

NOSTROMO ENERGY LIMITED

2021 ANNUAL REPORT

NOSTROMO ENERGY LIMITED.

2021 ANNUAL REPORT

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Auditor's Report
to the Shareholders of
Nostromo Energy Limited

We have audited the accompanying consolidated statements of financial position of Nostromo Energy Limited ("the Company") as of December 31, 2021 and 2020, and the consolidated statements of profit or loss, comprehensive loss, changes in capital deficiency and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2021 and 2020, and the results of their operations, changes in equity (capital deficiency) and their cash flows for each of the years then ended in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements), 2010.

Without qualifying our above opinion, we draw attention to note 1b to the financial statements which describes the accounting treatment for a reverse shares acquisition that the Company closed.

Tel-Aviv, Israel
March 20, 2022

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

NOSTROMO ENERGY LIMITED.
STATEMENT OF FINANCIAL POSITION

		Year ended December 31		Convenience translation into USD**	Convenience translation into USD**
	Note	2021	2020*	December 31 2021	December 31 2020
		NIS in thousands		In thousands	
A s s e t s					
CURRENT ASSETS:					
Cash and cash equivalents	5	47,594	467	15,304	145
Restricted deposits	11a	13	13	4	4
Accounts receivable	6	8,216	377	2,642	117
		55,823	857	17,950	267
NON-CURRENT ASSETS:					
Right-of-use assets	8	1,879	576	604	179
Property, plant and equipment, net	7	3,802	918	1,222	286
		5,681	1,494	1,826	465
Total assets		61,504	2,351	19,776	731

Date of approval of the financial statements by the Company's Board of Directors March 20, 2022

Ofer Ben Nun - Steinberg
Chairman of the Board

Yoram Ashery
Chief Executive Officer

Avi Hanin
Chief Financial Officer

The accompanying notes are an integral part of the financial statements

NOSTROMO ENERGY LIMITED.
STATEMENT OF FINANCIAL POSITION

		Year ended December 31		Convenience translation into USD**	Convenience translation into USD**
	Note	2021	2020*	December 31 2021	December 31 2020
		NIS in thousands		In thousands	
Liabilities and capital deficiency					
CURRENT LIABILITIES:					
Trade payables		656	501	211	156
Other payables	9	1,974	1,605	635	499
Current obligations of government grants	11	91	-	29	-
Current obligations of royalties payable	10	24	-	8	-
Current obligations of lease liabilities	8	320	136	103	42
		3,065	2,242	986	697
NON-CURRENT LIABILITIES:					
Lease liabilities, less current obligations	8	1,585	462	510	144
Liability for government grants	11	1,834	1,513	590	471
Liability for royalties payable	10	1,145	1,131	368	352
Liability for employee benefits, net		7	7	2	2
		4,571	3,113	1,470	968
CHARGES, GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES	12	-	-	-	-
T o t a l liabilities		7,636	5,355	2,456	1,666
Equity (CAPITAL DEFICIENCY ATTRIBUTED) TO OWNERS OF THE COMPANY:					
Share premium	13	165,477	33,497	53,208	10,419
Capital reserve for share-based payment share options		4,205	2,137	1,352	665
		2,324	-	747	-
Capital reserve for Translation differences		3	-	1	-
Accumulated loss		(118,141)	(38,638)	(37,988)	(12,018)
T o t a l equity (capital deficiency)		53,868	(3,004)	17,320	(934)
T o t a l liabilities and equity (less capital deficiency)		61,504	2,351	19,776	731

* Including retroactive application of a reverse purchase from June 20, 2021 - see note 1b.

**Convenience translation into US dollars ("dollars", "USD" or "\$")

For the convenience of the reader, the reported New Israeli Shekel (NIS) amounts as of December 31, 2021, and December 2020 and for the period then ended have been translated into dollars at the Bank of Israel's representative rate of exchange for December 31, 2021 (\$1 = NIS 3.11) and December 2020 (\$1 = NIS 3.215) . The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

The accompanying notes are an integral part of the financial statements

NOSTROMO ENERGY LIMITED.
STATEMENT OF COMPREHENSIVE LOSS

		Year ended December 31			Convenience translation into USD** Year ended December 31	Convenience translation into USD** Year ended December 31
	Note	2021*	2020*	2019	2021	2020
		NIS in thousands			USD	USD
Research and development expenses, net	15	9,054	6,754	5,525	2,911	2,101
Marketing expenses	16	1,731	286	130	557	89
Administrative and general expenses	17	6,575	6,528	3,080	2,114	2,030
Loss from Operations before expenses for reverse acquisition		17,360	13,568	8,735	5,582	4,220
Listing expenses for reverse acquisition		61,393	-	-	19,741	-
Loss from Operations		78,753	13,568	8,735	25,323	4,220
Finance income	18b	(153)	(1,462)	(558)	(49)	(455)
Finance expenses	18a	903	12,542	1,909	290	3,901
Finance expenses, net loss for the year		750	11,080	1,351	241	3,446
Other Comprehensive loss for the year		79,503	24,648	10,086	25,564	7,667
Translation adjustments		3	-	-	1	-
Comprehensive loss for the year		79,500	24,648	10,086	25,563	7,667
Loss per share (in NIS) - Basic and diluted loss	19	18.45	9.36	4.26	5.93	5

* Including retroactive application of a reverse purchase from June 20, 2021 - see note 1b.

**Convenience translation into US dollars ("dollars", "USD" or "\$")

For the convenience of the reader, the reported New Israeli Shekel (NIS) amounts as of December 31, 2021, and December 2020 and for the period then ended have been translated into dollars at the Bank of Israel's representative rate of exchange for December 31, 2021 (\$1 = NIS 3.11) and December 2020 (\$1 = NIS 3.215) . The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

The accompanying notes are an integral part of the financial statements

NOSTROMO ENERGY LIMITED.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital**	Share premium	Share options	Capital reserve for Translation differences NIS in thousands	Capital reserve for payment of share-based payment	Accumulated loss	Total capital deficiency
Balance as of January 1, 2019*	-	580	-	-	-	(3,904)	(3,324)
Comprehensive loss for the year	-	-	-	-	-	(10,086)	(10,086)
Share-based payment (note 12b)	-	-	-	-	2,515	-	2,515
Balance as of December 31, 2019	<u>-</u>	<u>580</u>	<u>-</u>	<u>-</u>	<u>2,515</u>	<u>(13,990)</u>	<u>(10,895)</u>
Change in the year ended December 31, 2020							
Comprehensive loss for the year	-	-	-	-	-	(24,648)	(24,648)
Transactions with owners:							
Conversion of loans into shares	-	28,827	-	-	-	-	28,827
Exercise of employee options	-	2,286	-	-	(2,277)	-	9
Share-based payment (note 12b)	-	1,804	-	-	1,899	-	3,703
Balance as of December 31, 2020	<u>-</u>	<u>33,497</u>	<u>-</u>	<u>-</u>	<u>2,137</u>	<u>(38,638)</u>	<u>(3,004)</u>
Change in the year ended December 31, 2021*							
Comprehensive loss for the year	-	-	-	-	-	(79,503)	(79,503)
Other Comprehensive loss for the year	-	-	-	3	-	-	3
Transactions with owners:							
Issue of shares and share of options	-	39,246	-	-	-	-	39,246
Exercise of employee options	-	896	-	-	(833)	-	63
Share-based payment (note 13b)	-	-	-	-	2,901	-	2,901
Reverse acquisition, net of transaction costs – see note 1b	-	91,838	2,324	-	-	-	94,162
Total transactions with owners	<u>-</u>	<u>131,980</u>	<u>2,324</u>	<u>3</u>	<u>2,608</u>	<u>(79,503)</u>	<u>56,872</u>
Balance as of December 31, 2021	<u>-</u>	<u>165,477</u>	<u>2,324</u>	<u>3</u>	<u>4,205</u>	<u>(118,141)</u>	<u>53,868</u>

* Less than NIS 1 thousand

** Including retroactive application of a reverse purchase from June 20, 2021 - see note 1b.

The accompanying notes are an integral part of the financial statements

NOSTROMO ENERGY LIMITED.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Convenience translation into USD Year ended 2020	Share capital	Share premium	Share options	Capital reserve for Translation differences	Capital reserve for payment of share- based payment	Accumulated loss	Total capital deficiency
USD in thousands 31 December 2021***							
Balance as of							
December 31, 2020	-	10,771	-	-	687	(12,424)	(966)
Comprehensive loss for the year	-	-	-	-	-	(25,564)	(25,564)
Other Comprehensive loss for the year	-	-	-	1	-	-	1
Transactions with owners:							
Issue of shares and share of options	-	12,619	-	-	-	-	12,619
Exercise of employee options	-	288	-	-	(268)	-	20
Share-based payment (note 13b)	-	-	-	-	933	-	933
Reverse acquisition, net of transaction costs – see note 1b	-	29,530	747	-	-	-	30,277
Total transactions with owners	-	42,437	747	1	665	(25,564)	18,285
Balance as of							
December 31, 2021	-	53,208	747	1	1,352	(37,988)	17,320

* Less than NIS 1 thousand

***For the convenience of the reader, the reported New Israeli Shekel (NIS) amounts as of December 31, 2021, and December 2020 and for the period then ended have been translated into dollars at the Bank of Israel's representative rate of exchange for December 31, 2021 (\$1 = NIS 3.11). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

The accompanying notes are an integral part of the financial statement

NOSTROMO ENERGY LIMITED.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Convenience translation into USD Year ended 2020	Share capital*	Share premium	Share options	Capital reserve for Translation differences	Capital reserve for payment of share- based payment	Accumulated loss	Total capital deficiency
USD in thousands 31 December 2021***							
Balance as of December 31, 2020	-	180	-	-	782	(4,351)	(3,389)
Comprehensive loss for the year	-					(7,667)	(7,667)
Transactions with owners:							
Conversion of loans to shares	-	8,965	-	-	-	-	8,965
Exercise of employee options	-	711	-	-	(708)	-	3
Share-based payment	-	561	-	-	591	-	1,152
Balance as of December 31, 2020	<u>-</u>	<u>10,419</u>	<u>-</u>	<u>-</u>	<u>665</u>	<u>(12,018)</u>	<u>(934)</u>

* Less than NIS 1 thousand

**For the convenience of the reader, the reported New Israeli Shekel (NIS) amounts as of December 31, 2020 and for the period then ended have been translated into dollars at the Bank of Israel's representative rate of exchange for December 31, 2020 (\$1 = NIS 3.215). The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

NOSTROMO ENERGY LIMITED.

STATEMENT OF CASH FLOWS

	Year ended December 31			Convenience translation into USD** December 31 2021	Convenience translation into USD** December 31 2020
	2021	2020*	2021	December 31 2021	December 31 2020
	NIS in thousands			In thousands	In thousands
Cash flows from operating activity -					
Net cash used in operations, see appendix a.	<u>(15,404)</u>	<u>(7,788)</u>	<u>(6,133)</u>	<u>(4,953)</u>	<u>(2,422)</u>
Cash flows from investing activities:					
Acquisition of property, plant and equipment	(3,171)	(314)	(430)	(1,020)	(98)
Maturity of restricted deposits	-	45	-	-	14
Creation of restricted deposit	-	(13)	-	-	(4)
Net cash used in investing activity	<u>(3,171)</u>	<u>(282)</u>	<u>(430)</u>	<u>(1,020)</u>	<u>(88)</u>
Cash flows from financing activity:					
Cash from reverse acquisition less transaction costs (note 1b)	32,910	-	-	10,582	-
Issue of shares and share of options	32,956	-	-	10,597	-
Exercise of employee options	63	-	-	20	-
Related parties	-	43	-	-	13
Payment of principal on lease	(286)	(208)	(229)	(92)	(65)
Convertible loan received	-	4,745	7,482	-	1,476
Payment of issue costs of convertible loan	-	-	(59)	-	-
Non-government grants received	170	408	650	55	127
Government grants received	111	969	-	36	301
Advances received for government grant	-	407	-	-	127
Short-term loan received	-	-	500	-	-
Short-term loan repaid	-	-	(500)	-	-
Interest paid	(81)	(10)	(15)	(26)	(3)
Net cash provided from financing activity	<u>65,843</u>	<u>6,354</u>	<u>7,829</u>	<u>21,172</u>	<u>1,976</u>
Increase (decrease) in cash and cash equivalents	<u>47,268</u>	<u>(1,716)</u>	<u>1,266</u>	<u>15,199</u>	<u>(534)</u>
Balance of cash and cash equivalents as of beginning of year	<u>467</u>	<u>2,203</u>	<u>1,098</u>	<u>150</u>	<u>685</u>
Impact of changes in exchange rates on cash and cash equivalents	<u>(141)</u>	<u>(20)</u>	<u>(161)</u>	<u>(45)</u>	<u>(6)</u>
Balance of cash and cash equivalents at end of year	<u><u>47,594</u></u>	<u><u>467</u></u>	<u><u>2,203</u></u>	<u><u>15,304</u></u>	<u><u>145</u></u>

NOSTROMO ENERGY LIMITED.
STATEMENT OF CASH FLOWS (continued)

	Year ended December 31			Convenience translation into USD** December 31 2021	Convenience translation into USD** December 31 2020
	2021	2020*	2021	2021	2020
	NIS in thousands			In thousands	
a. Appendix to the statement of cash flows – net cash used in operations:					
Loss for the year	(79,503)	(24,648)	(10,086)	(25,564)	(7,667)
Adjustments for:					
Depreciation expenses	535	143	79	172	45
Finance expenses, net	41	10,995	1,430	13	3,420
Liability for grants recognized	(99)	544	-	(32)	169
Depreciation of right-of-use asset	330	200	167	106	62
Change in liability for employee benefits, net	-	-	(1)	-	-
Listing expenses for reverse acquisition	61,393	-	-	19,741	-
Share-based payment	2,901	3,703	2,515	933	1,152
	<u>65,101</u>	<u>15,585</u>	<u>4,190</u>	<u>20,933</u>	<u>4,848</u>
Changes in working capital items:					
Decrease (increase) in accounts receivable	(1,548)	644	(826)	(498)	200
Increase (decrease) in trade payables	158	128	270	51	40
Increase in other payables	388	503	319	125	156
	<u>(1,002)</u>	<u>1,275</u>	<u>(237)</u>	<u>(322)</u>	<u>397</u>
Net cash used in operations	<u>(15,404)</u>	<u>(7,788)</u>	<u>(6,133)</u>	<u>4,953</u>	<u>(2,422)</u>
b. Appendix – Investment and financing activities not involving cash flows:					
\$					
Exercise of employee stock options	-	9	-	-	-
Conversion of convertible loans into shares	-	28,827	-	-	-
Recognition of right-of-use asset against lease liabilities	6,290	-	-	-	2,023
Conversion of outstanding balance of liability to related parties into convertible shares	-	-	1,005	-	-
Fixed assets under construction	250	-	-	-	80
Recognition of asset against new lease liabilities	1,633	-	673	-	525

**Convenience translation into US dollars ("dollars", "USD" or "\$")

NOSTROMO ENERGY LIMITED.

STATEMENT OF CASH FLOWS (continued)

For the convenience of the reader, the reported New Israeli Shekel (NIS) amounts as of December 31, 2021, and December 2020 and for the period then ended have been translated into dollars at the Bank of Israel's representative rate of exchange for December 31, 2021 (\$1 = NIS 3.11) and December 2020 (\$1 = NIS 3.215) . The dollar amounts presented in these financial statements should not be construed as representing amounts that are receivable or payable in dollars or convertible into dollars, unless otherwise indicated.

* Including retroactive application of a reverse purchase from June 20, 2021 - see note 1b.

The accompanying notes are an integral part of the financial statements

NOSTROMO ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL:

a. Description of the Company and its activity

Nostromo Ltd (hereinafter - Nostromo) is a company that was incorporated in Israel in 2017 and is engaged in development, manufacturing, marketing and selling of behind-the-meter energy storage and demand management systems, as described below.

Nostromo Energy Limited (hereinafter: "the Company", formerly - "Somoto Limited") was incorporated in February 2009 in the British Virgin Island as Somoto Ltd (hereinafter: "the Company"). In June 2021, a transaction was completed in which the Company acquired the entire ownership interest of Nostromo through a reverse acquisition, whereas shortly prior to the transaction, all legacy activity of Somoto Ltd as of that date was transferred to another entity (as described in note 1b below).

The Company is active in a single area of operations, developing advanced water-based thermal technologies for energy storage and energy demand management for office buildings, shopping malls, hospitals, datacenters and other commercial entities that use chiller-based air conditioning. As part of its activity, the Company developed an energy-storage system based on a unique energy cell called IceBrik™ (hereinafter - "the System" or "the Storage System"), which contains hundreds of water capsules. The System allows conversion and storage of electric energy into the form of cold energy.

In addition to the storage system, the Company is developing a cloud-based software system for controlling and monitoring which expected to allow for fast installation, management and optimization of the Storage System at the customer's site.

The registered office of the Company is in Israel on 21 Bnei Binyamin St., Even Yehuda. The Company is a public entity whose shares are traded on the Tel Aviv Stock Exchange.

b. Reverse acquisition transaction with Somoto Limited:

- 1) On December 27, 2020, the Company signed a binding agreement for the acquisition of securities of Nostromo Ltd (hereinafter: "Nostromo"), a private company registered in Israel which is not related to the Company and/or anyone on its behalf, whose main business is development of energy storage and demand management technology (hereinafter: "the Agreement" and "the Merger Deal", as applicable). According to the Agreement, the Company will invest in Nostromo \$10.2 million in exchange for Nostromo's shares, which will represent 21.5% of the issued and paid up share capital on transaction date, and, on the date of closing the Merger Deal, a share swap will be made between the shareholders of the Company and the shareholders of Nostromo such that the shareholders of the Nostromo would transfer to the Company shares representing on the date of signing the Agreement, together with options granted to Nostromo employees and service providers, which will be cancelled in exchange to stock options of the Company by virtue of an employee option plan under Securities Regulations (Details of Plans for Offering Securities to Employees), 2000 (hereinafter: the "Share-Based Payment Plan to Nostromo Employees") that would be adopted by the Company after closing the Merger Deal, 100% of the issued and paid up share capital of Nostromo on a fully-diluted basis (excluding the share investment in Nostromo), and in exchange, the Company would allocate ordinary shares to the shareholders of Nostromo, which, along with the options that would be allocated to the rest of the Nostromo option holders who are not covered by the Share-Based Payment Plan to Nostromo Employees, would represent 73.5% of the issued and paid up share capital of the Company on a fully-diluted basis, and would allocate additional ordinary shares at 1.5% to investment banks involved in the Merger Deal.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 - GENERAL (continued):

- 2) On June 20, 2021, the Company announced that the Merger Deal was closed, in which all conditions precedent defined in the Agreement was satisfied, and the Company transferred its entire holding in subsidiaries that were held at 100% up to that date by the Company, Somoto Israel Ltd, Terser Tude Ltd, Tim Adtech Ltd to Neratech under the provisions in subsection 4 below. Additionally, as part of transferring the holdings of the Company in the subsidiaries, all employees of the subsidiaries were transferred to Neratech, including stock options they held at that time (hereinafter: the "Employee Options Transferred to Neratech").
- 3) Additionally, on the date of closing the transaction, the Company transferred to a trustee a cash amount equivalent to US\$1,500 thousand for a period of 18 months from closing date. At the end of that period, the balance remaining of the amount in trust, if any remaining, would be transferred to the shareholders of Somoto Limited on entitlement date, such that those amounts would not be part of the assets of the transferred activity.
- 4) Despite that the Company is the acquirer of the shares from a legal standpoint, since on the date of closing the share acquisition transaction, among other things, the Nostromo shareholders (as existed immediately prior to the share acquisition transaction) gained most voting rights in the Company, and outline its ongoing business activity, the share acquisition transaction was accounted for in the financial statements as a reverse acquisition.
- 5) In light of the above, these financial statements were issued under the name of the Company but were accounted for as continuation of Nostromo's financial statements, which is the acquirer in this transaction for accounting purposes. Therefore, those consolidated financial statements reflect the continued financial position, results of activity and cash flows of Nostromo, except for share capital and loss per share information. Accordingly, the statement of financial position as of December 31, 2021 and the statements of changes in equity for the year ended December 31, 2021 and for the year ended December 31, 2020 were retrospectively adjusted to reflect the legal share capital of the Company beginning in the earliest reporting period.

According to the reverse acquisition method, the assets and acquisitions of Nostromo (the acquirer for accounting purposes) were recognized in the financial statements according to the carrying amount on transaction closing date. Acquisition consideration, at NIS 94,436 thousand, was determined according to the value of the Company's shares and according to the value of Employee Options Transferred to Neratech, previously employees of Somoto Limited, which are exercisable into shares of the Company according to the original terms of grant, as estimated by an independent valuer as of that date, shortly prior to closing date, with the difference between the acquisition consideration and the Company's net assets (which include, among others, cash of NIS 33,185 thousand, working capital (excluding cash) NIS 142 thousand and treasury shares of NIS 6,224 thousand, less additional transaction costs of NIS 275 thousand, which were deducted from share premium) at a total of NIS 61,393 thousand, was recognized in comprehensive income as listing expenses on reverser acquisition.

c. Setting up a US subsidiary

In July 2021, Nostromo created Nostromo Energy Inc., a wholly owned subsidiary that was incorporated in Delaware (hereinafter together: "the Group"). Nostromo Energy Inc. began its activity in November 2021 and serves as the execution arm of Nostromo in US-based projects.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 - GENERAL (continued):

d. Sources of financing

The Company is at the end of research and development of the IceBrick system, and before its commercialization, and is engaged in research and development of its next-generation products, but has not generated revenue from its activity. As of December 31, 2021, the Company has NIS 118 million in loss and a negative cash flow from ongoing activity of NIS 15.4 million in the year that ended on that date. In the absence of revenue and without reaching profitability, in order to continue its ongoing activity, the Company will be required to obtain additional sources of financing from external entities, including grants, and continue to raise capital from its shareholders and new investors.

In 2021, the Company raised NIS 72 million in capital. See note 13.

Management believes that the financing sources available to it as a result of such capital raises, along with the grants available to it and engagement with retail and commercial customers, will allow it to continue ongoing activity in the present format for a period of at least 12 months from the date of approving the financial statements.

Management plans to continue operating, including through receiving grants, raising capital, making investments in the Company and engaging in long-term contracts with private and government-owned customers.

e. Covid-19 Pandemic

Since early 2020, the world has been experiencing macroeconomic consequences caused by the spread of COVID-19. The Company is exposed to the local and global macroeconomic impacts and risks associated with the virus outbreak, which may impact its results of activity. The pandemic has caused significant damage to the global economy, including the Israel economy. During that period, the Company has done its best to continue operating continuously according to the guidance of relevant entities. The continued spread of the virus in Israel and worldwide, the economic uncertainty, various steps implemented and may be implemented in the future by authorities and countries (both in Israel and elsewhere) with the aim of preventing or limiting the spread of the virus (such as isolation and limits on crossing international borders) may adversely affect the development of the Company's activity. As of the date of signing the financial statements, the impact of the virus on the activity of Company was reviewed, and other than supply chain delays, restrictions on business trips to suppliers and potential customers, as well as working from home / intermittent absence of some employees due to self-isolation and/or being sick, the Company has not experienced significant impact, but the Company is unable to assess the impact of the virus in the future.

Note that the global restrictions on movement imposed in countries around the world in previous waves limited the ability of the Group to visit sites of potential customs outside of Israel; however, the Group partially overcame those limitations in light of the fact that it operates in the US, including through appointing a regional manager and project manager based in California.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

The following significant accounting policies have been consistently applied in preparation of the financial statements to all years presented, unless otherwise is stated:

a. Basis of presentation of the financial statements:

The financial statements of the Company as of December 31, 2021 and 2020 and for each of the three years in the period ended on that December 31, 2021 was prepared in accordance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting

Standards Board (hereinafter: the IFRS Standards), and include the additional disclosure required by Securities Regulations (Annual Financial Statements), 2010.

As to presentation of these financial statements, note as follows:

- 1) Significant accounting policies as described below have been consistently applied to all years presented, unless otherwise is indicated.
- 2) The financial statements were prepared in accordance with the historical cost convention, subject to adjustments in respect of revaluation of financial assets and financial liabilities (including derivative instruments) presented at fair value
- 3) The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3. Actual results may differ materially from estimates and assumptions used by the Company's management.
- 4) The operative cycle of the Company is 12 months.
- 5) The Company analyzes the expenses recognized in the income statement using the classification method based on the functional category to which the expense belongs.

b. Consolidation of the financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company. Control is achieved when the Company has power over an investee, 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 only when they are exercised 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, between the Company and subsidiaries are eliminated in full in the consolidated financial statements. When control over a subsidiary is lost, the Group recognizes in profit or loss the difference between the overall consideration received and the fair value of any investment remaining in the former subsidiary and the carrying amount of the assets, liabilities and non-controlling rights in the former subsidiary. The dates of financial statements of the subsidiaries are identical to the date of the Company's financial statements. The accounting policies of subsidiaries are identical to those of the Company's financial statements. The accounting policy applied in the financial statements of the subsidiaries has been implemented consistently with that applied in the financial statements of the Company.

NOSTROMO ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

c. Translation of foreign currency balances and transactions:

1) Functional and presentation Currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which that entity operates (the "functional currency"). The financial statements are presented in NIS, which is the Company's functional and presentation currency.

2) Transactions and balances

Foreign currency transactions in currencies different from the functional currency (hereinafter – "foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Exchange differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are attributed to statement of comprehensive income (loss) within financial income (loss).

d. Property, plant and equipment

Property, plant and equipment is initially included at acquisition cost. Cost includes payments directly attributed to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred. All items of property, plant and equipment are presented at historical cost net of accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method to allocate the cost of property plant and equipment or revalued amounts to their residual values over their estimated useful lives, as follows:

	<u>%</u>
Office furniture and equipment	6-16 years
Computers	3 years
Laboratory equipment and electronic equipment	6-10 years
Vehicles	7 years
Leasehold improvements	*
Hoarding systems	** years

*Leasehold improvements are amortized by the straight-line method over the shorter of the term of the lease, or their estimated useful lives.

** In connection with judgments regarding depreciation of hoarding systems, see note 3e.

The amortization is performed in a systematic manner over the expected useful lives of the items from the date the asset is ready for use namely, when directly attributed to bringing the asset to the location and condition required for it to operate in the manner intended by management.

The depreciation method, useful lives and residual values of the assets are reviewed and updated, if appropriate, at least at each once annually.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Impairment of the asset to its recoverable amount is recognized as incurred, if the carrying amount of the asset is greater than its estimated recoverable amount (see e. below). Amortizations and impairments of property, plant and equipment presented at cost are recognized in profit or loss.

Gains or losses on disposals are determined by comparing net proceeds with the carrying amount and are recognized in "other expenses (income) in profit or loss.

e. Intangible assets

Research and development expenses are expensed as incurred. Costs incurred on development projects (associated with design and testing of new or improved products) design and testing of new or improved products) are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the intangible assets so that it will be available for use;
- Management intends to complete the intangible asset and use it or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development costs that do not meet the above criteria are recognized at cost as incurred. Development costs previously recognized as an expense are not recognized as an asset on a subsequent period.

f. Impairment of non-monetary assets

Non-monetary assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels of identifiable cash flows (cash-generating units). Non-monetary assets, other than goodwill, that were impaired are reviewed for possible reversal of the impairment recognized at each statement of financial position date.

g. Government grants

Grants from the Innovation Authority at the Ministry of Economy and Industry (formerly – the Chief Scientist) (hereinafter – the Innovation Authority) from the Ministry of National Infrastructures and Israel-United States Research and Development Foundation as participation in research and development activities performed by the Company qualify as "forgivable loans" under IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance" (hereinafter - "IAS 20").

The liabilities for government grants are recognized and measured in accordance with IFRS 9. If on the date in which the entitlement for the grant is formalized (hereinafter - "entitlement date") management concludes that there is no reasonable assurance that the relevant grant (hereinafter - the "grant received") would not be repaid, the Company, as of that date, recognizes a financial liability, which is accounted for under the guidance in IFRS 9 regarding financial liabilities measured at amortized cost. The difference between the grant received and the fair value of the said financial liability on the date of initial recognition is accounted for as government grant and recognized in profit or loss as a reduction of research and development expenses.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

In case that on entitlement date the Company's management concludes that there is reasonable assurance that the grant would not be repaid, the grant is recognized, as of that date, to profit or loss as a reduction of research and development expenses. To the extent that management initially concludes that there is no reasonable assurance that the grant would not be repaid, the Company recognizes, as of that date, a financial liability against profit or loss. That said financial liability is accounted for according to the guidance in IFRS 9 regarding financial liabilities measured at amortized cost.

h. Cash equivalents:

Cash and cash equivalents in the statement of cash flows include cash in hand and short term bank deposits not restricted as to use and other short-term highly liquid investments with maturity dates not exceeding three months.

i. Financial assets:

1) Classification

Financial assets at amortized cost

Financial assets at amortized cost are assets held under a business model for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

Those assets are classified as current assets, except for those with maturities of more than 12 months after the date of statement of financial position, which are classified as non-current. Financial assets at amortized costs of the Company are included in the following items in the statement of financial position: "receivables", "deposits restricted in use" and "cash and cash equivalents"

2) Recognition and measurement

A regular way purchase or sale of financial assets is recognized on transaction settlement date, which is the date that an asset is delivered to or by the Company. Investments are initially recognized at fair value plus transaction costs, for all financial assets not measured at fair value through profit or loss. Financial assets at amortized cost are measured in subsequent periods at amortized costs, using the effective interest method.

3) Impairment of financial assets

The Company recognizes provision for expected credit losses on financial assets which are debt instruments measured at amortized cost. The Company assesses at each date of statement of financial position whether there has been a significant increase in credit risk of the financial assets since its initial recognition on an individual or collective basis. To do that, the Company compares the risk of a default occurring on the asset as of the reporting date with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

For financial instruments whose credit risk has increased significantly since initial recognition, the Company measures the loss allowance at an amount equal to the lifetime expected credit losses of the instrument. Otherwise, the Company measures the loss allowance at an amount equal to 12-month expected credit losses. For low credit risk financial instruments, the Company assumes the credit risk on a financial instrument has not increased significantly since initial recognition.

NOSTROMO ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

j. Financial liabilities

Financial liabilities at amortized cost

On the date of initial recognition, the Company measures the financial liabilities at fair value less transaction costs that can be directly attributable to the issuance of financial liabilities. Subsequent to initial recognition, the Company measures financial liabilities at amortized costs, using the effective interest method.

Financial liabilities measured at fair value through profit or loss

Upon initial recognition, the Company measures the financial liabilities, which are not measured at amortized cost, at fair value and transaction costs are recognized in profit and loss. Subsequent to initial recognition, changes in fair value are recognized in profit or loss.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when and only when the financial liability is paid, cancelled or expires. The difference between the carrying amount of the financial liability that was settled and the consideration paid is recognized in profit or loss.

k. Share capital

Company's ordinary shares are classified as share capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds of issuance.

l. Trade payables

Trade payables consist of obligations of the Company to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less, otherwise they are classified as non-current liabilities.

m. Borrowings

Borrowings are initially recognized at fair value net of transaction costs. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities, unless the Group has unconditional right to defer settlement of the liability for at least 12 months after the reporting period, then they are classified as non-current liabilities.

n. Compound financial instruments

The conversion element in convertible loans whose exercise price is not fixed and/or its conversion price is linked to the exchange rate of the US dollar represent a financial liability that is an embedded derivative, whose economic features and risks are not closely related to the economic features and risks of the loans.

In accounting for such convertible loans, the Company bifurcates and measures separately the host instrument (the loans without the conversion options) and the embedded derivative (the conversion option). The embedded derivative is initially recognized at fair value on the date of issuance. The host instrument is initially recognized at the amount of difference between the overall consideration from extending the convertible loan and the fair value of the embedded derivative.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Costs directly attributed to the transaction are allocated to the host instrument and the embedded derivative based on the proportion of the initial value in which those elements were recognized. The costs allocated to the embedded derivative are immediately to profit or loss while costs allocated to the host instrument offset the amount initially recognized in its respect. The embedded derivative is measured in subsequent events at fair value, while the host instrument is measured at amortized cost using the effective interest method.

The liability element of a compound financial instrument is classified within current liabilities unless the Company has an unconditional right to defer settlement of the liability or in exchange for another financial asset for at least 12 months after the end of the reporting period.

o. Loss per share

The calculation of basic loss per share is generally based on the loss attributed to ordinary shares of the Company divided by the weighted average number of outstanding ordinary shares during the period.

In calculating the diluted loss per share, the average number of potential shares, assuming all dilutive potential shares are converted, is added to the average number of ordinary shares that is used as basis for calculation of basic loss per share. Potential shares are taken into account, as above, only when their impact is dilutive (i.e. decrease income or increase loss per share).

p. Employee benefits:

1) Short-term employee benefits

Short-term employee benefits include the obligation of the Company to pay salary, vacation days, sick leave, recreation fees and contributions to Israel National Insurance (Bituah Leumi) and are recognized as expenses upon the provision of corresponding services. According to the Law, an employee is entitled to vacation and recreation benefits on a monthly basis. The entitlement is based on the number of years of service. The Company recognizes an obligation and expense for vacation and recreation benefits based on the benefit accumulated for each employee.

2) Pension and Severance Pay Obligations.

A Defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate and independent entity. The Company has no legal or constructive obligations to pay any further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Company has defined contribution plans in accordance with Section 14 to the Severance Pay Law, 1963.

The Company pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense commensurate with receipt from employees of the service in respect of which they are entitled for the contributions.

The amounts recognized as expense in respect of defined contribution plans in 2021, 2020 and 2019 are NIS 427 thousand, NIS 235 thousand and NIS 167 thousand, respectively.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Share-based payment

The Company has a share-based payment plan for employees and service providers, settled by the Company's equity instruments (options). The fair value of services received from employees and service providers in exchange for the options is recognized as an expense in profit or loss, with corresponding recognition in a capital reserve. The total amount recognized as an expense in profit or loss is based on the fair value of the options granted.

The total expense is recognized in the vesting period, which is the period for fulfillment of all the defined vesting terms of the share-based payment arrangement.

At each reporting date, the Company adjusts its estimates of the number of options that are expected to vest, based on the non-market vesting conditions, and recognizes the effect of the change compared to original estimates, if any, in profit or loss, and a corresponding adjustment in equity.

When exercising the options, the Company issues new shares, the proceeds, net of directly attributable transaction costs, are recognized in share capital and premium.

Additionally, in certain circumstances, an employee may provide services to the Company before grant date and therefore an estimation of the fair value is performed on grant date in order to recognize expenses during the period from the date of beginning the provision of the services and grant date.

r. Leases

- 1) The Company leases offices and vehicles. Lease agreements are mainly for periods of 3 to 6 years but might include extension options.
- 2) The policy of the Company regarding leases in which the Company is the lessee are applied since January 1, 2019 in accordance with IFRS 16:

The Company assesses when entering a contract whether it is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

At initial recognition, the Company recognizes a lease liability at the present value of future lease payments, which include, among other things, the exercise price of extension options that are reasonably certain to be exercised.

At the same time, the Company recognizes a right-of-use asset for the lease, adjusted for any lease payments made at or before the lease commencement date, less any lease incentives received and plus any initial direct costs incurred by the Company.

As the interest rate implicit for the lease is not readily determinable, the incremental borrowing rate of the Company is used. This is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease term is the non-cancellable period of the lease, together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Subsequent to commencement date, the Company measures the right-of-use asset at cost, less accumulated depreciation and accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation of the right-of-use asset is calculated using the straight-line method over the shorter of estimated useful life of the leased asset or lease term. Building lease term – 6 years and vehicles – 3 years.

Interest on the lease liability is recognized in profit or loss in each period during the lease term at the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

Payments for short-term leases of equipment and vehicles and payments for leases with underlying assets that are of low value are expensed to profit or loss on the straight-line method over lease term. Short-term leases have terms of 12 months or less.

s. Leases

The weighted average of the incremental interest rate applied to capitalization of lease liabilities recognized in the statement of financial position is 15%

t. New international financial reporting standards, amendment to standards and new interpretations:

- 1) New standards and amendments to existing standards that are mandatory for reporting periods beginning on January 1, 2021:

Amendments to International Financial Reporting Standard 9 "Financial Instruments" (hereinafter - IFRS 9), International Accounting Standard 39 "Financial Instruments: Recognition and Measurements" (hereinafter – IAS 39), International Financial Reporting Standard 7 "Financial Instruments: Disclosures" (hereinafter - IFRS 7), International Financial Reporting Standard 4 "Insurance Contracts" (hereinafter - IFRS 4) and International Financial Reporting Standard 16 "Leases" (hereinafter - IFRS 16) – below are the amendments to the standards:

The amendments to the Standards are under Phase 2 of the IASB project, which provide practical expedients regarding the Interest Rate Benchmark Reform (hereinafter – IBOR Reform), with the objective to address issues that may arise when the benchmark interests are actually replaced. The amendments to the Standards provide a practical expedient for financial assets and liabilities measured at amortized cost, to account for these changes in the basis for determining contractual cash flows by updating the effective interest rate so that entities do not apply derecognition. A similar expedient was provided for lease liabilities recognized by a lessee under IFRS 16. For hedging accounting, the amendments to the Standards clarify the date an entity shall discontinue the application of the expedients provided in Phase 1 of the project for a non-contractual risk component, as well as provide five expedients for application of specific provisions of IAS 39 and IFRS 9 to hedge accounting relationships directly affected by the IBOR Reform. Additionally, the amendments to the Standards provide new disclosure requirements relating to the IBOR Reform. The Company/Group applies the above amendments retrospectively. The first-time application of those amendments did not have material impact on the consolidated financial statements of the Group.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

t. New international financial reporting standards, amendment to standards and new interpretations (Continued):

- 2) New standards and amendments to existing standards that are not in effect and the Company did not elect to early adopt them:

1. IAS 1 "Presentation of Financial Statements" (hereinafter - Amendment to IAS 1)

The amendment to IAS 1 clarifies the guidance regarding the classification of liabilities as current or non-current as dependent on the existing rights of the entity at the end of the reporting period. The amendment clarifies, among other things, that:

- a) Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendment indicates that management's expectations do not affect classification and eliminates unconditional rights, since in most cases, liabilities are contingent (i.e. when financial covenants are defined).
- b) Classification depends on the existence of the right to defer settlement of the liability for at least 12 months after the end of the reporting period rather than being depended on the question of whether the entity expects to exercise the right. That is, the intention of the entity regarding the exercise of the right is irrelevant for classification of the liability;
- c) A substantive right exists only if the entity complies with any relevant conditions at the reporting date. A liability is classified as short term only if the terms and conditions accompanying the liability was not complied with on or before balance sheet date and a waiver has been obtained after balance sheet date. A liability is classified as long term if the accompanying condition was not complied with after balance sheet date.
- d) For the purposes of reviewing, "settlement" of a liability can be done through cash payment, other financial resources or equity instruments of the entity. However, a conversion right regarding a convertible instrument that is classified in equity does not affect the classification of the liability associated with the instrument.

The Amendment to IAS 1 will be applied retrospectively to annual periods beginning on or after January 1, 2023. According to the provisions of the Amendment, early adoption is permitted.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT:

Estimates and judgments are continuously tested, based on past experience and other factors, including expectations about future events that are deemed probable in light of the existing circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

a. Depreciation of energy storage systems

The storage systems installed at customer sites are depreciated using the straight-line method in light of reviewing the useful life as well as the economic life

As to the useful life, the Company has performed an extensive two-year trial in collaboration with a Shell laboratory for testing usage over 6,6000 freezing and defrost cycles (an accelerated model for testing the longevity of the product.

As to the economic life, the Company reviewed the duration of agreements with customers.

From the perspective of the depreciation method, the Company examined the economic benefits of the system over the years, and since the scale of power saving over the life of the installation is uniform, as the customer homogenously consumes services from the system across years, since the customer's consumption is homogeneously over the usage life of the storage unit the Company believes that the storage systems installed at the sites of its customers have a lifespan of 20 years, and they will be depreciated using the straight-line method.

b. Share-based payment

Share-based payment expenses related to options granted to directors and employees are measured at the fair value of the Company's ordinary shares and the fair value of the option using the binomial model for option pricing. The pricing model requires to make various assumptions, including the expected volatility, lifetime of the option and the fair value of the shares as of the date of granting the options. The expected volatility is estimated based on the historical volatility of reference companies, which are comparable public companies. The expected life of the options is estimated based on the expectations of price fluctuations and expected exercise patterns by option holders.

c. Convertible loans:

The convertible loan agreements in which the Company engaged have a number of clearing alternatives, including settlement by issuing a variable number of shares depending on the occurrence of different events (e.g. a capital raising). This requires the Company to analyze the impact of each of the conditions on the classification of the instrument as financial liability and/or an equity instrument, and to examine the presence of embedded derivatives in the loan contracts, among other things, based on an analysis of the underlying contractual terms and conditions. The conversion element is accounted for as a derivative at fair value through profit or loss. The value of the conversion element measured comes from the following components:

- 1) The value arising from the fixed discount component that is estimated based on the amount of principal, the discount rate and the risk-free interest rate.
- 2) The value arising from the fixed exercise price is estimated by using the Black and Scholes formula for option pricing, which is based on adjusted exercise price.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT (Continued):

The pricing model requires making various assumptions, including the value of the share for each date of receiving proceeds, the date of future financing round and the probability for materialization of the round, risk-free interest rate and expected volatility.

Share price is estimated at the value of equity attributed to shareholders. The date of the future financing round and the probability of its materialization are based on management estimations. The risks-free interest rate is based on the yield to maturity of unlinked US government bonds. The expected volatility is estimated based on historical volatility of similar companies.

Convertible loans were relevant to the Company in 2019-2020. In December 2020, all convertible loans were converted into shares of the Company.

d. Government grants

The total amount of grants that the Company received from the Israel Innovation Authority, the Israel Ministry of Energy and the Israel-United States Research and Development Foundation (hereinafter - "BIRD") that can create a liability to pay royalties was NIS 2.8 million and NIS 2 million as of December 31, 2021 and 2020, respectively. As described in note 2f, management has to examine whether there is reasonable assurance that the grant would not be repaid. Additionally, in a situation in which on the date of initial recognition the grants are recognized in comprehensive loss, management is required to examine in subsequent periods whether it projects success and payment of the associated royalties in their respect is reasonable. According to management estimates as of December 31, 2021, there is no reasonable assurance that a grant whose reception has been established (hereinafter - the "Grants Received") will not be repaid by the Company in respect to expected revenues of the Company, which are discounted using a discount rate of 15%. The total amount of liabilities for grants received as of December 31, 2021 is NIS 2.8 million. An update of such liability is recognized in the research and development expenses item.

e. Capitalization of development costs

Development costs are recognized based on the accounting policy presented in note 2e. The Company is reviewing from time to time its compliance with IAS 38 as described in that note for the purpose of recognizing development costs as an asset. When development activities are performed, the Company estimates that it is not possible to determine that it is in compliance with all the above conditions regarding most development costs that incurs. The Company will continue to review its compliance with the criteria above, when investing additional development costs, with attention given to business developments.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

a. Financial risk management:

1) Financial risk factors

The activity of the Company exposes it to a variety of financial risks: market risks (including foreign currency risk and cash flow interest rate risk), credit risks and liquidity risks.

Risk management is performed by the Company's Finance Department, according to a policy approved by the Board of Directors. The Finance Department identifies and assesses financial risks. The board provides principles for the overall management of the risks.

a) liquidity risk

The activity of the Company exposes it to a major financial risk – liquidity risk. Forecasting of cash flows is performed by Finance, which reviews ongoing forecasts of the liquidity requirements within the Company, to ensure that sufficient cash is available for operating needs. See also note 1c.

The following tables provide details about the dates of the outstanding contractual maturities of the Company related to its financial liabilities. The tables were prepared based on the undiscounted cash flows of financial liabilities based on the earliest date in which the Company may be required to pay off. The table presents cash flows for both.

interest and principal.

	Up to 1 year	Between 1 to 2 years	Between 2 to 5 years	Over 5 years
	NIS in thousands			
Balance as of December 31, 2021:				
Lease liabilities	320	373	904	307
Liability for government grants	91	594	1,241	-
Liability for royalty payable	24	163	983	-
Trade and other payables	2,630	-	-	-
	<u>3,065</u>	<u>1,130</u>	<u>3,128</u>	<u>307</u>
Balance as of December 31, 2020*:				
Lease liabilities	136	136	326	-
Liability for government grants	-	796	-	-
Liability for royalty payable	-	1,056	-	-
Trade and other payables	1,699	407	-	-
	<u>1,835</u>	<u>2,385</u>	<u>326</u>	<u>-</u>

b) Market risks:

Foreign exchange risk

The activity of the Company is exposed to foreign exchange risks resulting from exposures to different currencies, mainly the US dollar. The exchange rate risk stems from assets and liabilities denominated in foreign currency.

Cash flow interest rate risk

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued):

The Company received grants from the BIRD Foundation as participation in research and development performed by the Company. According to the terms of the grant, the Company is required to pay royalties from revenue earned from selling products whose development was supported by grant, linked to the US dollar.

2) Capital risk management

The capital risk management targets of the Company are to maintain its ability to continue operating as a going concern and maintain an optimal capital structure to reduce capital costs.

The Company may take certain steps to maintain or adjust its capital structure, including to issue new shares.

b. Financial instruments:

1) Financial instruments presented at amortized cost:

	December 31	
	2021	2020
	NIS in thousands	
Financial assets:		
Cash and cash equivalents	47,594	467
Accounts receivables	7,993	377
Restricted deposits	13	13
	<u>55,600</u>	<u>857</u>
Financial liabilities:		
Trade payables	656	501
Other payables	1,974	1,605
Lease liabilities	1,905	598
Other long-term liabilities	3,101	
	<u>7,636</u>	<u>5,348</u>

2) The fair value of assets and liabilities measured in the statement of financial position at fair value

For measuring the fair value of assets and liabilities, the Company classifies them based on a hierarchy with three levels. The classification of assets and liabilities measured at fair value is determined by the lowest level input that is significant to the fair value measurement in its entirety.

Level 1: Quoted prices (unadjusted) in an active market for identical assets.

Level 2: Inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability, not based on market data.

The fair value compared to the carrying amounts of items not measured at fair value and presented in the statement of financial position within cash and cash equivalents, other receivables, trade payables, other payables and related parties, is aligned or approximates their fair value.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued):

The table below presents the assets and liabilities of the Company measured at fair value in level 3:

	Convertible loans – conversion element	
	2020	2019
	NIS in thousands	
Balance as of beginning of year	5,131	1,134
Amounts received during the year	735	3,519
Gain or loss recognized in profit or loss, within "finance expenses, net"	9,876	478
Conversion into shares	(15,742)	-
Balance as of end of year	-	5,131
Change in unrealized gains or losses for the period, recognized in profit or loss in respect to liabilities at the end of the reporting period	-	478

The value of the conversion element was calculated using the an option pricing model based on the Black and Scholes model, and based on the following information:

	September 30, 2020*	December 31, 2019
Risk-free interest rate	0.08%	1.59%
Share price (NIS)	61.9	30.76
Share price volatility	69%	53%
Probability of a future financing round	98%	87%

* No material change has taken place until the date of conversion, December 13, 2020.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued):

- 3) Changes in financial liabilities where the associated cash flows are classified as cash flows from financing activity:

	Loans convertible into shares	Lease liabilities	Royalty liabilities	Liabilities for government grants	Total
	NIS in thousands				
Balance as of January 1, 2019:	3,600	-	-	-	3,600
Change in 2019:					
Cash inflows	8,487		650	-	9,137
Cash outflows	-	(238)	-	-	(238)
Amounts recognized in profit or loss	1,096	78	30	-	1,204
First-time application of IFRS 16	-	269	-	-	269
New leases created in the period	-	674	-	-	674
Balance as of December 31, 2019	<u>13,183</u>	<u>783</u>	<u>680</u>	<u>-</u>	<u>14,646</u>
Change in 2020:					
Cash inflows	4,745	-	408	912	6,065
Cash outflows	-	(218)	-	-	(218)
Amounts recognized in profit or loss	10,899	33	43	601	11,576
Conversion into shares	(28,827)	-	-	-	(28,827)
Balance as of December 31, 2020	<u>-</u>	<u>598</u>	<u>1,131</u>	<u>1,513</u>	<u>3,242</u>
Change in 2021:					
Cash inflows	-	-	170	111	281
Advances received in the past and recognized this year within royalty liability	-	-	-	268	268
Cash outflows	-	(367)	-	-	(367)
Amounts recognized in profit or loss	-	41	(132)	33	(58)
New leases created in the period	-	1,633	-	-	1,633
Balance as of December 31, 2021	<u>-</u>	<u>1,905</u>	<u>1,169</u>	<u>1,925</u>	<u>4,999</u>

NOTE 5 - CASH AND CASH EQUIVALENTS:

The currencies that cash and cash equivalents are denominated in or linked to are:

	December 31	
	2021	2020
	NIS in thousands	
NIS	34,096	403
USD	<u>13,498</u>	<u>64</u>
	<u>47,594</u>	<u>467</u>

NOSTROMO ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 - OTHER RECEIVABLES:

	December 31	
	2021	2020
	NIS in thousands	
Receivables on account of shares	6,290	-
Government institutions	640	224
Advances from suppliers	477	68
Income receivable in respect to government grants	580	-
Other	229	85
	<u>8,216</u>	<u>377</u>

NOSTROMO ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT:

a. Composition of property, plant and equipment and accumulated depreciation thereon, grouped by major classifications, and changes therein, re as follows:

	Energy storage systems	Energy storage systems under construction	Office furniture and equipment	Computers	Laboratory equipment and electronic equipment	Leasehold improvements	Vehicles	Total
Cost:								
Balance as of January 1, 2021	-	-	66	99	553	427	34	1,179
Additions during year	1,188	1,547	49	94	344	197	-	3,419
Disposals during year	-	-	-	-	-	(435)	-	(435)
Balance as of December 31, 2021	1,188	1,547	115	193	897	189	34	4,163
Accumulated depreciations:								
Balance as of January 1, 2021	-	-	9	40	127	79	6	261
Depreciation during period	30	-	6	46	85	363	5	535
Disposals for period	-	-	-	-	-	(435)	-	(435)
Balance as of December 31, 2021	1,158	1,547	100	107	685	182	23	2,308
Cost:								
Balance as of January 1, 2020	-	-	62	51	390	328	34	865
Additions during year	-	-	4	48	163	99	-	314
Balance as of December 31, 2020	-	-	66	99	553	427	34	1,179
Accumulated depreciations:								
Balance as of January 1, 2020	-	-	4	17	56	40	1	118
Depreciation during period	-	-	5	23	71	39	5	143
Balance as of December 31, 2020	-	-	57	59	426	348	28	918
Cost:								
Balance as of January 1, 2019	-	-	14	17	268	136	-	435
Additions during year	-	-	48	34	122	192	34	430
Balance as of December 31, 2019	-	-	62	51	390	328	34	865
Accumulated depreciations:								
Balance as of January 1, 2019	-	-	1	5	20	13	-	39
Depreciation during period	-	-	3	12	36	27	1	79
Balance as of December 31, 2019	-	-	4	17	56	40	1	118
Balance of depreciated cost as of December 31, 2019	-	-	58	34	334	288	33	747

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT (continued):

b. Energy storage systems

On September 21, 2020, Nostromo signed an agreement with Medinol Ltd (hereinafter - "Medinol") – a private company incorporated in Israel and controlled by an interested party of the Company who serves as a director of the Company – under which, and subject to satisfaction of the conditions precedent listed below, Nostromo would install its storage system in a building leased by Medinol in Jerusalem, Israel (hereinafter - the "Building") as a pilot project with a scale of 600 KW/h (hereinafter - the "Agreement").

According to the provisions of the Agreement, Nostromo would install in the Building its storage system, and would provide repair and maintenance services in exchange for payments based on a model of participation in savings, representing 50% of the electricity saved by the Building (hereinafter - the "Consideration"). At the end of each calendar month, Nostromo would transfer to the customer the electricity consumption data registered in the system, and the Consideration would be calculated monthly and paid at the beginning of each quarter.

Subject to satisfaction of the satisfaction of the conditions precedent as above, the agreement will be in effect for a 20-year period until September 22, 2040, and it can be terminated early when certain events indicated in the agreement take place, including the end of lease of the building by the customer. In 2021, the Conditions precedent were satisfied and Nostromo began installation of the storage system on the rooftop of the building.

On August 12, 2021, the Company notified that at the end of the running-in stage of the storage system, Nostromo performed successful commercial operation of the system at the site of Medinol. Additionally, on that date, the Company announced that it received the approval of the Israel Innovation Authority that the system at Medinol site would serve as basis for the joint development effort of Nostromo and Israel Electric Corp Ltd of a remote management tool for energy consumption and demand shifting.

As part of the commercial operation, the Company capitalized within "property, plant and equipment" NIS 1,188 thousand in direct costs used for the setting up of the system. The asset is available for use beginning in August 2021 and its depreciation is based on the economic life of the system, i.e. 20 years.

c. Energy storage systems under construction

On March 26, 2021, Nostromo signed an agreement in principle with Oasis West Realty LLC – the owner of Beverly Hilton Hotel (hereinafter - the "Hilton Hotel Owners"), under which, and subject to signing a detailed agreement, Nostromo would install its 1.5 MW/h storage system in the hotel (hereinafter - the "Master Agreement"). Implementation of the project is conditioned on receiving the approval of the Hilton network to the detailed contract with the Hilton Hotel Owner.

According to the provisions in the agreement in principle, Nostromo would install its system at the hotel, and would provide repair and maintenance services in exchange for payments based on a model of participation in savings, representing 50% of the electricity saved by the hotel (hereinafter - the "Consideration") beginning in the second year and until the 20th year, with an ability to terminate early when certain events take place.

Additionally, the Israel Innovation Authority (IIA) approved a participation grant for the Hilton hotel project. See note 11b(2).

A cost of NIS 1,547 spent on the setting up of the storage systems for the Hilton hotel was capitalized as an asset within the "property, plant and equipment" item.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8 - RIGHT-OF-USE ASSETS AND LEASE LIABILITIES:

Lease on a building:

The Company was operating in a building that was leased at arm's length from a relative of the controlling shareholder (hereinafter - the "Relative") and was renovated to customize it for the activity of the Company. The lease contract was signed for a five-year period with an option to extend it by additional five years. The Company paid a monthly rent of NIS 10 thousand. The Company had a monthly option to terminate the agreement by an advance notice of one month.

On January 1, 2019, a new agreement was signed, superseding the previous one, and under which monthly rent is NIS 12 thousand for a six-year period. In 2018, the Company was charged rent of NIS 120 thousand.

On February 25, 2021, the Company signed a rent agreement for a new asset with a new lessor for thirty-eight months, beginning in July 2021. The Company has an option to extend the first lease period by additional two periods, one for additional three years, and the other for a four-year extension. In the first three years of the agreement, the monthly rent is NIS 31.1 thousand plus VAT. In the fourth year of lease term, rent will be NIS 32.6 thousand, and between the fifth and tenth year, rent will be NIS 34.1 thousand.

The Company will not be charged termination costs with the present lessor.

Lease of vehicles:

In February 2019, the Company began leasing vehicles ("operating lease"). The agreement is for a 36-month period with an option to purchase the vehicles at the end of the lease. As of the date of approval of the financial statements, the Company leases two vehicles for NIS 2.5 thousand per vehicle per month.

In 2021-2020, the lease was accounted for based on IFRS 16 (note 2g).

a. Right-of-use assets:

	Building	Vehicles	Total
	NIS in thousands		
Cost:			
Balance as of January 1, 2019	269	-	269
Changes during the year:			
Impact of updating lease agreement	404		404
Additions	-	270	270
Balance as of December 31, 2019	<u>673</u>	<u>270</u>	<u>943</u>
Accumulated depreciation and impairment:			
Balance as of January 1, 2019	-	-	-
Changes during the year:			
Depreciation	112	55	167
Balance as of December 31, 2019	<u>112</u>	<u>55</u>	<u>167</u>
Balance of depreciated cost as of December 31, 2019	<u>561</u>	<u>215</u>	<u>776</u>

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8 - RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued):

	<u>Building</u>	<u>Vehicles</u>	<u>Total</u>
	<u>NIS in thousands</u>		
Balance as of January 1, 2020	112	88	200
Changes during the year:			
Additions	<u>112</u>	<u>143</u>	<u>367</u>
Balance as of December 31, 2020	<u>224</u>	<u>143</u>	<u>367</u>
Balance of depreciated cost as of December 31, 2020	<u>449</u>	<u>127</u>	<u>576</u>
Accumulated depreciation and impairment:			
Balance as of January 1, 2020	673	270	943
Changes during the year:			
Depreciation	<u>1,633</u>	<u>-</u>	<u>1,633</u>
Balance as of December 31, 2020	<u>2,306</u>	<u>270</u>	<u>2,576</u>
Balance as of January 1, 2021	673	270	943
Changes during the year -			
Additions	<u>1,633</u>	<u>-</u>	<u>1,633</u>
Balance as of December 31, 2021	<u>2,306</u>	<u>270</u>	<u>2,576</u>
Accumulated depreciation and impairment:			
Balance as of January 1, 2021	224	143	367
Changes during the year -			
Depreciation	<u>259</u>	<u>71</u>	<u>330</u>
Balance as of December 31, 2021	<u>483</u>	<u>214</u>	<u>697</u>
Balance of depreciated cost as of December 31, 2021	<u>1,823</u>	<u>56</u>	<u>1,879</u>

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8 - RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued):

b. Lease liability:

	<u>Building</u>	<u>Vehicles</u>	<u>Total</u>
	<u>NIS in thousands</u>		
Balance as of January 1, 2019	269	-	269
Changes during the year:			
Impact of updating lease agreement	404	-	404
Additions	-	270	270
Finance expenses	54	24	78
Payment for lease liabilities	(144)	(94)	(238)
Balance as of December 31, 2019	583	200	783
Current maturities of lease liabilities	97	88	185
Liability for long-term lease	486	112	598
 Balance as of January 1, 2020	 583	 200	 783
Changes during the year:			
Finance expenses	26	7	33
Payment for lease liabilities	(144)	(74)	(218)
Balance as of December 31, 2020	465	133	598
Current maturities of lease liabilities	97	39	136
Liability for long-term lease	368	94	462
Balance as of December 31, 2020	465	133	598
 Balance as of January 1, 2021	 465	 133	 598
Changes during the year:			
Additions	1,633	-	1,633
Finance expenses	36	5	41
Payment for lease liabilities	(300)	(67)	(367)
Balance as of December 31, 2021	1,834	71	1,905
Current maturities of lease liabilities	249	71	320
Liability for long-term lease	1,585	-	1,585
Balance as of December 31, 2021	1,834	71	1,905

For an analysis of expected maturity dates of the undiscounted lease liability as of December 31, 2021, see note 4a.

NOTE 9 - OTHER PAYABLES:

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
	<u>NIS in thousands</u>	
Employees, payroll institutions and related expenses	880	627
Government institutions	277	-
Advanced on account of government grants	-	407
Accrued expenses	817	571
	<u>1,974</u>	<u>1,605</u>

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 10 - LIABILITY FOR ROYALTY PAYABLE

On October 29, 2018, the Company engaged with Shell Global Solutions International B.V (hereinafter - "Shell") – a global energy corporation – in a cooperation program. The consideration to the Company in respect of this agreement is \$500 thousand, subject to achievement of milestones defined therein. In consideration to the provision of the funding, the Company committed, among other things, to pay Shell 5% royalties out of its net revenue received from third parties and up to a total amount of \$750 thousand. As of December 31, 2021, the Company received \$359 thousand (NIS 1,255 thousand). Note that under the agreement, Shell is entitled to terminate the agreement or reduce the scale of the project performed thereunder (and accordingly, reduce the financing) through a 30-day advance notification to the Company.

The Company accounts for those liabilities according to the detailed guidance in IFRS 9 as financial liability with variable future payments measured at amortized cost. The amount received is recognized as a liability, and effective interest was calculated as of that date according to the expectation for future payments, and subsequently, the balance of the liability is presented at amortized cost according to the interest rate calculated. The difference resulting from updating the amortized cost as each cutoff date is recognized to comprehensive income (loss) within the "finance expenses" item.

NOTE 11 - LIABILITY FOR GOVERNMENT GRANTS:

a. BIRD Foundation

In August 2019, the Company engaged in an agreement with the US-based BIRD Foundation (Israel-United States Binational Industrial Research and Development Foundation) (hereinafter - "BIRD"), with collaboration of the US Department of Energy and the US-based Centrica Business Solutions US, Inc. (hereinafter - "Centrica") for financing a cooperation project between the Company and Centrica in which the storage system will be installed in an office building in Los Angeles, California (hereinafter - "the Project" and the "BIRD Agreement", respectively). See also note 12b(4).

According to the BIRD Agreement, BIRD committed to finance 50% of project costs up to US\$950 thousand (approx. NIS 3 million) (hereinafter - the "BIRD Financing"), with 30% of the BIRD Financing paid directly to Centrica and 70% paid to the Company, based on a budget with different milestones put in place by the Agreement. Additionally under the BIRD Agreement, the BIRD Financing will be refunded to it by the Company and Centrica (proportionally to each of their shares in the BIRD Financing) through paying 5% royalties from sales (hereinafter - the "Royalties") up to the full repayment of the BIRD Financing or beyond that, as described below:

- 1) To the extent that the BIRD Financing is repaid by December 31, 2022, the Company and Centrica will not be required to make any further payment;
- 2) To the extent that the BIRD Financing is repaid after December 31, 2022 and by December 31, 2023, the repayment amount will equal to 113% of the BIRD Financing;
- 3) To the extent that the BIRD Financing is repaid after December 31, 2023 and by December 31, 2024, the repayment amount will equal to 125% of the BIRD Financing;
- 4) To the extent that the BIRD Financing is repaid after December 31, 2024 and by December 31, 2025, the repayment amount will equal to 138% of the BIRD Financing;
- 5) To the extent that the BIRD Financing is repaid after December 31, 2025, the repayment amount will equal to 150% of the BIRD Financing;

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 - LIABILITY FOR GOVERNMENT GRANTS(continued):

On September 2020, the Company signed a cooperation agreement with a third party – a company operating in the real estate business and holds an office building in Los Angeles, California (hereinafter - the "Customer" and the "BIRD Project", respectively), according to which the Company would install its energy storage system as a pilot, capable to store 750 KW/hr (hereinafter - the "Agreement").

According to the Agreement, all work related to the storage system, including operation and maintenance, are the responsibility of the Company and performed on its account (through using funding obtained from the BIRD Financing). During the term of the Agreement, the Company would manage the performance of the energy storage system, while the customer would share with the Company any information relevant to electricity consumption and the savings that would result from using the Nostromo system.

At the end of the pilot period, the customer will have an option to keep the energy storage systems installed in the office building, and in that case, the customer and the Company will sign an agreement for participation in electricity bill savings, in which the customer will pay the Company 50% of the monthly saving created in practice from the ongoing operation of the system in the customer's office building.

In February 2021, Centrica notified the Company and BIRD that it sold all its activity in North America to a third party. In light of that, on February 28, BIRD notified the Company on the termination of the BIRD Agreement. Note that up to this date, the Company received in practice US\$265,000 out of the BIRD Financing, which will be refunded to BIRD through payment of royalties under the grant Agreement, and in light of the BIRD Agreement termination, the Company will not receive the remaining BIRD Financing of US\$360 thousand.

As of December 31, 2021, the Company received US\$266 thousand (NIS 827 thousand).

b. The Israel Innovation Authority:

- 1) In November 2019, the Israel Innovation Authority approved a collaborative project with the Israel Electric Corp. (IEC), which, if applied in practice, will involve a joint pilot and investment within the Innovation Program between IEC and the Company (hereinafter - the "Project"), with a budget of up to NIS 2,700 and 50% participation over an implementation period that began in January 2020 and ended in March 2022. The financing from the Innovation Authority is expected to be paid based on milestones, including presentation of a signed contract with IEC.

As of December 31, 2021, and as of the date of approval of the financial statements, a total of NIS 771 thousand was received in exchange for provision of the Financing, and the Company committed, among other things, to pay the Israel Ministry of Energy 5% royalties out of its revenue plus interest at LIBOR and linkage to the Israel CPI. In relation to this Project, the Company expects to receive the remaining amount of grant at NIS 580 thousand, which is included in "account receivable".

- 2) On October 27, 2020, the Israel Innovation Authority (IIA) notified the Company that it was decided to approve a project that is expected to involve a joint pilot and investment under the Innovation Program between the Israel Ministry of Environmental Protection and the Company (hereinafter - the "Project"), with a budget of up to NIS 3,877 and 30% participation over an implementation period that began in October 2020 and ended in March 2022.

The financing from the Innovation Authority is expected to be paid based on milestones, including presentation of a signed contract with pilot sites.

As of December 31, 2021 and as of the date of approval of the financial statements, the Company received NIS 407 thousand out of grant amounts.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 12 - CHARGES, GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES:

- a. The Company has a restricted NIS-denominated bank deposit that serves as collateral for a bank guarantee for a pilot and demo project of the Chief Scientist of the Israel Ministry of Energy. The deposit is presented within the "restricted deposits" item. As of December 31, 2021 and 2020, the amount of this deposit is NIS 13 thousand in each of those years.

b. Commitments:

- 1) In November 2017, the Company received a notice on winning a pilot and demo projects of the Chief Scientist of the Israel Ministry of Energy. The total financing for this program is NIS 600 thousand, representing 50% of the approved budget. In October 2020, the transfer of funds to the Company was completed and the project was completed. As a condition for receiving the funding, the Company is subject to special provisions regarding the rights to, and use of the knowledge associated with the program, as well as different mandatory reporting requirements. Additionally, under the terms of the tender, the Ministry of Energy is entitled to receive 5% royalties from any revenue resulting from commercialization of the knowhow and intellectual property of the program, up to an accumulated amounts that equals to the funding, linked to the Israeli CPI and plus interest at the Israel Accountant General Rate.

- 2) Engagement in a pilot with Electra M&E

Beginning in June 2019, the Company operates a pilot for a 160 ton-hour storage system (equivalent to 200 KW/h of Ion-Lithium batteries) on the roof of the Electra M&E Building in Nes Ziona, Israel.

According to the agreement, the Company committed to install its energy storage system on the rooftop of the Electra M&E Building in Nes Ziona and pay Electra NIS 350 thousand as a fixed amount to cover all expenses required to perform the installation of the system. On its part, Electra committed to allow the Company to perform site visits in the building and present the system to potential partners and investors of the Company. Electra committed to make use of the system for a period of not less than 24 months, and during that period Electra is not required to share with the Company the savings that may be achieved from using the storage system.

The Company has provided full warranty on the performance of the storage cells of the system for 24 months, and at the end of that period, if any maintenance or replacement of the storage cells is required, the Company will provide the storage services at direct-cost prices.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13 - EQUITY:

a. Share capital:

	December 31			
	2021	2020**	2021***	2020***
	Number of shares		Amount in thousand NIS	
Ordinary shares with no par value	8,000,000	4,000,000	-	-
Issued and paid up	*6,611,578	1,442,637	-	-

* Including a balance of NIS 6,280 thousand paid after December 31, 2021.

** Retroactive implementation of reverser acquisition – see note 1b.

*** Share capital without par value.

- 1) Each ordinary share in the equity of the Company has equal rights for all intents and purposes, including the right to receive dividends, bonus shares, participation in distribution of surplus assets upon dissolution of the Company and the right to participate in the general meeting of the Company, and one vote.
- 2) On December 13, 2020, all convertible shares of the Company at \$4,683 thousand (approx. NIS 28,827 thousand) were converted into 598,739 ordinary shares of the Company according to the terms and conditions of the loan.
- 3) On January 31, 2021, Nostromo completed a capital raise of \$2.8 million (approx. NIS 9.2 million) through the issue of rights to acquire shares of Nostromo that were offered to all its shareholders (hereinafter - "the Issue of Rights"). According to the terms and conditions of the Issue of Rights, Nostromo allocated 359,393 of its ordinary shares to its shareholders. Out of that said amount, a total of NIS 4 million were invested by relatives of the controlling shareholders as existed on that date.
- 4) On February 7, 2021, Nostromo engaged with an investor for an investment of \$500 thousand (approx. NIS 1.6 million) in exchange for 33,794 ordinary shares of Nostromo.
- 5) As discussed in note 1b, following the closing of the merger transaction on June 20, 2021, the Company issued 212,560,680 ordinary shares to shareholders of Nostromo in exchange for its entire issued and paid up capital.
- 6) On November 7, 2021, the Company performed a stock consolidation, such that each holder of an ordinary share of the Company was divided up into 50 ordinary shares of the Company without par value. Additionally, options of the Company were adjusted by the same ratio. The information in the financial information reflects the values after the stock consolidation .
- 7) On November 8, 2021, the Company engaged in independent investment agreements with two investors. The Company allocated 848 thousand ordinary shares of the Company without par value in exchange to NIS 28,408 thousand. After this investment, the investors held 12.96% of the Company's issued capital.

In addition to the allocation of the shares, the Company allocated to investors 424,000 unlisted options that are exercisable into ordinary shares of the Company (hereinafter: the "Options"). The options are exercisable into ordinary shares of the Company over a 30-month period from their date of allocation for an exercise price of NIS 46.9 per option.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13 - EQUITY(continued):

b. Share-based payment:

- 1) In December 2018, the Company's Board of Directors approved a plan for the allocation of warrants that are exercisable into ordinary shares of the Company. The warrants are exercisable over a seven-year period from the date of their allocation, according to the pace of vesting. Warrants not exercised up to that date will expire.

According to the option plan, the Company is entitled to grant employees, officers, consultants, service providers and directors of the Company options for the acquisition of ordinary shares of the Company as well as restricted share units (RSUs). The options to employees and officers of the Company are allocated in compliance with Section 102 to the Israel Income Tax Ordinance and the options to those who are not employees or officers in the Group are allocated according to Section 3(i) to the Income Tax Ordinance.

The plan is subject to the provisions set by Section 102 to the Income Tax Ordinance. According to the alternative selected by the Company and those rules, the Company is not entitled to claim expenses for tax purposes on the amounts attributed as employee benefits, including amounts recognized as payroll benefit in the accounts of the Company in respect to options that employees received under the plan, but excluding any regular employment income portion that was set on the date of allocation.

Under the plan, 25% of the options vest within one year from the date of allocation, and the remainder vest quarterly over additional three years.

- 2) On September 28, 2019, a total of 109,600 options were granted to employees of the Company under the above terms of the plan, with an exercise price of NIS 0.1 per share.

The following are the information and assumptions used in the measurement of the fair value of the options granted in 2019 using the binomial model for option pricing, with adjustments for pricing employee options and the specific expected behavior characteristics of the offerees: According to the price of an ordinary shares of NIS 24.75 less a DLOM (Discount for Lack of Marketability) of 19%, based on the expected time of non-negotiability of three years and fluctuation of 51%. Estimation of fluctuation is based on historical changes in the share prices of companies from comparable areas of activity to those of the Company over comparable periods to the non-negotiability of the RSUs.

According to the above information, the fair value of the options was set to NIS 2,661 thousand as of grant date.

- 3) In 2020, the Company granted 18,000 options under the terms of the plan that was approved in 2018. The exercise price of those options is \$0.01 per share.

The following are the information and assumptions used in the measurement of the fair value of the options granted using the RSU model for option pricing, with adjustments for pricing employee options and the specific expected behavior characteristics of the offerees: According to the price of an ordinary shares of NIS 58.4 less a discount for lack of marketability of 8%, based on the expected time of non-negotiability of three months and fluctuation of 69%. Estimation of fluctuation is based on historical changes in the share prices of companies from comparable areas of activity to those of the Company over comparable periods to the non-negotiability of the RSUs.

According to the information above, the fair value of the options was set to NIS 1,018 thousand as of the date of grant.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13 - EQUITY(continued):

- 4) On August 24, 2020, the Company granted 93,000 options to employees. The exercise price of those options is \$8.19 per share.

The fair value of the options granted using the binomial model for option pricing, with adjustments for pricing employee options and the specific expected behavior characteristics of the offerees, and is based on the following assumptions: expected dividend of 0%, risk-free interest rate of 0.12%-0.46%, early exercise factor of 150% for executives, directors and consultants and 100% for employees, forfeiture rate of 0% for executives and directors and 5% for employees. The share price is NIS 58.4 (approx. \$17.1). Estimation of fluctuation is based on historical changes in the share prices of companies from comparable areas of activity to those of the Company over comparable periods of the options until exercise date.

According to the information above, the fair value of the options was set to NIS 3,415 thousand as of the date of grant.

- 5) On December 21, 2020, the Company granted to one of its employees 37,500 ordinary shares without par value and without vesting conditions, with a total value as of grant date of NIS 1,804 thousand.
- 6) On December 29, 2020, a total 12,000 options were granted to employees of the Company. The exercise price of those options is US\$8.193 per share.

The fair value of the options granted using the binomial model for option pricing, with adjustments for pricing employee options and the specific expected behavior characteristics of the offerees, and is based on the following assumptions: expected dividend of 0%, risk-free interest rate of 0.11%-0.66%, early exercise factor of 150% for executives, directors and consultants and 100% for employees, forfeiture rate of 0% for executives and directors and 5% for employees. The share price is NIS 47.5 (approx. \$14.8). Estimation of fluctuation is based on historical changes in the share prices of companies from comparable areas of activity to those of the Company over comparable periods of the options until exercise date.

- 7) On December 31, 2020, a total of 92,125 options of employees were exercised. The exercise price of the options is NIS 0.1 each.
- 8) In January and April 2021, a total of 39,760 options of employees and service provided were exercised into 39,760 ordinary shares without par value of the Company for an exercise price of NIS 0.10 and \$0.01, respectively. Following the closing of the merger transaction, as discussed in note 1b above, all shares exercised as above were acquired by the Company as consideration for allocating the shares of the Company, as elaborated in note 1b above.
- 9) Following the discussion in note 1b above, the consideration of the merger transaction also included warrants of the Company that were given to employees of Naratech. The total number of options included in the merger transaction was 3,392,655, with the total fair value of the options as above, as estimated by the Company with assistance with an independent external valuer, is NIS 2,324 thousand, with the value of the options calculated using the binomial model, based on the following assumptions: a share price of NIS 1.24, standard deviation of 63%, risk-free interest with in the range of 0.0004%-1.36%, expected dividend at 0%, option forfeiture rate of 0% and early exercise factor within the range of 100%-150%.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13 - EQUITY(continued):

- 10) On September 5, 2021, a total 167,964 options to CEO, 15,000 to Manufacturing Manager, and 6,854 to another employee of the Company. The exercise price is NIS 41.5 per option.

The fair value of the options granted on grant date, calculated using the binomial model for option pricing, with adjustments for pricing employee options and the specific expected behavior characteristics of the offerees, and is based on the following assumptions: expected dividend of 0%, risk-free interest rate of 0.00%-1.29%, early exercise factor of 150% and forfeiture rate of 0%. The share price is NIS 0.753. Estimation of fluctuation is based on historical changes in the share prices of companies from comparable areas of activity to those of the Company over comparable periods of the options until exercise date.

- 11) In October and November 2021, a total of 4,246 employee options were exercised into 4,246 ordinary shares without par value of the Company. The exercise price was \$8.193 each.

The following table summarizes the options to employees and service providers in 2020-2021:

	Year ended December 31, 2021		Year ended December 31, 2020*		Year ended December 31, 2019*	
	Number of options	Weighted average of exercise price NIS	Number of options	Weighted average of exercise price NIS	Number of options	Weighted average of exercise price NIS
Outstanding at beginning of year	243,163	19.74	188,644	0.1		
Options granted	208,218	40.918	213,085	22.52	188,644	0.1
Options exercised	(44,006)	5	(158,566)	0.1	-	
Options forfeited	(23,539)	8.06	-	-	-	
Outstanding at end of year	<u>383,780</u>	<u>35.45</u>	<u>243,163</u>	<u>19.74</u>	<u>188,644</u>	<u>0.1</u>
Exercisable at end of year	<u>72,577</u>	<u>22.34</u>	<u>51,593</u>	<u>11.03</u>	<u>122,884</u>	<u>0.1</u>

* Updated as of after the reverse acquisition (see note 1b) and capital consolidation.

NOSTROMO ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13 - EQUITY(continued):

The following is information about exercise price and remaining contractual life of outstanding options as of the end of year:

2021			2020*			2019*		
Number of outstanding options at end of period	Exercise price	Weighted average of remaining contractual life (years)	Number of outstanding options at end of period	Exercise price	Weighted average of remaining contractual life (years)	Number of outstanding options at end of period	Exercise price	Weighted average of remaining contractual life (years)
-	-	-	-	-	-	188,644	0.1	6.75
-	-	-	30,078	0.1	5.75	-	-	-
144,580	0.01-25.48	5.65	182,103	0.01-26.34	6.65	-	-	-
10,327	0.01-25.48	5.67	10,327	0.01-26.34	6.67	-	-	-
20,654	25.48	6.00	20,654	26.34	7.00	-	-	-
208,218	34.915-41.50	9.70	-	-	-	-	-	-

* Presented retrospectively after the reverse acquisition (see note 1b) and capital consolidation.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13 - EQUITY(continued):

The expense recognized in the financial statements of the Company for share-based payment is presented in the following table:

	Year ended December 31		
	2021	2020	2019
	NIS in thousands		
Administrative and general	1,575	3,162	1,408
Research and development expenses	1,326	541	1,107

NOTE 14 - TAXES ON INCOME:

a. Corporate tax in Israel

The income of the Company is subject to the normal corporate tax rate of 23%.

Capital gains of the Company in Israel is subject to the normal corporate tax rate applicable in the relevant tax year.

- b. Subsidiaries incorporated outside of Israel are taxed according to their jurisdiction of residence, except for companies defined as "foreign controlled companies" under the Israel Income Tax Ordinance. The main tax rates applicable in 2021 to the subsidiary incorporated in the US are 21% federal tax and 8.84% state tax in California.

NOTE 15 - RESEARCH AND DEVELOPMENT EXPENSE, NET:

	Year ended December 31		
	2021	2020	2019
	NIS in thousands		
Payroll and employee-related expenses	5,501	3,222	2,557
Share-based payment	1,326	541	1,107
Material-related expenses	1,213	1,150	1,352
Professional services	730	320	484
Subcontractors	308	103	568
Depreciation and amortization expenses	330	233	162
Other	451	447	427
	5,501	3,222	2,557
	9,859	6,016	6,657
Less- Government grants	(1,354)	(775)	(1,132)
גידול בגין התחייבות	549	1,513	-
	9,054	6,754	5,525

NOTE 16 - MARKETING AND SELLING EXPENSES:

	Year ended December 31		
	2021	2020	2019
	NIS in thousands		
Payroll and related expenses	113	-	-
Marketing and conventions	570	79	32
Consultants and subcontractors	1,048	207	98
	1,731	286	130

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 17 - ADMINISTRATIVE AND GENERAL EXPENSE:

	Year ended December 31		
	2021	2020	2019
	NIS in thousands		
Payroll and employee-related expenses	1,631	960	745
Share-based payment	1,575	3,162	1,408
Professional services	2,026	2,026	613
Depreciation and amortization expenses	536	110	84
Maintenance and office expense	221	156	138
Other	586	114	92
	<u>6,575</u>	<u>6,528</u>	<u>3,080</u>

NOTE 18 - FINANCE EXPENSES, NET:

a. Finance expenses:

	Year ended December 31		
	2021	2020	2019
	NIS in thousands		
Interest, bank fees and others	18	11	48
Effective interest in respect of loan	-	1,558	988
Change in fair value of financial instruments	-	10,788	765
Foreign exchange gains and losses	709	-	-
Finance expenses – lease liability	41	33	78
Finance expenses – liability to pay royalties	-	51	30
Other	135	101	-
	<u>903</u>	<u>12,542</u>	<u>1,909</u>

b. Finance income

Foreign exchange gains or losses	54	1,462	558
Finance expenses for liability to pay royalties	99	-	-
	<u>153</u>	<u>1,462</u>	<u>558</u>

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 19 - LOSS PER SHARE:

The loss per share is calculated by dividing the income attributed to shareholders of the Company by the weighted average of the number of issued ordinary shares.

	Year ended December 31		
	2021*	2020*	2019
Loss attributed to shareholders of the Company (NIS in thousands)	79,503	24,648	10,086
Weighted average of the number of issued ordinary shares	4,310,271	2,633,580	2,369,851
Basic and diluted loss per share (NIS)	18.45	9.36	4.26

* Includes retrospective application of reverse acquisition dated June 20, 2021 (see note 1b) and stock consolidation dated November 11, 2021 (see note 13a(6)).

Diluted loss per share information is identical to the basic loss per share since the effect of including potential dilutive shares (such as unvested options, unconverted vested options and converted loans) is non-dilutive.

NOTE 20 - TRANSACTION AND BALANCES WITH INTERESTED AND RELATED PARTIES:

"Interested party" – As this term is defined by Securities Regulations (Annual Financial Statements), 2010.

"Related party" – As this term is defined by IAS 24.

Key management personnel, which are included, together with other parties, within the definition of "related parties" in IAS 24 include the members of the board of directors and members of senior management.

a. Balances with interested and related parties:

	December 31	
	2021	2020
	NIS in thousands	
Interested party balances:		
Accounts receivable	1	-
Accounts payable	2	105

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 - TRANSACTION AND BALANCES WITH PARTIES OF INTEREST AND RELATED PARTIES (continued):

b. Transactions with interested and related parties

	Year ended December 31		
	2021	2020	2019
	NIS in thousands		
Transactions and compensation to parties of interest and related parties:			
Payroll and related expenses to interested party employed by the Company	972	733	596
Number of persons related to the benefit	2	2	1
Rent to other interested parties that are not employed by the Company	144	144	144
Number of persons related to the benefit	1	1	1
Remuneration to non-executive directors*	236	754	-
Number of persons related to the benefit	6	3	-
Subcontractors – research and development expenses	-	9	38
Subcontractors – marketing and selling expenses	-	7	-
Financing expenses in respect to loans convertible into shares	-	7,960	588

* Of which NIS 44 thousand for share-based payment.

c. Employment agreements with interested and related parties:

- 1) Employment agreement – former CEO, present Chief Technology Executive and controlling shareholder

The Company's former CEO, Mr. Yaron Ben Nun (hereinafter: "Mr. Ben Nun") was employed in that capacity at 100% of full-employment basis beginning on January 1, 2018. Under the terms and conditions in the individual employment agreement signed between Mr. Ben Nun and the Company (hereinafter: "the Employment Agreement") in July 2020, Mr. Ben Nun is entitled since the date of signing the Agreement, among other things, to a gross monthly salary of NIS 35,000, statutory benefits as prescribed by the law and the Employment Agreement, and contributions to an education fund, recreation pay, sick leave pay and vacation days as indicated in the applicable Employment Agreement. In addition, under the Employment Agreement, the Company provides Mr. Ben Nun a vehicle and bears the cost of its maintenance at NIS 2.83 thousand per month. The Employment Agreement includes non-disclosure, non-competition and intellectual property clauses.

On January 3, 2021, the Company signed a revision to the Employment Agreement with the former CEO and the controlling shareholder Mr. Ben Nun (hereinafter: "Mr. Ben Nun"), including a gross monthly salary of NIS 58,000, with 10% of the base salary representing a special consideration for the commitment of Mr. Ben Nun to maintain non-competition, non-disclosure, non-solicitation and intellectual property clauses. Further, Mr. Ben Nun is entitled to statutory benefits as prescribed by the law and the Employment Agreement, contributions to an education fund, recreation pay, sick leave pay and vacation days as indicated in the applicable Employment Agreement. Additionally, the Company provides Mr. Ben Nun a vehicle of at least Group 5. The Agreement will come into effect upon the closing of the Somoto deal, as discussed in note 1b.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 - TRANSACTION AND BALANCES WITH INTERESTED AND RELATED PARTIES (continued):

After the appointment of the present CEO of the Company (see, section 3 of this note), Mr. Ben Nun serves as the Chief Technology Executive and President of the Company.

After closing the merger deal, as discussed in note 1e above, Mr. Ben Nun was appointed as director of the public company representing its shareholders.

- 2) A new employment agreement with the Chairperson of the Board and a relative of the controlling shareholder

On January 3, 2021, the Company signed a revision to the employment agreement with a director and a relative of the controlling shareholder, under which Ms. Ofir Ben Nun-Steinberg was appointed the Chairperson of the Board of Directors (hereinafter: "the Chairperson"). As Chairperson, she is entitled beginning on the date of the reverse acquisition (see note 1b), among other things, to a gross monthly salary of NIS 26,000, with 10% of the base salary representing a special consideration for the commitment of the Chairperson to maintain non-competition, non-disclosure, non-solicitation and intellectual property clauses. Further, the Chairperson is entitled to statutory benefits as prescribed by the law and the Employment Agreement, contributions to an education fund, recreation pay, sick leave pay and vacation days as indicated in the applicable Employment Agreement. Additionally, the Company committed to pay travel expenses or provide a vehicle valued at NIS 2,000 per month that is fully grossed up by the employer. The Agreement will come into effect upon the closing of the Somoto deal, as discussed in note 1b.

- 3) Employment agreement – CEO of the Company

In February 2021, Nostromo engaged with Mr. Asheri in an agreement for his appointment as CEO of Nostromo beginning in May 2021. Upon assuming the role of CEO, Mr. Yaron Ben Nun, the former CEO and founder of Nostromo, serves as President and Chief Technology Executive of the Company. According to the agreement signed with him, Mr. Asheri is entitled to a monthly gross salary of NIS 65,000 and an annual bonus that is based on performance targets set by the organs of Nostromo at up to six monthly salaries. Mr. Asheri is entitled to contribution to education fund and statutory benefits as common in agreements of this type. Additionally, he is entitled to equity-based compensation (see note 12b(11)) and to a Group 5 vehicle and vehicle maintenance expenses. Mr. Asheri and Nostromo have the right to terminate the agreement by advance notice of three to six months, depending on the term of service, until such termination notice. Beginning in June 2021 (the date of closing the reverse acquisition, as discussed in note 1e), Mr. Asheri serves as CEO of the public company.

- 4) Employment agreement – CFO

In February 2021, Nostromo engaged with Mr. Hanin in an agreement for his appointment as CFO of Nostromo beginning in January 2022. According to the agreement signed with him, Mr. Hanin is entitled to a monthly gross salary of NIS 44,250 and an annual bonus that is based on performance targets set by the Company. Mr. Hanin is entitled to contribution to education fund and statutory benefits as common in agreements of this type. Additionally, he is entitled to equity-based compensation (see note 12b(11)) and to a Group 5 vehicle and vehicle maintenance expenses. Mr. Hanin and Nostromo have the right to terminate the agreement by advance notice of two months. On that date, 18,400 options were granted to Mr. Hanin. The exercise price per option is NIS 34.915. The beginning of option vesting will start on the date of commencement of his employment. According to the above information, the fair value of the options was set to NIS 385 thousand as of grant date.

NOSTROMO ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 - TRANSACTION AND BALANCES WITH INTERESTED AND RELATED PARTIES (continued):

d. Transaction with Medinol

See note 7 for information about an agreement with Medinol Ltd, a company owned by a shareholder and director of the Company, for installation of 600 KW/h storage systems.

e. Convertible loans granted to relatives of the controlling shareholder

In December 2018, the Company signed a convertible loan agreement (hereinafter: "the Loan Agreement") with two related parties. Under the Loan Agreement, the Company provided a loan convertible into ordinary shares of the Company at \$1,000 thousand and \$800 thousand (approx. NIS 3,214 thousand and NIS 2,561 thousand) (hereinafter: "the Loans"). According to the terms and conditions of the Loans, they are convertible into ordinary shares of the Company under the terms prescribed by the Loan Agreement. The above amount is part of the \$2.55 million loan (approx. NIS 8 million) described in note 10a.

Additionally, in 2019, the Company signed an additional convertible loan agreement with relatives of the controlling shareholders as part of agreements related to conversion of a NIS 1,005 thousand balance with related parties into a convertible loan.

In December 2020, the full amount of the Loans was converted into ordinary shares of the Company, and thus, fully mature.

NOTE 21 - EVENTS SUBSEQUENT TO DECEMBER 31, 2021

On January 12, 2022, the Company won a tender of the Israeli Ministry of Energy under Call for Proposal 33/2020 for pilot and demo projects in the fields of Energy, fuels, water and energy, energy efficiency, mining (hereinafter: the "Tender"). According to the results of the Tender, the bid of the Company for the installation of its cold storage system in a hospital (whose identity will be determined later on) (hereinafter - "the Hospital") won the tender for the provision of cold energy storage solution (hereinafter - "the Project"). The Ministry of Energy will participate in financing the project at the amount of NIS 546 thousand (representing half of the estimated cost of the Project) (hereinafter - "the Amount of Financing"). The remaining cost is funded under a commercial agreement to be signed between the Company and the Hospital. The installation of the system is expected to take about six months. If any new intellectual property is created as part of the Project, and the Company commercializes it, the Company will pay the Israeli government 5% royalties of its revenue from this commercialization up to the Amount of Financing, plus interest at the Attorney General Rate and linkage to the Israeli CPI.