements as of and for the six months ended June 30, 2022 included in this report.

The unaudited pro forma combined financial information is provided for informational purpose only and is not intended to represent or be indicative of the consolidated results of operations or financial position that the Company would have reported had the Airobotics Ltd transaction closed on the dates indicated and should not be taken as representative of our future consolidated results of operations or financial position.

The pro forma adjustments related to the Agreement are described in the notes to the unaudited pro forma combined financial information and principally include the following:

- Pro forma adjustment to eliminate the Airobotics Ltd liabilities and owners’ equity not acquired.
- Pro forma adjustment to record the merger of the Company and Airobotics Ltd.

The adjustments to fair value and the other estimates reflected in the accompanying unaudited pro forma condensed consolidated financial statements may be materially different from those reflected in the combined company’s consolidated financial statements subsequent to the merger. In addition, the unaudited pro forma condensed combined financial statements do not purport to project the future financial position or results of operations of the combined companies. Reclassifications and adjustments may be required if changes to Airobotics Ltd.’s financial presentation are needed to conform Airobotics Ltd.’s accounting policies to the accounting policies of Ondas Holdings, Inc.

These unaudited pro forma condensed combined financial statements do not give effect to any anticipated synergies, operating efficiencies or cost savings that may be associated with the Agreement. These financial statements also do not include any integration costs the companies may incur related to the Transactions as part of combining the operations of the companies.

ONDAS HOLDINGS INC.
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
As of June 30, 2022
(Unaudited)

	Ondas Holdings Inc.	Airobotics Ltd. under IFRS	Adjustments to GAAP and Reclassifications	Transaction Accounting Adjustments	Notes	Pro Forma Consolidated
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 28,014	\$ 2,849	\$ —	\$ (1,500)	C	\$ 29,363
Restricted cash	—	57	—	—		57
Accounts receivable, net	265	356	—	—		621
Inventory, net	1,270	1,126	84	—	1	2,480
Other accounts receivable	—	307	(307)	—	10	—
Other current assets	1,460	—	307	—	10	1,767
Total current assets	<u>31,009</u>	<u>4,695</u>	<u>84</u>	<u>(1,500)</u>		<u>34,288</u>
Long-term Assets:						
Property and equipment, net	3,518	2,772	—	—		6,290
Intangible assets, net	30,205	15	—	3,931	A	34,151
Goodwill	45,027	—	—	7,863	A	52,890
Lease deposits	218	—	—	—		218
Long-term equity investment	500	—	—	—		500
Right-of-use-assets	—	508	(508)	—	10	—
Operating lease right of use assets	3,443	—	508	—	10	3,951
Long-term deposits	—	46	—	—		46
Total long-term assets	<u>82,911</u>	<u>3,341</u>	<u>—</u>	<u>11,794</u>		<u>98,046</u>
Total assets	<u>\$ 113,920</u>	<u>\$ 8,036</u>	<u>\$ 84</u>	<u>\$ 10,294</u>		<u>\$ 132,334</u>
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities:						
Accounts payable	\$ 2,376	\$ 85	\$ —	\$ —		\$ 2,461
Lease liability	—	309	(309)	—	11	—
Operating lease liabilities	812	—	309	—	11	1,121
Loan from related party	—	1,043	—	—		1,043
Accrued transaction costs	—	—	—	1,701	B	1,701
Other payables	—	1,281	(1,281)	—	11	—
Accrued expenses and other current liabilities	1,812	—	1,281	—	11	3,093
Government grant liability	—	78	(78)	—	2	—
Deferred revenue – current	200	—	—	—		200
Total current liabilities	<u>5,200</u>	<u>2,796</u>	<u>(78)</u>	<u>1,701</u>		<u>9,619</u>
Long-Term Liabilities:						
Notes payable, net of current portion	300	—	—	—		300
Government grant liability, net of current portion	—	1,528	78	—	2	1,606
Accrued interest	38	—	—	—		38
Lease liability, net of current portion	—	223	(223)	—	11	—
Operating lease liabilities – net of current portion	<u>2,685</u>	<u>—</u>	<u>223</u>	<u>—</u>	<u>11</u>	<u>2,908</u>
Total long-term liabilities	<u>3,023</u>	<u>1,751</u>	<u>78</u>	<u>—</u>		<u>4,852</u>
Total liabilities	<u>8,223</u>	<u>4,547</u>	<u>—</u>	<u>1,701</u>		<u>14,471</u>
Stockholders' Equity:						
Common stock – par value \$0.0001	4	—	—	—		4
Ordinary share capital	—	52	—	(52)	D	—
Share premium and reserves	—	150,331	—	(150,331)	D	—
Additional paid in capital	207,368	—	—	13,867	C	221,235
Foreign currency translation reserve	—	(2)	—	2	D	—
Accumulated deficit	<u>(101,675)</u>	<u>(146,892)</u>	<u>84</u>	<u>145,107</u>	<u>1, B, D</u>	<u>(103,376)</u>
Total stockholders' equity	<u>105,697</u>	<u>3,489</u>	<u>84</u>	<u>8,593</u>		<u>117,863</u>

Total liabilities and stockholders' equity	\$ 113,920	\$ 8,036	\$ 84	\$ 10,294	\$ 132,334
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ONDAS HOLDINGS INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share amounts, and per share amounts)
For the Six Months Ended June 30, 2022
(Unaudited)

	Ondas Holdings Inc.	Airobotics Ltd. under IFRS	Adjustments to GAAP and Reclassifications	Transaction Accounting Adjustments	Notes	Pro Forma Consolidated
Revenues, net	\$ 1,014	\$ 544	\$ —	\$ —		\$ 1,558
Cost of goods sold	573	1,299	218	—	1, 4	2,090
Gross profit (loss)	441	(755)	(218)	—		(532)
Operating expenses:						
General and administration	11,615	1,646	54	197	3, A	13,512
Sales and marketing	1,413	1,104	—	—		2,517
Research and development	8,778	2,103	—	—		10,881
Other expense (income)	—	287	(287)	—	10	—
Total operating expenses (income)	21,806	5,140	(233)	197		26,910
Operating income (loss)	(21,365)	(5,895)	15	(197)		(27,442)
Other income (expense)						
Other income (expense)	(11)	—	15	—	4, 10	4
Transaction expenses	—	—	—	1,701	B	1,701
Financing expenses, net	—	(240)	240	—	11	—
Interest expense	(26)	—	(186)	—	3, 11	(212)
Total other income (expense)	(37)	(240)	69	1,701		1,493
Income (loss) before provision for income taxes	(21,402)	(6,135)	84	1,504		(25,949)
Provision for income taxes	—	—	—	—		—
Net income (loss)	<u>\$ (21,402)</u>	<u>\$ (6,135)</u>	<u>\$ 84</u>	<u>\$ 1,504</u>		<u>\$ (25,949)</u>
Net loss per share – basic and diluted	<u>\$ (0.51)</u>					<u>\$ (0.58)</u>
Weighted average number of common shares outstanding, basic and diluted	<u>41,582,327</u>			<u>3,413,425</u>	C	<u>44,995,752</u>

ONDAS HOLDINGS INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share amounts, and per share amounts)
For the Year Ended December 31, 2021

	Ondas Holdings Inc.	Airobotics Ltd. under IFRS	Adjustments to GAAP and Reclassifications	Transaction Accounting Adjustments	Notes	Pro Forma Consolidated
Revenues, net	\$ 2,907	\$ 3,287	\$ 960	\$ —	5	\$ 7,154
Cost of goods sold	1,811	3,661	1,436	—	5, 6, 9	6,908
Gross profit (loss)	1,096	(374)	(476)	—		246
Operating expenses:						
General and administration	11,782	6,033	(687)	393	7, 8, 9, A	17,521
Sales and marketing	1,487	3,219	(73)	—	7, 9	4,633
Research and development	5,801	7,702	(179)	—	9	13,324
Other expenses (income)	—	146	(146)	—	10	—
Total operating expense (income)	19,070	17,100	(1,085)	393		35,478
Operating income (loss)	(17,974)	(17,474)	609	(393)		(35,232)
Other income (expense)						
Other income	592	—	474	—	5, 6, 10	1,066
Financing expenses, net	—	(1,295)	1,295	—	11	—
Transaction expenses	—	—	—	1,701	B	1,701
Interest income	12	—	—	—		12
Interest expense	(576)	—	(1,240)	—	8, 11	(1,816)
Total other income (expense)	28	(1,295)	529	1,701		963
Loss before provision for income taxes	(17,946)	(18,769)	1,138	1,308		(34,269)
Benefit from income taxes	2,922	—	—	—		2,922
Net income (loss)	\$ (15,024)	\$ (18,769)	\$ 1,138	\$ 1,308		\$ (31,347)
Net loss per share – basic and diluted	\$ (0.44)					\$ (0.83)
Weighted average number of common shares outstanding, basic and diluted	34,180,897			3,413,425	C	37,594,322

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Note 1 — Basis of Presentation

The audited and unaudited interim historical consolidated financial statements have been adjusted in the pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the business combination, (2) factually supportable and (3) with respect to the pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results following the business combination. Ondas has changed the presentation from Ondas' previous 2021 Annual Report on Form 10-K filing and the most recent Quarterly Report on Form 10-Q filing to round the numbers reported to the nearest thousand.

The business combination was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. As the acquirer for accounting purposes, the Company has estimated the fair value of Airobotics Ltd.'s assets acquired and liabilities assumed and conformed the accounting policies of Airobotics Ltd to its own accounting policies.

The unaudited pro forma condensed combined financial statements are based on our audited and unaudited interim historical consolidated financial statements and Airobotics Ltd.'s audited and unaudited interim historical combined financial statements as adjusted to give effect to the Company's acquisition of Airobotics Ltd. The Unaudited Pro Forma Condensed Combined Balance Sheets as of June 30, 2022 gives effect to these transactions as if they occurred on June 30, 2022. The Unaudited Pro Forma Condensed Combined Statements of Operations for the six months ended June 30, 2022 and twelve months ended December 31, 2021 give effect to these transactions as if they occurred on January 1, 2021.

The allocation of the purchase price used in the unaudited pro forma financial statements is based upon a preliminary valuation by management. The final estimate of the fair values of the assets and liabilities will be determined with the assistance of a third-party valuation firm. The Company's preliminary estimates and assumptions are subject to materially change upon the finalization of internal studies and third-party valuations of assets, including investments, property and equipment, intangible assets including goodwill, and certain liabilities.

The Unaudited Pro Forma Condensed Combined Financial Statements are provided for informational purpose only and is not necessarily indicative of what the combined company's financial position and results of operations would have actually been had the transactions been completed on the dates used to prepare these pro forma financial statements. The adjustments to fair value and the other estimates reflected in the accompanying unaudited pro forma condensed combined financial statements may be materially different from those reflected in the combined company's consolidated financial statements subsequent to the transactions. In addition, the Unaudited Pro Forma Condensed Combined Financial Statements do not purport to project the future financial position or results of operations of the combined companies. Reclassifications and adjustments may be required if changes to Ondas Holdings Inc.'s financial presentation are needed to conform Ondas Holdings Inc.'s accounting policies to the accounting policies of the Airobotics Ltd.

These unaudited pro forma condensed combined financial statements do not give effect to any anticipated synergies, operating efficiencies or cost savings that may be associated with the transactions. These financial statements also do not include any integration costs the companies may incur related to the transactions as part of combining the operations of the companies.

Note 2 — Summary of Significant Accounting Policies

The unaudited pro forma condensed combined financial statements have been prepared in a manner consistent with the accounting policies adopted by the Company. The accounting policies followed for financial reporting on a pro forma basis are the same as those disclosed in the 2021 Annual Report on Form 10-K and for Airobotics Ltd, the accounting policies followed for financial reporting on a pro forma basis are the same as those disclosed in the audited financial statements included in this report. The unaudited pro forma condensed combined financial statements do not assume any differences in accounting policies among the Company and Airobotics Ltd. The Company is reviewing the accounting policies of Airobotics Ltd to ensure conformity of such accounting policies to those of the

Company and, as a result of that review, the Company may identify differences among the accounting policies of the two companies, that when confirmed, could have a material impact on the consolidated financial statements. However, at this time, the Company is not aware of any difference that would have a material impact on the unaudited pro forma condensed combined financial statements.

Note 3 — Purchase Price Allocation

On August 4, 2022, Ondas Holdings, Inc. (the “Company”) entered into a Plan of Merger and Equity Purchase Agreement (the “Agreement”) with Airobotics Ltd., an Israeli corporation.

Pursuant to the Agreement, in exchange for every share of stock, warrant or option to purchase stock held by Airobotics Ltd. Stockholders, Airobotics Ltd. Stockholders received 0.16806 shares of the Company’s stock, which included (i) 2,824,995 shares of the Company’s common stock; (ii) options exercisable for 1,087,706 shares issued under the Company’s incentive stock plan, of which 661,428 shares are vested; (iii) warrants exercisable for 588,430 shares of the Company’s common stock. Also, on September 20, 2022, the Company and Airobotics Ltd. entered into a Credit and Guaranty Agreement pursuant to which the Company has agreed to make a revolving loan available to Airobotics Ltd., commencing from October 3, 2022, in a principal amount of up to \$1,500 thousand (the “Bridge Loan”). Amounts borrowed may be prepaid without penalty and reborrowed. The loan will accrue interest at a rate of 6% per annum and matures on the earlier to occur of February 1, 2023 and the termination of the Merger Agreement as a result of a breach or violation thereof by Airobotics Ltd. The Bridge Loan is secured by substantially all of the assets of Airobotics Ltd. In addition, Airobotics Inc., a subsidiary of Airobotics Ltd, has guaranteed its obligations under the Bridge Loan

The following table summarizes the preliminary allocation of the purchase price based on the estimated fair value of the acquired assets and assumed liabilities as of June 30, 2022 (in thousands, except share amounts):

Purchase price consideration	
Bridge Loan	\$ 1,500
Common Stock – 2,824,995 Shares	11,837
Vested Stock Options – 661,428 Shares	1,919
Warrants – 588,430 Shares	111
Total purchase price consideration	<u>\$ 15,367</u>
Estimated fair value of assets:	
Cash and cash equivalents and restricted cash	\$ 2,906
Accounts receivable	356
Inventory	1,210
Other current assets	307
Property, plant and equipment	2,772
Right of use asset	508
Other long-term assets	<u>61</u>
	8,120
Estimated fair value of liabilities assumed:	
Accounts payable	85
Government grant liability	1,606
Other payables	1,281
Lease liabilities	532
Loan from related party	<u>1,043</u>
	4,547
Net tangible assets	3,573
Intangible assets	3,931
Goodwill	7,863
Total consideration	<u>\$ 15,367</u>

This preliminary purchase price allocation has been used to prepare pro forma adjustments in the pro forma balance sheet and statement of operations. The final purchase price allocation will be determined when the Company has completed the detailed valuations and necessary calculations. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments. The final allocation may include (1) changes in fair values of property, plant and equipment, (2) changes in allocations to intangible assets such as trade names and technology, as well as goodwill and (3) other changes to assets and liabilities.

This preliminary purchase price allocation has been used to prepare pro forma adjustments in the pro forma balance sheet and statement of operations. The final purchase price allocation will be determined when the Company has completed the detailed valuations and necessary calculations. For purposes of the pro forma condensed combined financial statements, for inventory, property and equipment, leases and other assets and liabilities the Company used the carrying value as reported its unaudited interim financial statement as reported on Form 10-Q for the quarter ended June 30, 2022, and as reported in the unaudited interim financial statements for Airobotics Ltd that have been included in this report. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments.

In accordance with the Agreement, as discussed above, the purchase price includes: (a) \$1,500 thousand Bridge Loan (b) \$11,837 thousand in common stock; (c) \$1,919 thousand in vested stock options; and (d) \$111 thousand in warrants. For purposes of these pro forma combined financial statements, the Company issued 2,824,995 shares of the Company's common stock, vested stock options for 661,428 shares of the Company's common stock, and warrants for 588,430 shares of the Company's common stock. The fair value of the common stock shares was determined based on a per share price of \$4.19, which is the closing price of the Company's common stock on September 16, 2022. The fair value of the stock options was determined based on a per share price range of \$0.08 – \$3.86, which is the call option value based on a Black-Scholes fair value calculation assuming a term range of 1.49 – 9.66 years, 45.53% – 55.52% volatility rate range, and discount rate range of 3.45% – 3.96% based on the applicable term's treasury yield rate as of September 16, 2022. The fair value of the warrants was determined based on a per share price range of \$0.00 – \$0.24, which is the call option value based on a Black-Scholes fair value calculation assuming a term range of 0.48 – 10.95 years, 45.77% – 50.04% volatility rate range, and discount rate range of 3.45% – 3.85% based on the applicable term's treasury yield rate as of September 16, 2022. The following table reflects the impact of a 10% increase or decrease in the per share price on the estimated fair value of the purchase price and goodwill (in thousands):

	Purchase Price	Estimate Goodwill
As presented in the pro forma combined results	\$ 15,367	\$ 7,863
10% increase in common stock price	\$ 16,816	\$ 9,312
10% decrease in common stock price	\$ 13,931	\$ 6,427

Note 4 — U.S. GAAP Adjustments

Airobotics Ltd. prepares their financial statements in accordance with International Financial Reporting Standards ("IFRS"). The following accounting adjustments to Airobotics Ltd.'s financial statements were made to reflect Airobotics Ltd.'s financial statements in accordance with U.S. GAAP, and they have been reflected in the unaudited pro forma condensed combined financial information:

1. This adjustment reflects the reversal of inventory impairment expense included in Cost of goods sold of \$84 thousand as of and for the six months ended June 30, 2022.
2. This adjustment reflects the reclassification of \$78 thousand of government grant liability from a current liability to a long-term liability as of June 30, 2022.
3. This adjustment reflects the reclassification of \$54 thousand of interest expense related to lease liabilities included in Interest expense to General and administration expenses on the Consolidated Statements of Operations for the six months ended June 30, 2022.
4. This adjustment reflects the reclassification of \$302 thousand of impairment expense related to drone assets included in Other income (expense) to Cost of goods sold on the Consolidated Statements of Operations for the six months ended June 30, 2022.
5. This adjustment reflects the reclassification of \$960 thousand of Revenues, net and \$625 thousand of Cost of goods sold for the sale of two docking stations included in Other income (expense) on the Consolidated Statements of Operations for the year ended December 31, 2021.

6. This adjustment reflects the reclassification of \$955 thousand of impairment expense related to drone assets included in Other income (expense) to Cost of goods sold on the Consolidated Statements of Operations for the year ended December 31, 2021.
7. This adjustment reflects the reclassification of \$487 thousand and \$42 thousand of stock issuance expenses related to the IPO included in General and administration and Sales and marketing on the Consolidated Statements of Operations, respectively, for the year ended December 31, 2021 to Additional paid in capital as of and for the year ended December 31, 2021.
8. This adjustment reflects the reclassification of \$55 thousand of interest expense related to lease liabilities included in Interest expense to General and administration expenses on the Consolidated Statements of Operations for the year ended December 31, 2021.
9. This adjustment reflects the reclassification of \$144 thousand, \$255 thousand, \$31 thousand, and \$179 thousand of stock issuance expenses related to the IPO included in Cost of Goods Sold, General and administration, Sales and marketing, and Research and development on the Consolidated Statements of Operations, respectively, for the year ended December 31, 2021 to Additional paid in capital as of and for the year ended December 31, 2021.
10. This adjustment reflects the reclassification of \$287 thousand and \$146 thousand of Other expense from Total operating expenses to Other income (expense) on the Consolidated Statements of Operations, for the six months ended June 30, 2022 and the year ended December 31, 2021, respectively.
11. These adjustments reflect the reclassification of certain Airobotics Ltd.'s balances to conform with the Company's financial statement presentation.

Note 5 — Pro Forma Transaction Accounting Adjustments

The pro forma transaction accounting adjustments are based on our preliminary estimates and assumptions that are subject to change. The following transaction accounting adjustments have been reflected in the unaudited pro forma condensed combined financial information:

- A. As part of the preliminary valuation analysis, the Company separately identified certain intangible assets with an estimate fair value of \$3,931 thousand. The fair value was determined primarily using the "income approach", which requires a forecast of the expected future cash flows. Since all the information required to perform a detail valuation analysis of Airobotics Ltd.'s intangible assets could not be obtained as of the date of this filing, for purposes of these unaudited pro forma condensed combined financial statements, the Company used certain assumptions based on publicly available transactions data for the industry. Based on our research and discussions with Airobotics Ltd management, we have concluded that the intangible assets have a 10-year useful life, resulting in an adjustment of \$197 thousand and \$393 thousand of amortization expense to General and administrative expenses on the Consolidated Statements of Operations for the six months ended June 30, 2022 and the twelve months ended December 31, 2021, respectively. These numbers may change significantly when the final allocation of purchase price is calculated.

In addition, this adjustment reflects the recognition of goodwill of \$7,863 thousand.
- B. This adjustment reflects the accrual of the Company's estimated total transaction costs for legal and other professional fees and expenses, which are estimated to be approximately \$1,701 thousand.
- C. This adjustment records (1) \$1,500 thousand Bridge Loan; (2) the issuance of 2,824,995 shares of common stock to the sellers as the equity portion of the purchase consideration, valued at \$11,837 thousand based on a per share price of \$4.19, which was the closing prices of the Company's common stock on September 16, 2022; (3) plus the issuance of vested stock options for 664,874 shares, valued at \$1,919 thousand based on a per share price range of \$0.08 – \$3.86, which is the call option value based on a Black-Scholes fair value calculation assuming a term range of 1.49 – 9.66 years, 45.53% – 55.52% volatility rate range, and discount rate range of 3.45% – 3.96% based on the applicable term's treasury yield rate as of September 16, 2022; (4) plus the issuance of warrants for 588,430 shares, valued at \$111 thousand based on a per share price range of \$0.00 – \$0.24, which is the call option value based on a Black-Scholes fair value calculation assuming a term range of 0.48 – 10.95 years, 45.77% – 50.04% volatility rate range, and discount rate range of 3.45% – 3.85% based on the applicable term's treasury yield rate as of September 16, 2022.
- D. This adjustment eliminates Airobotics Ltd.'s Equity as reported in the unaudited financial statements as of and for the six months ended June 30, 2022.