2021

Annual Report

SMART WIRES

REIMAGINE THE GRID

How we help

Making the grid more intelligent, controllable and efficient impacts everyone

Smart Wires helps its global customers modernize their electrical grids so they can more efficiently deliver affordable, clean energy to homes, businesses and industry. Smart Wires' innovative grid enhancing technology and advanced analytics combine to boost the amount of electricity flowing to users, adding much-needed system flexibility and helping drive the clean energy transition.

Generators
- Faster, lower-cost connections
- Less congestion and curtailment

Grid Owners
- Increase transfer capacity
- Future-proof investments
- Reliability & resilience
- Improve project deliverability

Consumers
- Less infrastructure
- Lower utility bills

Economy
- Create clean energy jobs
- Support local economic growth

Society
- Quickly and affordably achieve emissions reduction targets
- Minimize disruption caused by infrastructure

Content

Our Mission

We are in the energy transition business. At Smart Wires, we reimagine the grid with innovative technology and analytics that provide a digital, controllable and optimized power system. This will enable renewable energy adoption and consumer electrification at the pace and scale required for a net zero world.

Positioned for global scale and further expansion throughout 2022

A key milestone for Smart Wires was our IPO on Nasdaq First North on May 18th, 2021. The Swedish market is a leader in energy technology and positions us for continued growth. Smart Wires also improved its cash position with a debt facility announced in December. This strengthens our position for the mid-term as we work towards profitability by mid to late 2024.

Countries around the world understand the importance of eliminating carbon emissions and reaching the international goal of net zero by 2050. The world has come a long way, but so much more must happen for us to reach this critical target.

The horrific situation in Ukraine in the early months of 2022 brought Europe's heavy dependence on fossil fuels from Russia sharply into focus. It also fast-tracked the emergency synchronization of Ukraine and Moldova with Continental Europe in March, originally foreseen for 2023. We extend our support to the people of Ukraine in this extremely difficult time, and we commend Ukrenergo, Moldelectrica, ENTSO-E', the TSOs of Europe and all involved in achieving the remarkable milestone to guarantee the secure supply of electricity throughout the country.

At Smart Wires, we are in the business of the energy transition: helping the owners and operators of today's electricity networks modernize and digitalize their grids. We deliver advanced technology and analytics to transform today's electricity grid into a next-generation, power system.

Renewable solar and wind energy are making up an increasing share of energy production, while consumers are quickly electrifying their lifestyles, led by the adoption of electric vehicles. Transmission grids, the backbone of the electricity network that ensures energy is reliably delivered from where it is produced to the end user, are many decades old and were not originally designed to accommodate today's surge in renewable energy and shifting generation and demand patterns. The distributed location and variability of renewables causes network congestion, or traffic jams on the network, and prevents the clean energy from reaching its destination. This leads to higher costs for grid operators that get passed through to end users.

Modernizing the grid and unlocking the capacity that could be available on today's networks is critical – enabling the pace and scale of renewable energy and electrification needed – as we target net zero over the coming decades. Smart Wires is helping customers transform their networks to have an impact now.

2021 was a strong year for Smart Wires despite the global supply chain challenges that have continued to ripple across all industries.

I joined the company at the start of 2021 and was immediately impressed with the technology, know-how and the people at Smart Wires.

We installed our first project in Colombia with Empresas Públicas de Medellín (EPM) and drove further momentum in that region with orders of $20 million to $23 million from ISA Transelca and $7 million to $9 million from Grupo Energía Bogotá.

We started a technology collaboration with Slovenian transmission system operator ELES. We also implemented solutions with the Bulgarian Transmission System Operator (ESO) and the Greek Transmission System Operator (IPTO) to increase the amount of renewable energy the grid can accommodate and solved a key challenge around improving cross-border transfers of electricity in Europe.

We collaborated with UK-based National Grid Electricity Transmission (NGET) to help them unlock 1.5 gigawatts (GW) of network capacity – enough to power one million additional homes with renewable energy. This collaboration will continue in 2022 with additional works to unlock a further 500 megawatts (MW) of capacity.

Across these projects and more, the company manufactured, delivered, installed, and commissioned 84 devices at nine customer sites across six countries in 2021 totaling 320 MVAr of product deployment. Thanks to growing market interest Smart Wires now supports more than 20 customers across our key markets of Europe, Latin America, North America, and Australia, with nearly 3,000 device-years of field experience. The company secured expansion orders with repeat customers NGET, Transgrid and EPM as part of the ongoing SmartValve platform adoption. We now have 63 granted patents to ensure we maintain our technological edge.

Growth

Smart Wires' 2021 revenue was $46 million, tripling 2020 revenue, even after facing headwinds in the year due to Covid-19-related supply chain challenges.

Gross margins were up 95 percentage points to a positive 1% for the year. The company's contract backlog was $58 million for deliveries in 2022, up 53% from a year earlier, with further expansion throughout 2022. Smart Wires is gaining traction with grid operators around the world, proof that our technology and solutions are increasingly in demand.

We continue to invest in our core technology, industrialize our operations and position ourselves for global scale. Taking these steps will improve our efficiency, boosting growth and profitability. These efforts will also help us diversify our product and solution offerings and expand into new revenue streams.

As part of our evolution, we relocated our technology development center and offices from California to North Carolina for an improved cost footprint, access to talent and ease of scaling. We expanded the Smart Wires team during the year to support global growth, with 81 new full-time employees joining the company. We also complemented the existing leadership capabilities at Smart Wires through new appointments in the areas of Finance, Engineering, Manufacturing, Projects, Safety and People. By adding to and diversifying our expertise and experience in these areas, we are better positioned to further strengthen our market position and drive forward the energy transition.

A key milestone for Smart Wires was our IPO on Nasdaq First North on May 18th, 2021. The Swedish market is a leader in energy technology and positions us for continued growth. Smart Wires also improved its cash position with a debt facility announced in December. This strengthens our position for the mid-term as we work towards profitability by mid to late 2024.

Market outlook – Smart Wires' revenue is bolstered by backlog and pipeline progression, and we expect 2022 revenue of $65 million to $70 million. We anticipate continued growth and strong performance with $100-$120 million in orders throughout 2022, with $50-$60 million coming from lighthouse customers in the UK, Australia and Colombia. This represents an approximate 40% to 50% conversion rate of the late-stage pipeline of $240 million.

As we continue to work through supply chain challenges, and cut-over production from the SmartValve v1.03 to the SmartValve v1.04 in May – June, we expect revenue to ramp significantly during the year with much lower volumes in the first half of 2022 compared to the second half. In addition, we expect gross margins to improve significantly from 1% in 2021 to 12%–14% for 2022 as

we begin to see volume leverage of our fixed manufacturing costs. We expect the EBITDA loss for 2022 will be in the range of $57 million to $62 million as the impact of higher revenue and gross margins is offset by investments in our core business, product range, technology adoption and industrialization. As well as positioning the business for more rapid scaling in the mid-term, we continue to monitor global energy policies and market design, global technology adoption and supply chain challenges, assessing their combined impact on the business. As conditions change, we will provide updates and calibrate accordingly throughout the year.

Smart Wires made tremendous progress in 2021. The company strengthened its team and brought in new investors with its listing. We entered new markets and began working with new customers around the world. Smart Wires has a robust backlog and pipeline of projects for 2022 and beyond, and interest in our technology and solutions to help modernize and digitalize the electric grid is rapidly increasing.

The world has urgent and essential environmental goals to achieve by 2050, and these require immediate action as referenced in the recent IEA report, where renewable energy adoption needs to grow at four times the current levels. We already have much of the technology and know-how to make a difference and have an impact now.

Thank you for following Smart Wires.

Peter Wells
CEO of Smart Wires

2021 Impact

$46 million
annual revenue

198%
revenue growth (1-yr)

9
new projects commissioned

320 MVAr
of power flow control installed and commissioned

11
customer sites where work was completed incident and injury-free

81
new employees

Q1

Revenue: $12.2M
Orders: $15M
Pipeline: $2.2B

- Peter Wells joined as new Chief Executive Officer
- First project completed in Colombia with Empresas Públicas de Medellín (EPM) to facilitate the connection of renewable generation in the region
- Initial collaboration announced with Slovenian transmission system operator ELES on technology synergies of Dynamic Thermal Rating (DTR) and SmartValve

Q2

Revenue: $10.2M
Orders: $0M
Pipeline: $2.3B

- Marie Hayden promoted to new role as Chief Engineer
- Shannon Ross joined as Chief People Officer
- Listed on Nasdaq First North Growth Market in Stockholm
- Smart Wires announced projects with National Grid Electricity Transmission (NGET) to unlock 1.5 gigawatts (GW) electric capacity
- Smart Wires project completed which supports the Bulgarian Transmission System Operator (ESO) increase the amount of renewable energy the grid can accommodate in the region
- IP portfolio strengthened with approval for three patents for high value inventions and four additional patents filed

Q3

Revenue: $5.9M
Orders: $37M
Pipeline: $5B

- Julie Andrews joined as Chief Financial Officer
- Brian Martin Sr. took on the newly created role of Senior Vice President, Health & Safety, and Brad Beard was appointed as Senior Vice President, Manufacturing
- Joanna Lohkamp and Sharon L. Cohen joined the Board of Directors
- New global headquarters announced in the Research Triangle Park in North Carolina, USA
- Smart Wires received an order of $15 million to $17 million from NGET
- Smart Wires announced project with Irish transmission system operator EirGrid to jointly develop sophisticated platform-agnostic software tools
- Smart Wires received an order of $20 million to $23 million from ISA Transelca in Colombia

Q4

Revenue: $17.7M
Orders: $10.5M
Pipeline: $5.9B

- Project completed in Greece with transmission system operator IPTO – their second deployment of power flow control technology – to improve cross border interconnection capacity between Greece and Bulgaria
- Smart Wires received 2021 Cleantech Impact Award for Economic Development from North Carolina's Research Triangle Cleantech Cluster
- Project completed in Australia with Ausnet Services to increase renewable electricity flows on the New South Wales to Victoria Interconnector
- EPM announced intention to expand 2021 Smart Wires project in 2022 as part of Aburrá Valley expansion plan
- Smart Wires announced new project with Los Angeles Department of Water and Power (LADWP) to test rapidly deployable nature of SmartValve to enable more efficient and reliable outage management
- Smart Wires signed agreement for $50 million senior secured term loan

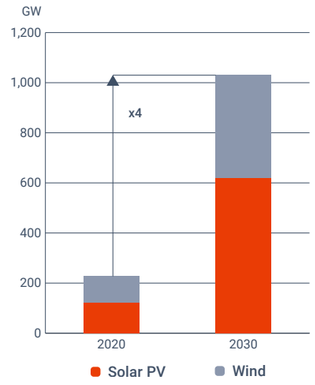
Important events after the year's end

- Project completed with Austrian Power Grid (APG) to utilize capacity on existing transmission grid and improve operational reliability in Austria
- Smart Wires, NGET and Omexom jointly awarded the Collaborate to Innovate (C2I) 2021 Energy & Environment award by The Engineer for the 'Working smarter to get to net zero' projects
- Smart Wires and Amprion announced the successful completion of a project that tested the use of innovative technology for optimizing grid loading in Germany
- Smart Wires appointed Dr. Michael Howard, former President and CEO at Electric Power Research Institute (EPRI), as Chairperson of its Board of Directors
- Project completed with Colombia's Grupo Energía Bogotá (GEB) to improve the reliable supply of electricity in the Caribbean region and unlock 252 MW capacity
- The Working for Advanced Transmission Technologies (WATT) coalition - which Smart Wires chairs - announced its official incorporation as a 501c6 trade association and welcomed three new members
- Jessica Joyce joined as Senior Vice President, Americas, and Hedd Roberts joined as GM, Europe
- Smart Wires' technology receives support from US Federal government: included in new Federal Energy Regulatory Commission (FERC) requirements for utilities, Department of Energy (DOE) case study and Senator Markey's CHARGE Act

The electricity grid is essential to the energy transition

"Electricity networks are the foundation of reliable and affordable electricity systems, making them critical infrastructure in all modern economies. There are around 80 million kilometres of networks in the world today. According to the International Energy Agency's (IEA) World Energy Outlook 2021, investment in these networks needs to increase substantially over the next decade in order to maintain and improve grid reliability, support the clean energy transition and provide access to electricity to all."

Capacity additions needed by 2030 for IEA's Net Zero by 2050 scenario



Data source: International Energy Agency (2021), Net Zero by 2050, IEA, Paris

The energy transition is fundamentally transforming economies, communities and individuals' lives. The world understands its dependance on carbon-based fuels such as coal, oil and gas is unsustainable if society is to limit carbon emissions to net zero by 2050 and stop the global temperature rising more than 1.5 °C. Global policymakers are pushing for a transition to renewable generation like wind and solar. At the same time, industries and consumers are electrifying at an increasing pace, spearheaded by the adoption of electric vehicles. Reaching this ambitious emissions goal demands a global effort. Impact must be made now by modernizing the backbone of the electrical system – the grid.

To reach net zero, more than one terawatt (TW) of generation capacity is needed annually from 2030 to 2050. This is four times the amount of global renewable energy additions in 2020.[1] Further exacerbating the problem is the fact that the new renewable generation is connecting into the network in different places compared to the fossil-fuel generators that are retiring. The grids that transport electricity simply are not built to carry and distribute this much more power from new locations.

Consumers are already feeling the pain. Congestion costs in the UK between April and December 2020 were $1 billion alone.[2] This will only increase as more generation connections put additional strain on the electricity grid.

Increased demand for clean energy

To decarbonize heating and transportation sectors, businesses and homes are embracing electricity, spearheaded by the popularity of electric vehicles. Many companies are moving toward battery-powered delivery fleets, while automakers are churning out electric cars that can be charged at home or on the road. Road transport accounts for 15% of total energy-related carbon dioxide emissions today, according to the IEA. Today's buildings sector makes up almost a third of total final energy consumption and 15% of end-use sector direct carbon dioxide emissions[3]. Moving away from fossil fuel vehicles and decarbonizing the building and heating sectors is part of the equation, yet a modernized electricity system is ultimately needed to enable all of this.

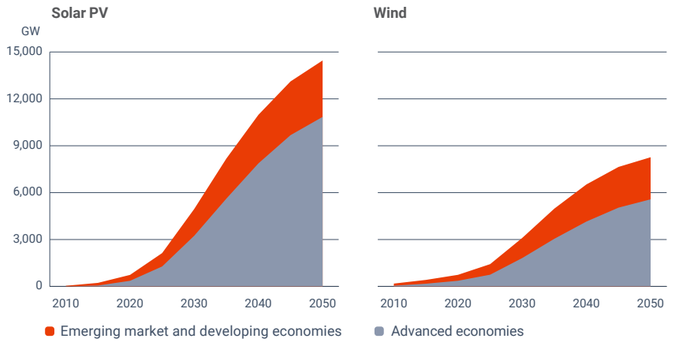
The need for change on the grid

Much attention has thankfully been given to generating cleaner, affordable energy. However, this energy must be reliably transmitted and distributed from where it's generated to homes and businesses. And therefore, the grid must be central to all discussions on the energy transition.

The legacy grids that carry electricity are often aging copper and steel networks, inefficient and inflexible to meet demands and in need of extensive modernization.

Power needs fluctuate through the day as people wake up and get ready for work and school, as offices and shops do business and as people come home to make dinner, maybe charge their electric car and later head to bed. Consumption also varies during the year such as heating a house in the winter or running air conditioning in the summer. Climate change is making these demand swings even greater. All this causes the power system to have fluctuating needs and require flexibility in system operations to rapidly manage changing conditions.

Capacity additions needed by IEA's Net Zero by 2050 scenario



Data source: International Energy Agency (2021), Net Zero by 2050, IEA, Paris

The challenge of intermittent renewable generation

Power generation is another factor to discuss. Solar and wind are increasingly used around the world. These green, variable energy sources present new challenges for the world's electricity networks. Unlike the fixed output of legacy power plants, wind and solar generators produce intermittent energy. This means grid operators are looking for more flexible ways to operate their networks. Because the network was not originally designed with the locations or characteristics of renewable energy in mind, newly produced green power can hit bottlenecks and fail to reach users. This costs renewable developers millions of dollars a year as their generation assets are curtailed. As new solar and wind farms seek to connect to the grid, transmission capacity constraints mean renewable developers must wait years for grid modifications, suffering millions of dollars in losses due to interconnection delays. When renewables are curtailed or cannot connect to the grid, fossil-based generation must be switched on to meet demand.

The electricity sector is in the early days of decarbonizing. Solar and wind use are expected to jump 20-fold and 11-fold respectively by 2050 to reach net zero, making the efforts to future-proof the grid critical.[4]

All this new renewable energy awaiting grid connection causes significant challenges for the grid operators using fixed and inflexible legacy approaches to planning and operating their networks. Combined with a higher demand for electricity in society in general, this causes major congestion on the system and increases the demand for a modern and flexible grid.

"According to the IEA, 45% of the global power sector investments by 2030 will be in grid digitalization."

1 Page 15 of IEA Net Zero by 2050
2 https://formenergy.com/insights/energy-storage-to-support-the-uk-transmission-grid/
3 Page 142 and 146 of IEA World Energy Outlook 2021
4 Page 118 of IEA Net Zero by 2050

The grid must be digital, controllable and optimized

Transitioning to a digital grid

Upgrading and expanding the grid is necessary, but this takes many years and ultimately delays the uptake of renewables. Modernization of the electric grid is critical in order to achieve the transition to a clean energy future. The International Energy Agency (IEA) predicts that 45% of the global power sector investments by 2030 will be within grid digitalization. Also, according to the IEA, timely investment in grids to minimize congestion and expand the size of the areas where supply and demand are balanced will be critical to make the best use of solar photovoltaics and wind projects. This ultimately will ensure affordable and reliable supply of electricity for consumers.[1]

The electric grid has become the new frontier to enable the energy transition. The grid is a complex network with multiple paths from any point A to point B. Electricity naturally flows on the path of least resistance. Therefore, some paths reach their capacity while others are still well below their limits.

Utilities could begin to tap into this network capacity with legacy technology that leverages copper and steel. However, these offerings have seen limited innovation over the last few decades and do not offer the efficiency or flexibility needed given society's demands to rapidly transition to a cleaner future.

Smart Wires combines silicon and software to offer digital power flow control that redirects power from overloaded lines to underutilized parallel paths. Unlocking unused transfer capacity saves hundreds of millions of dollars compared to new circuits or legacy forms of power flow control. Time also matters. This technology can be installed quickly, saving years of carbon emissions that would otherwise result.

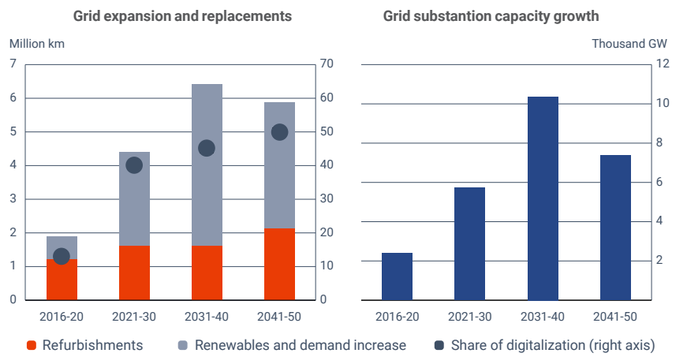
For example, projects delivered in 2021 in collaboration with National Grid Electricity Transmission in the UK unlocked 1.5 gigawatts (GW) in capacity and delivered an estimated cost savings of £380 million which reflects the reduction in constraint costs for consumers due to the additional network capacity provided.[2]

Fact: In the US alone, 930 GW of zero-carbon generation is waiting in interconnection queues at the end of 2021 - enough electricity to power more than 600 million homes.[3]

Fact: Brattle Group study shows grid enhancing technologies can enable Kansas and Oklahoma to integrate 5,200 MW of wind and solar generation currently in interconnection queues by 2025 – more than double the development possible without these technologies – delivering $175 million in annual savings for consumers and providing a payback period of less than six months.[4]

Fact: To reach net zero, more than 1 TW of annual capacity additions are needed from 2030 to 2050.[5]

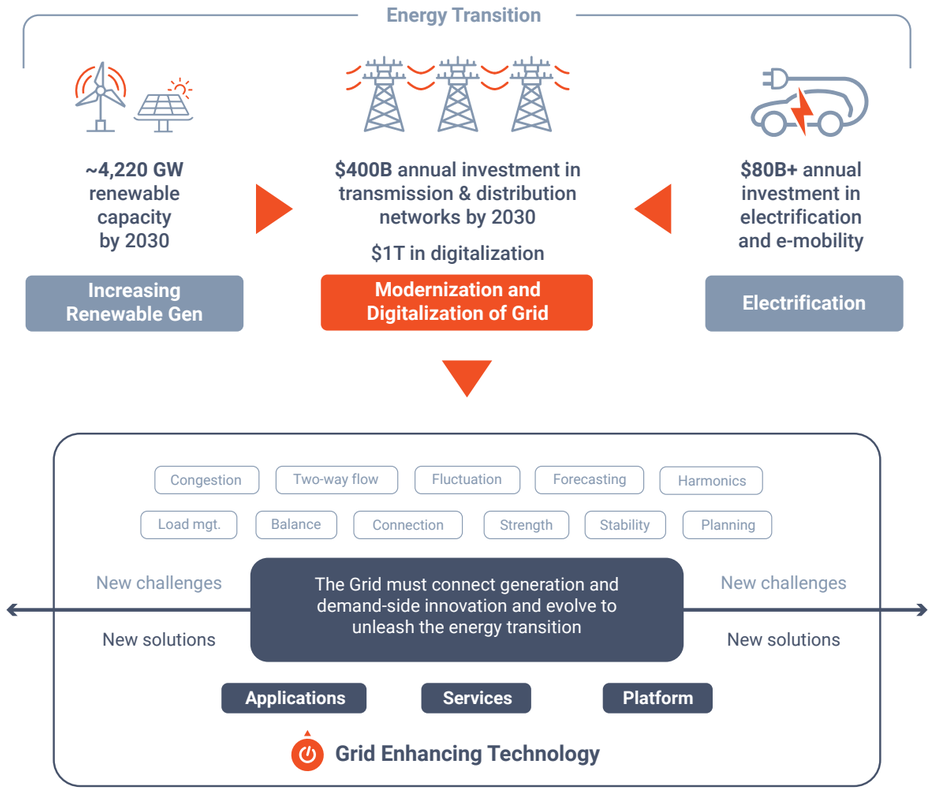
Annual average electricity grid expansion, replacement and substation capacity growth in the IEA's Net Zero by 2050 scenario



Data source: International Energy Agency (2021), Net Zero by 2050, IEA, Paris

1 Page 181 of IEA Net Zero by 2050
2 https://www.theengineer.co.uk/c2i-2021-energy-environment-winner-growing-the-grid/
3 Lawrence Berkeley National Laboratory, Queued Up 2021
4 https://watt-transmission.org/unlocking-the-queue/
5 Page 15 of IEA Net Zero by 2050

Grid challenges and solutions



Smart Wires' offering will evolve as the needs of the grid change

Adoption

Smart Wires solves major transition challenges now with applications that deal with congestion, capacity, resilience and strength.

Scale

In the mid-term, the company will offer software and services that enable greater grid flexibility.

Annuity

Longer-term, the grid will become a digital platform that unleashes the energy transition, and enables more business models and offerings with PaaS and SaaS.

Applications → Services → Platform

Business with the opportunity to scale

Smart Wires is engaged in the power sector, with a focus on medium and high voltage electricity transmission grids. The company is a leader in modular power flow control technology. Smart Wires serves Transmission Owners (TOs), also called electric utilities, and Transmission System Operators (TSOs). The company often supports market participants like renewable energy project developers, and Independent Power Producers (IPPs). Smart Wires helps enable the pace and scale of renewable energy adoption that is required – globally – to meet net zero goals.

Transmission owners use power flow controllers to eliminate line overloads by redirecting power to other lines. This improves grid reliability and operability, reduces transmission congestion and enables renewable energy connections and dispatch.

In addition to addressing grid congestion and capacity, Smart Wires' technology can also be used to help address an increasing number of dynamic issues such as supporting grid forming, power quality, sub-synchronous resonance, resilience and system strength. The energy transition is only increasing the frequency and magnitude of these issues. It's clear that the grid must adapt in order to address these challenges.

Nearly $14 trillion will need to be invested in grid modernization by 2050 to deliver a more intelligent power system that can meet the needs of the energy transition.[1] Today the global annual capital investment in transmission and distribution networks is more than $250 billion/year with estimates suggesting this will step up to $400 billion by 2030[2] and more than $600 billion by 2050[3], providing ample opportunity for growth in Smart Wires' business.

Revenue model

To date the Smart Wires business model has been focused on selling and installing hardware – SmartValve™ – to utilities to maximize the electricity grid's transfer capacity. The company offers different versions of the product with varying ratings and features that enable Smart Wires to offer solutions globally and economically for different segments of the grid. The company will continue to industrialize and build on this core capability, maximizing the addressable market, sales and positive customer impact.

Electricity networks have three phases. Therefore, Smart Wires delivers at a minimum three SmartValve units per sale. Typical projects range in scope from six to 15 and often go beyond this count. First projects lead to a series of projects over time as customers adopt the technology to resolve challenges across their network. Smart Wires has had success growing annual sales from a first project with a customer to a platform adoption strategy under multi-year framework agreements.

In addition to project-based sales, Smart Wires has also leased the technology for short-term applications (typically one to five years). These leases leverage a mobile deployment method that enables installation in less than a week and can be reused at multiple sites. Smart Wires expects this model to expand over time and believes there is solid potential for a Product as a Service (Paas) approach as the market evolves.

Growth opportunity

Historically, sale of equipment has comprised about 90% of Smart Wires' revenue, while consulting, services and leasing made up about 10% of revenue. Going forward, this mix of revenues will likely change as the business augments the SmartValve hardware offering with an expanded portfolio of grid enhancing technologies, analytics services, and software. This will provide greater annuity revenue streams from maintenance, warranties, lease models, fleet management and software licensing.

Smart Wires' growth strategy is based on growing from an applications-focus today to a service-focus in the mid-term, expanding to a digital platform strategy in the longer term. An installed base of grid enhancing technology will enable new business models across grid transformation, new management services and retail opportunities.

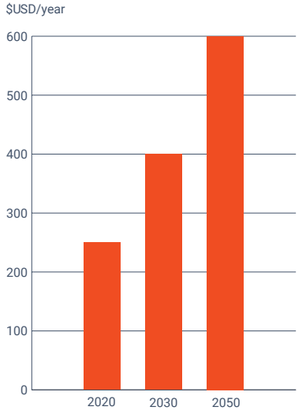
Smart Wires is focused on selling hardware and building an installed base. The main avenue for growth in the near-term is expected to be the acceleration of this core business as Smart Wires capitalizes on its rapidly expanding pipeline of new projects in existing commercial regions.

Planned growth opportunities include introducing the current product portfolio in new countries and via new sales channels. Refer to section The Grid Technology Market at page 20 for a further description of Smart Wires' growth opportunities related to an expansion of the addressable market. A wider portfolio of grid enhancing technologies and solutions – including software and services that offer annuities – represent a potential source of growing revenue going forward.

Also in the mid-term, Smart Wires will look towards engaging in rapidly growing and adjacent sectors, including distribution and offshore networks. This will both diversify the customer base and expand the market.

$14 trillion
will need to be invested in grid modernization by 2050

Global annual capital expenditure in electricity networks



Today the global annual capital investment in transmission and distribution networks is more than $250 billion/year with estimates suggesting this will step up to $400 billion by 2030[2] and more than $600 billion by 2050[3], providing ample opportunity for growth in Smart Wires' business.

1 Page 12 https://about.newenergyfinance.com/new-energy-outlook-2020/

2 https://www.iea.org/data-and-statistics/charts/annual-investment-in-electricity-networks-2019-2030-in-the-stated-policies-scenario

3 Page 12: https://assets.bbhub.io/professional/sites/24/928908_NEO2020-Executive-Summary.pdf

Smart Wires' solutions increase the utilization of the grid

Smart Wires' grid enhancing technology modernizes the network, resolves congestion and improves reliability with innovative hardware that monitors and controls the flow of electricity. A next-generation, digital power system is the critical platform to unleash the energy transition from carbon-based fuels to renewable energy such as solar and wind.

Power flow control is key

Because of the laws of physics, power flows are not evenly distributed across the grid. If one part of the grid becomes overloaded, this limits the capacity of the entire network. Substations must be upgraded or additional transmission lines built, even if other parts of the grid still have spare capacity. Power flow control technology enables utilities and grid operators to unlock large amounts of underutilized transmission capacity that exists on their systems today. Increasing the utilization of the existing grid is a more cost-effective and less disruptive way to deliver clean, renewable energy to end customers.

Innovative technology and advanced analytics

Smart Wires' flagship product is the SmartValve™ – an innovative, digital power flow control technology. By dynamically increasing or decreasing line reactance, SmartValve controls the flow of power, and ensures flows are efficient and balanced. Put simply, SmartValve pushes power off overloaded lines or pulls power on to underutilized lines.

SmartValve helps utilities extract significantly more value from their grid by quickly and inexpensively unlocking capacity. This allows utilities to quickly integrate renewables, modernize their network, resolve congestion, lower costs and improve reliability and resilience.

Alongside this innovative technology Smart Wires provides analytics services. Smart Wires' team of power system experts use advanced software and modeling to develop solutions for generation and load connections, and power system operation and planning constraints.

The combination of technology and analytics – harnessing tools and processes to create an overall solution that leverages the best of both – ultimately helps utilities transition to a digitally controlled grid.

SmartValve

A unique, highly patented, digital power flow control technology that unlocks spare capacity on the grid

- Transformerless, modular Static Synchronous Series Compensator (SSSC)
- Digital power flow control
- Integrated fast-acting bypass
- Mobile and permanent solutions
- Modular, flexible, scalable, controllable

Advanced Analytics

Advanced software and modeling with experience developing solutions for more than 100 power systems across Europe, Australia, North America and South America

- Generation and load connections
- Power system planning and operation
- Steady state studies
- Dynamic time domain studies
- EMT (electromagnetic transient) studies
- Technology consulting
- Economic analysis

Distinct and superior to alternatives

SmartValve revolutionizes the power flow control landscape with a modular, transformerless device that offers flexible installation and control. Legacy power flow control required custom designs and considerable substation space and was inflexible in operation and installation. SmartValve offers a move away from custom engineering towards a standard offering. The technology's modular nature means it's quick to install and easy to move or scale. This flexibility and adaptability is incredibly valuable as utilities manage the rapid pace of change occurring in demand and generation.

Well-known competitors and new market entrants offer alternative solutions to Smart Wires' technology, but these solutions are based on older technology, have long lead times, are more expensive and have limited-to-no ability to adapt, scale and evolve with the demands placed on the grid. These traditional solutions can be summarized as phase shifting transformers and FACTS (Flexible Alternating Current Transmission Systems), including series capacitors and series reactors. Building new lines or upgrading existing lines is another typical solution for increasing the capacity of the grid.

In addition to optimizing the use and value of existing transmission assets, SmartValve can also be deployed alongside new grid infrastructure (e.g. new lines) to enhance the utilization of these new assets and improve the overall return on investment.

Comparison of SmartValve and alternate solutions

	SmartValve	New/upgraded line	Phase Shifting Transformers	Other FACTS devices
Average project cost	$5–15M	$100M +	$20–100M	$10–50M
Lead time	1 year	7 years	3 years	2 years
Installation complexity	Easy	Highly complex	Complex	Complex
Meet changing needs	Fully flexible	Fixed	Fixed	Fixed
Amount of power transfer increase per SEK or $	Very high	Low	Medium	Medium

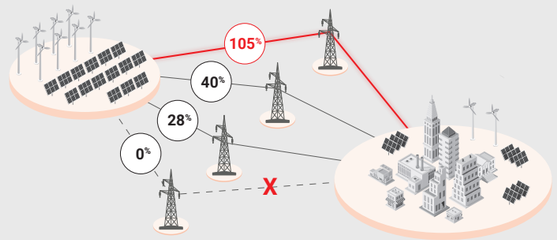
Smart Wires' modular power flow control technology balances power flow across a section of the network. This maximizes transfer capacity and utilization of existing infrastructure. SmartValves facilitate large-scale power transfers by redirecting power from overloaded lines to underutilized parallel paths, unlocking unused transfer capacity and saving hundreds of millions of dollars compared to new circuits or alternative power flow control technologies. Given the modular and quick-to-install nature of the technology, SmartValves can be rapidly deployed, thus enabling renewables, reducing emissions and providing operational benefits while other alternatives would still be under planning or construction.

Robust intellectual property protections
Smart Wires has 63 granted patents worldwide. These patents are focused on core systems and technology, as well as value-added features that make the technology and capabilities unique. Patent technology areas includes control methods, control systems, FACTS devices and more. Collectively, these create a barrier to entry for market competitors at the grid, device and subsystem level.

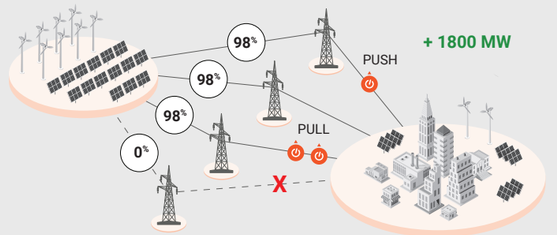
Smart Wires protects six core values including scalability, transformerless power electronics, redeployability, generic protection, mobile deployment and connectivity. By owning the intellectual property space for its core values, Smart Wires provides superior value compared to competition.

Five families of foundational patents provide broad coverage and an early priority date. These include both the design of the SmartValve and also critical ancillary components, such as handling faults and coordinated communication of distributed devices.

Before SmartValve
A simplified planning scenario predicts a network constraint. After the loss of one line, unequal loading on the remaining lines limits network utilization to 40%. Although the thermal capacity is 3000 MW, the maximum usable capacity is restricted to 1200 MW.

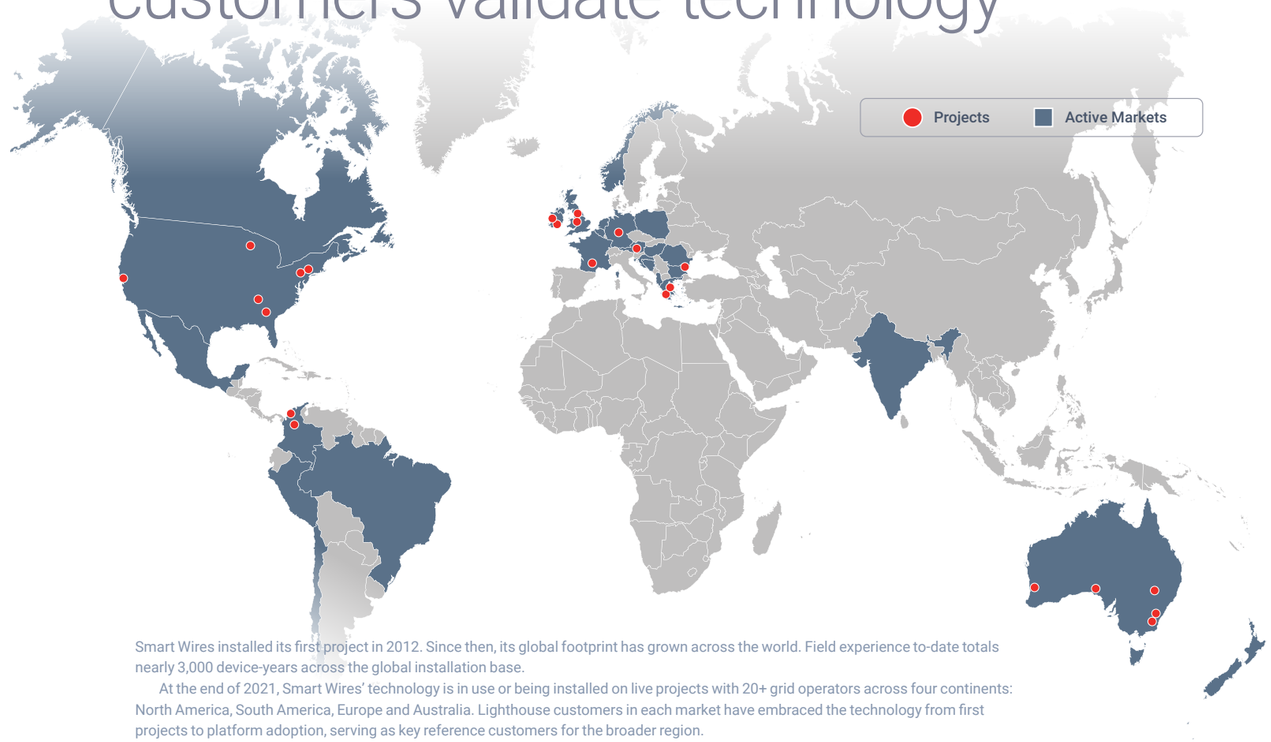


After SmartValve
Power is PUSHED & PULLED to lines with spare capacity. By balancing flows, transfer capacity is increased to 3000 MW even after accounting for the loss of any one line. Maximum utilization is achieved by small applications on multiple circuits.



SmartValve offers high adaptability and speed to quickly solve the electric grid's changing problems. The modular solution allows for deployment to be optimized to meet the known need. Deployments can easily and quickly expand or contract as needs change over time. SmartValve is quick to install, easy to relocate or scale, and fully controllable, providing the adaptability utilities need given the challenges they face today.

Repeat orders with lighthouse customers validate technology



Smart Wires installed its first project in 2012. Since then, its global footprint has grown across the world. Field experience to-date totals nearly 3,000 device-years across the global installation base.

At the end of 2021, Smart Wires' technology is in use or being installed on live projects with 20+ grid operators across four continents: North America, South America, Europe and Australia. Lighthouse customers in each market have embraced the technology from first projects to platform adoption, serving as key reference customers for the broader region.

	Colombia	UK	Australia
	First project delivered, multiple projects in progress and multiple future projects approved in country's network expansion plan	Multiple projects delivered, unlocking over 1.5 GW capacity and generating £387 M in customer savings	Multiple projects delivered and in progress, increasing inter-state export capability to reduce the risk of supply shortfalls following the retirement of fossil fuel-based generation
2022	Expansion of first project with existing customer and large-scale projects with new customers that add 1.2 GW capacity to accelerate the energy transition and strengthen security of supply	Expansion of existing projects to unlock a further 500 MW of capacity on the system and improve north-to-south transfers of clean, low-cost electricity	Multiple projects to be delivered, unlocking over 200 MW capacity and generating $190M in customer savings with no new transmission lines, and minimal environmental and community impacts
Mid-term	Expansion across the country with projects on over 12 circuits to strengthen security of supply, unlock more capacity, lower consumer costs and limit the need for new infrastructure in urban areas	15+ projects included in latest national expansion plan for network reinforcement to facilitate the energy transition, with a potential for 25–50 SmartValves per year	Expansion through projects identified by Integrated System Plan (ISP) to accelerate Australia's transition and strengthen the power system

Integrate renewables and improve inter-regional flows in the UK

National Grid Electricity Transmission (NGET) owns the cables and substations that form the electricity transmission system in England and Wales. During 2021, NGET expanded the use of transformational power flow control technology and installed 48 SmartValves across five circuits at three substations in the North of England, creating 1.5 GW of extra capacity; enough to power one million UK homes with renewable energy.

More renewables connecting to the network, the phasing out of fossil fuel generation and electrification of transport are changing the way power flows across the UK. This means that circuits become unequally loaded, causing overloads of some circuits that limits the capacity of the entire network. By using modular power flow control technology, NGET can remove bottlenecks and unlock unused capacity on the existing network.

Scaling up in 2022

With more renewables seeking network connections, NGET sees a pressing need for even more capacity in the area in 2022. By scaling up the initial SmartValve deployments near Harker and Penwortham, NGET can unlock extra capacity on the existing circuits, and ultimately transfer more renewable power to its customers in a timely and cost-effective way.

The modular nature of the technology means that new SmartValves can be easily added to the existing projects, and installed devices can be moved between sites depending on the capability required on each circuit at any point in time. This enables faster installation timeframes, minimizes additional site works and costs, and avoids disruption to local communities and the environment.

"By expanding the initial SmartValve projects in line with the evolving needs of our network, we're looking at delivering a further 500 MW of capacity in 2022 – enough to power more than 300,000 homes – enabling us to release extra capacity quickly and without the need for new, costly infrastructure projects."

Zac Richardson,
Director of New Infrastructure at NGET

Facts

48
SmartValves installed across 5 circuits

1.5 GW
capacity unlocked

1 M
Homes powered with renewable energy

£387+ M
savings for UK consumers

< 18 months
manufacturing to commissioning

500 MW
potential unlocked capacity in 2022

Increase regional interconnector flows and system security in Australia

In what is one of the first installations of its kind in Australia, Victorian transmission system operator AusNet Services deployed SmartValve technology on the Jindera-Wodonga line, where it is routing power flow onto the underutilized western 330 kV transmission corridor. This installation of Smart Wires' innovative power flow control technology has increased the ability to transfer power between New South Wales and Victoria.

SmartValve works by intelligently controlling the flows of power across the network, in real-time. It pushes power off overloaded lines and pulls power on to underutilized lines; balancing power flows across multiple lines and relieving constraints that limit cross-border flows.

By deploying SmartValve on the Jindera-Wodonga 330 kV line, the interregional export capability from New South Wales to Victoria is increased by around 15 MW, reducing the risk of supply shortfalls in Victoria following the recent retirement of fossil fuel-based generation.

This solution is being widely adopted across Australia, with Transgrid set to upgrade two of its substations with SmartValve to unlock an additional 170 MW of capacity during 2022 on the same border between New South Wales and Victoria.

Facts

- SmartValves installation avoids challenging 330 kV line uprate through a National Park
- 15 MW increase in interregional export capability
- Reduced risk of supply shortfalls in Victoria following recent retirement of fossil fuel-based generation
- Increased system stability and security by unlocking extra capacity
- One of the first installations of its kind in Australia
- An additional 170 MW is set to be unlocked in 2022 with further projects in Australia

"This technology is improving utilization of our current network; the result being lower prices for our customers, less impact on the environment and our communities, and an increase in the amount of renewables we can safely integrate."

Steven Neave,
Executive General Manager of Network Management & Digital at AusNet Services

Strong market growth

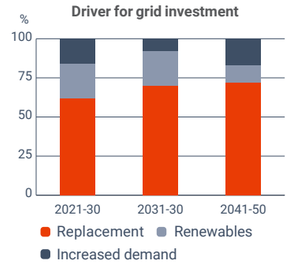
The power grid technology market is expected to see strong growth going forward as the energy transition progresses. Increased renewable generation, grid decentralization and electrification are expected to cause significant strain on existing networks and drive a need to modernize and replace decades-old infrastructure. This is expected to push total global annual grid investments above $400 billion by 2030[1] and above $600 billion by 2050[2], providing ample opportunity for Smart Wires.

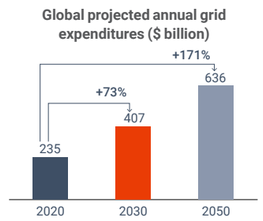
The grid is the backbone of the electrical system and is where much of the innovation and efficiency improvements will be made over the coming years. Rising electricity demand combined with the ambition to move away from carbon-based energy sources and growing popularity of renewable energy will make investments in transmission networks crucial.

Increased investments in transmission networks over the coming years will be driven by the addition of renewable energy, the use of new grid technologies, aging networks, market reforms and financial aid.

Smart Wires' addressable market – today and tomorrow

The total available market for global transmission and distribution spend is currently about $250 billion per year and with around $100 billion relating to transmission capital expenses. When looking at expected spending in individual countries where Smart Wires is active today, the company's total addressable market is currently $15 billion annually. This relates only to the company's core technology – SmartValve – and its use on transmission lines for power flow control.





- 19% of 2020 spending was on digitization
- 42% of annual 2050 spending will be on digitization

[1] https://www.iea.org/data-and-statistics/charts/annual-investment-in-electricity-networks-2019-2030-in-the-stated-policies-scenario

[2] Page 12: of Bloomberg NEF New Energy Outlook 2020

Regional Dynamics

Clear momentum building globally

Regional driving forces are expected to more than double total annual investment in grids from $235 billion today to more than $600 billion by 2050, providing ample opportunity for growth in Smart Wires' business.

North America
- New Infrastructure Bill passed, $65B allocated for transmission investment
- FERC and DOE introducing more progressive measures
- Strong ISOs in Canada driving demand for more efficient projects

South America
- Competition in transmission for many key projects
- Strong focus on investment ROI with smaller budgets
- Progressive use of grid modernization technology

Europe
- Strong policy support for renewables
- Positive regulation like RIIO in UK, 70% rule on cross-border flows in continental Europe
- High difficulty in constructing traditional projects

Australia
- Highly transparent grid planning process
- Bonus regulation for small, fast projects
- High technical sophistication in customer base

Step one – increased addressable market through market expansion

Smart Wires' addressable market is estimated to be up to $15 billion annually until 2025 and increasing over time.

Several factors are driving this growth:

1. Geographical expansion
2. Additional sales channels – adding independent power producers, developers, value added resellers and EPC (Engineering, Procurement and Construction) companies to the existing focused channel of Transmission System Operators
3. Development of new versions of SmartValve to compete in more transmission projects including increased line current rating, higher temperature rating, lower temperature rating, high seismic rating and low harmonics rating.

Step two – increased addressable market through integrated solutions

The second stage of growth, which is expected past 2025, will expand Smart Wires' addressable market to $50 billion by providing integrated solutions. This includes delivering a wider range of grid enhancing technologies, analytics and software. For example, Australia wants to build major new renewable energy zones which will require new grid development and integration into the existing grid. Australia is currently managing this new grid development outside of normal transmission providers and the procurement process will focus on the ability to enhance and optimize the grid. Smart Wires expects to be able to offer fully integrated solutions by using technology, software and services to reduce the costs and volume of infrastructure development required, and to capture some of the upside. Smart Wires expects to be advantaged by being able to offer an integrated design that maximizes the efficiency and layout of conventional and smart infrastructure.

Step three – longer-term business model evolution

In the longer-term, the evolution of the grid as a digital platform offers a significantly larger addressable market of $100+ billion per year by serving the entire value chain. Smart Wires' technology will position the company as a key player for strategic grid transformation services. This will be progressed in steps, consisting of:

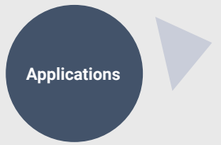
1. Ongoing infrastructure delivery
2. Integration with adjacent grid enhancing technologies
3. Increased software and services capabilities through the integration and optimization of distributed power flow control
4. Broadening of the technology, software and services offering, including program management
5. Ongoing investments in core R&D and tactical M&A.

As the company progresses through these three stages, Smart Wires' revenue streams will begin to pivot away from project-based technology sales to more annuity revenue streams with Software-as-a-Service (Saas) and Product-as-a-Service (PaaS) business models.

The scale of the challenge and the growing opportunity aligns well with the core technology and solution offering today. The company's evolution matches the probable evolution of the market over time. The question is not about whether Smart Wires will grow, but more so, how much will Smart Wires grow and how fast.

Positioned for massive growth

Addressable market ~$15B
- Core technology
- Platform adoption
- ~$6B sales pipeline



Adoption

Addressable market ~$50B
- Expand GET offerings
- Expand Analytics & Services

Scale

Addressable market ~$100B+
- Digital platform
- Grid transformation

Annuity

Sustainability at the core – impact now

The transition towards clean, renewable energy is critical for the world to reach net zero emissions by 2050. A decarbonized future calls for a fundamental reimagining and transformation of the grid. New grid enhancing technologies, such as Smart Wires' products, are catalysts to quickly and cost effectively achieve this future.

Sustainability is at Smart Wires' core – rooted both in employees' desire to make a difference and the impact of the company's technology offering. By paving the way toward a future of low-cost clean energy, the company's technology can have significant social and environmental impacts. Smart Wires seeks to make a positive global impact, while also recognizing its responsibilities to its employees and the communities in which it operates.

What Sustainability means to Smart Wires

The company's products provide a path toward a highly efficient and decarbonized electricity grid, but that is not enough. Smart Wires must also consider how it embodies the principles of Sustainability in its own operations and the impact it has on people and the planet.

During 2022, the company will begin the challenging process of identifying, measuring and improving its impact. Smart Wires is committed to using the United Nations Sustainable Development Goals (SDGs) as the foundation from which it develops its sustainability standards. As Smart Wires establishes a culture of forward-looking Sustainability, it will improve its social and environmental impact. This will be accomplished both by enabling the energy transition and also through how the company operates and integrates Sustainability into its growth.

Critical technology for impact today

SmartValve is a critical technology in effectively reimagining the electric grid.

Smart Wires' products reduce the constraints and congestion that limit the output of existing renewables and the connection of new, clean generation onto the grid. While new transmission infrastructure is needed in certain circumstances, it is costly, time consuming and often has significant environmental and social impacts. It may be years, sometimes decades, before new lines are permitted, built and enabling new energy flows on the grid. This is time the planet does not have. Often, tradeoffs are made between reductions in future carbon emissions at the expense of increased emissions today. Smart Wires' grid enhancing technology enables lower emissions both today and in the future.

During 2021, SmartValve helped avert 4,332 tonnes of CO_2 equivalent by avoiding the reconductoring and modification of existing transmission lines. SmartValve is also accelerating the connection process for new renewable generation.[1] In 2022, for example, the company's technology will enable 300 MW of renewables to come online in Colombia four years early, averting 1,860,000 tonnes of CO_2 equivalent.[2]

In 2022, Smart Wires' technology will enable 300 MW of renewables to come online in Colombia four years early, averting 1,860,000 tonnes of CO_2 equivalent.[2]

Positioning for greater impact tomorrow

In 2022, Smart Wires is beginning a concerted effort to make Sustainability an integral part of the business. The company is developing a plan to address broad-ranging social and environmental impacts. As part of this long-term effort, the company is planning and developing the following strategies.

Governance – Smart Wires is committed to regular, accurate and transparent sustainability reporting. By the end of 2022, the company intends to begin implementation of several reporting frameworks targeting areas such as greenhouse gas accounting, corporate social impact and product environmental impact. The goal is to develop useful and actionable data for internal and external stakeholders.

The company will continue to implement its anti-corruption policies – including vendor evaluations on environmental and social criteria. Smart Wires will also conduct its first ever materiality assessment to understand the topics that are material to the business and its stakeholders, both internal and external. These areas of impact will have increased reporting and receive concerted effort to improve.

The company's first ever materiality assessment is planned for 2022.

Environmental Sustainability – During 2022, Smart Wires will begin the extensive process of identifying and quantifying the social and environmental impacts of its products by conducting a complete Life Cycle Assessment (LCA) for two product lines. From these assessments, the company will be able to deliver Environmental Product Declarations, Materials Statements and Rare Earth Minerals Assessments. As part of the long-term LCA process, the company will be able to develop end-of-life plans for its products to minimize their impact once they have reached the end of their useful life.

Complete Life Cycle Assessments will be delivered in 2022 for two product lines.

Smart Wires will also measure the direct impacts its actions have on the environment. The company will begin monitoring and measuring emissions and waste streams from its activities. Smart Wires will conduct a Greenhouse Gas Accounting audit including its Scope 1, 2 and 3 emissions. The company will take direct action to mitigate and reduce overall emissions as key areas of improvement and waste reduction are identified.

Social Sustainability – Smart Wires is already making significant strides in areas of social impact within the company. In 2021, the company began offering five days of paid leave for employees to volunteer within their communities. The company also established a Diversity, Equity and Inclusion committee.

Starting in 2021, all employees are eligible for five days of paid leave to volunteer.

Smart Wires is also interested in identifying, measuring and understanding the impact of its products on the global community, especially as it relates to addressing energy poverty and poverty in the broader sense. In 2021, for example, one of Colombia's leading utilities, Empresas Públicas de Medellín (EPM), explained how the deployment of SmartValves allowed EPM to improve its system reliability while lowering operational costs.[3] The project led to lower costs to Colombian consumers, and limited impact to communities and natural environments. This is just one example. Over the course of the coming year, Smart Wires plans to develop partnerships to understand how the company's products can improve equity and energy access for vulnerable populations.

Smart Wires' contribution to the Sustainable Development Goals

Smart Wires mission and operations positively contribute most significantly to these SDGs. The company understands further work must be completed to identify its impact on many of the SDGs. As Smart Wires collects and evaluates data, it will continue to assess its impacts - both positive and negative - on other SDGs.

1 Based on carbon footprint of ACSR conductor using virgin aluminum and steel and tower reconstruction
2 Based on 49.18 tonnes of CO_2eq per terajoule in Colombia per Enerdata, 2020
3 https://www.tdworld.com/test-and-measurement/article/21157520/empresas-pblicas-de-medelln-employs-flexible-alternating-current-transmission-system

Corporate culture that empowers

Education
- University degree 90%

Employees
- Men 72%
- Women 28%

Management team
- Men 60%
- Women 40%

Organization and employees
As part of Smart Wires' growth plans, the company added 81 new, full-time eployees during 2021. The organization is quickly scaling as customers around the world look to Smart Wires to support them in their energy transition.

During the year, the company also announced it was moving its headquarters to a new 46,000-square-foot Durham, North Carolina facility to better position itself for growth across its key markets. North Carolina is a strong hub for smart grid businesses and provides significant access to talent, R&D partnerships, manufacturing know-how and exceptional infrastructure. Smart Wires plans to add an additional 250 personnel to its US operations over the next five years.

High education level
At the end of 2021, Smart Wires had 155 employees, which is an increase of 15% compared to the close of the preceding financial year. Of the company's employees, 28% were women and 72% men. The company's management team comprised 60% men and 40% women. Of the 81 full-time employees hired in 2021, 48 are hires in engineering, projects, supply chain and quality assurance.

Smart Wires employees are highly educated. At the close of the financial year, 12% had a Ph.D. and 90% had a university degree. Smart Wires' organization is characterized by diversity, with employees located in 10 countries around the world consisting of various nationalities and backgrounds. This helps create a dynamic workplace with a positive and stimulating work environment.

Healthy work environment and safe workplace
Smart Wires strives to create a work environment that promotes positive health and well-being for all employees. To support employee wellness the company offers comprehensive benefits plans, unlimited time off, scheduled company shut-downs for employees to recharge, as well as access to a total wellness platform that supports mental, physical and emotional wellbeing. It is important for Smart Wires to be an attractive employer, where employees feel satisfied and supported in their total well-being and have opportunities to develop.

Safety at the workplace is critical for Smart Wires and is engrained in the company's core values. During 2021, the company performed work at 11 substation sites without incident. The company has a steadily declining Total Recordable Incident Rate (TRIR) and reported only one minor injury during the year. Smart Wires also set up observation and incident reporting processes to address positive and negative behaviors for further action.

Listing on Nasdaq First North Stockholm

The Smart Wires share was listed on Nasdaq First North Growth Market in Stockholm on May 18, 2021. The share is traded under the ticker, GOGRID, with the ISIN code: SE0015962345. The number of common shares issued and outstanding at the end of the financial year was 99,433,978. The average number of common shares for the financial year was 63,762,187. The total fully diluted share count including options and warrants at the end of the financial year was 117,445,967.

Share performance and turnover
Since the listing of the shares on May 18 to December 31, 2021, Smart Wires' share price declined 18% from SEK 30.07 to SEK 24.65. During the period, 18.2 million shares were traded through Nasdaq First North Growth Market Stockholm at a total value of SEK 568.6 million. The diagram below shows the share's price trend from May 18 to December 31, 2021.

Dividend policy
Smart Wires has never issued any dividends and the Board has no intentions to propose any dividends for the past financial year or to commit to any fixed dividend ratio.

Share development May 18 to December 31, 2021

The 10 largest shareholders as of December 31, 2021

	Number of Shares	Share Capital
3x5 Partners Funds	26,365,007	26.5%
Lime Rock New Energy and affiliates	21,436,219	21.6%
FW Smart Wires Investors LLC	15,975,609	16.1%
Handelsbanken Funds	5,019,277	5.0%
Goldman Sachs Asset Management	3,530,649	3.6%
SW Holdings Inc.	2,048,192	2.1%
Deka Investments	1,790,183	1.8%
UBS Global Asset Management	1,757,139	1.8%
Emerson Collective Investments, LLC	1,517,475	1.5%
Blue Torch Funds	1,465,814	1.5%
Other	18,528,414	18.6%
Total	**99,433,978**	**100.0%**

Financial Information

Content

Financial Highlights and Overview

($ in millions, except for per share amounts)	2021	2020
Revenue	**$ 46.0**	**$ 15.4**
Cost of revenue	45.8	30.0
Gross profit	**$ 0.2**	**$ (14.6)**
Gross margin	*1%*	*(94%)*
Operating Expenses	55.3	45.2
Loss from operations	$ (55.0)	$ (59.8)
EBITDA[1]	$ (52.0)	$ (57.5)
EBITDA margin	*(113%)*	*(372%)*
Net Loss	$ (67.3)	$ (63.1)
Weighted Average Common Shares Outstanding	63.8	4.2
No. of Shares Outstanding End of Period	99.4	3.5
Weighted Average Loss Per Share – Basic & Diluted	$ (1.04)	$ (15.14)
Ending cash, including Restricted Cash[2]	**$ 100.7**	**$ 9.6**
Net working capital	**$ 106.9**	**$ 2.4**
Cash flows used in operations	$ (64.8)	$ (66.5)

Final audited numbers include an adjustment to revenue for a portion of a customer contract that was not fulfilled in 2021.

[1] EBITDA is a non-GAAP measure and is defined on page 59, "Definition of Terms".

[2] This balance does not include long-term restricted cash.

Due to rounding numbers presented may not add to the totals provided.

Earnings – YTD December 31, 2021

Revenue

Total revenue in 2021 grew by 198% to $46.0 million from $15.4 million in 2020. This exceeds the previously provided revenue guidance of $38 million to $42 million as production and delivery supply chain recovery out-performed expectations leading to higher-than-expected deliveries of SmartValveTM devices in Q4 2021. This 3x revenue growth was driven by continued SmartValve technology adoption by new and existing customers in key markets across the globe.

Gross Profit

Gross margins for 2021 period were 1%, an improvement of 95 percentage points over the 2020 gross margin of (94%). This improvement was driven by a combination of improved leverage of fixed manufacturing costs, favorable revenue mix driven by product deliveries vs low margin construction revenue, and favorable comps related to manufacturing startup costs that were incurred in 2020. These improvements were partially offset by a $1 million charge for a warranty provision related to earlier generations of the product that was recorded in Q4 2021 which resulted in a 2 percentage point negative impact to gross margins.

Operating Expenses

For the full year operating expenses were $55.3 million compared to $45.2 million in 2020. The increase for the year was a result of key investments in talent acquisition, business development and analytic projects, patent expansion, and our product pipeline. These are critical investments as we scale the company for the growth.

EBITDA

EBITDA for 2021 improved 10% to a loss of $52.0 million vs $57.5 million in 2020. The improvement in EBITDA was driven by increased revenues and the improvement in gross margins, partially offset by an increased level of investment in the business to support expansion, new product introductions and engineering solutions.

EBITDA margins improved significantly from (372%) to (113%) in 2021 vs 2020 driven by an increase in revenue and improved gross margins.

Net loss and loss per share

The net loss in 2021 was $67.3 million vs $63.1 million in 2020. The change was primarily attributable to the improved EBITDA as described above, as well as the favorable impact of the elimination of debt in Q2 2021 which drove lower cash interest expense offset by $7.3 million in expense related to the valuation of preferred and common stock warrants.

Net loss per share on a fully diluted basis improved to $1.04 loss per share in 2021 from $15.14 loss per share in 2020.

Corporate Governance Report

Overview

The Company is incorporated in the British Virgin Islands under the BC Act. The conduct of the Company is governed not only by the BC Act, but also the Company's Memorandum of Association, Articles of Association and common law. The Company's shares have been issued in accordance with the BC Act. The Company complies with all corporate governance rules in the BVI.

The Swedish Corporate Governance Code, dated 1 January 2020 does not apply for companies admitted to trading on First North Growth Market.

The company complies with Nasdaq First North Growth market rulebook and other applicable laws and regulations.

Shares

The Company is listed on the Nasdaq First North Growth market. The Company is authorized to issue up to 1,500,000,000 shares, each with a par value of USD 0.01. There is only class of shares, each share carries one vote and all shares carry equal rights in all respects, including rights to dividends. The shares are freely transferrable, provided that any transfer of the shares is made in accordance with the Articles of Association.

Annual General Meetings (AGM)

The Company shall hold an annual general meeting ("AGM") within six months of the end of each financial year. The holders of shares (Members) shall be given not less than 28 days' notice of the AGM. The 2022 AGM is to be held on May 19, 2022 as a virtual meeting.

Extraordinary Members' meetings may be convened in addition to the AGM. The Director convening a meeting of Members shall give not less than 28 days' notice of a meeting of Members to: (a) those members whose names appear on the Register of Members on the date the notice is given and who are entitled to vote at the meeting of members; and (b) the other Directors.

The Board of Directors

The Directors are elected (upon a recommendation of the Company's Nomination committee) by a resolution of Directors.

The minimum number of Directors shall be two (to consist of at least one non-executive Director and one executive Director), and the maximum number of Directors shall be seven (unless otherwise determined by the Members by a Resolution of Members).

According to Nasdaq First North Growth Market's rulebook, at least one of the Directors must be independent of the Company, its management, and the Company's major shareholders.

The Company's Board of Directors is responsible for ensuring satisfactory corporate governance.

The Board

Michael Howard
Board Chairman

Michael is a seasoned Board Director and executive with over 40 years of global experience accelerating technology and policy toward cleaner energy pathways. He served as President and CEO at Electric Power Research Institute (EPRI) from 2010 until his retirement in 2020.

Before serving as EPRI's President and CEO, Michael was EPRI's Senior Vice President, Research and Development, and President and Chief Executive Officer of EPRI Solutions, Inc., a wholly owned subsidiary of EPRI. His previous leadership roles span global organizations ranging from entrepreneurial start-ups to large public companies with responsibilities including operations, finance, sales and marketing, product development and strategic planning.

Michael also serves on the board of the World Energy Council and the board of CMU's Scott Institute for Energy Innovation and is a Senior Fellow of the Enel Foundation. In 2019, he was elected by the United States Energy Association (USEA) as the 2019 U.S. Energy Award recipient, recognizing preeminent energy leadership and contributions to international understanding of energy issues.

Holdings: Michael Howard owns no shares or options in Smart Wires.

Tony Arnerich
Director

Tony Arnerich is a Managing Director and co-Founder of 3x5 Partners and past CEO and CIO of Arnerich Massena, a registered investment advisory firm he founded in Portland, Oregon, in 1991. Tony has over 30 years of experience in the investment business and has been making direct investments since 2000. He serves on the boards of Vapotherm, Smart Wires and Fishpeople Seafood and was previously on the boards of Salient and Accriva Diagnostics.

Tony founded an award-winning business-to-school partnership with Portland's Irvington School, committing significant funding and employee volunteer time to neighborhood schools. He has volunteered as an I AM Learning Partner with this program for more than 20 years. Tony earned a Bachelor of Arts from Santa Clara University and is a former FINRA Series 7, 63 and 24 license holder.

Tony Arnerich is independent in relation to the Company and the Executive Management and affiliated with 3x5 Group (a major shareholder of the Company).

Holdings: Tony Arnerich owns no shares or options in Smart Wires.

Christopher Bass
Director

Christopher Bass has been a U.S. based private investor for more than two decades across asset classes including public and private equities, credit and venture capital. Mr. Bass graduated from Duke University and previously worked at Oak Hill Capital.

Christopher Bass is independent in relation to the Company and the Executive Management and affiliated with FW Smart Wires Investors (a major shareholder of the Company).

Holdings: Christopher Bass owns no shares or options in Smart Wires.

Sharon Cohen
Director

Sharon Cohen is managing counsel at San Diego Gas & Electric company, a regulated public utility subsidiary of Sempra Energy. Sharon is a senior advisor with over 20 years energy industry experience including legal, regulatory and external affairs, compliance, governance, supply management, environmental, safety, and permitting.

Sharon is also the Chair of a California-based foundation supporting education in a disadvantaged community, as well as a Director for the La Jolla Music Society, San Diego Volunteer Lawyers Program and California Association of Women in Water, Energy and Environment.

Holdings: Sharon Cohen owns no shares or options in Smart Wires.

Mark Lewis
Director

Mark Lewis is a Managing Director with Lime Rock New Energy, a provider of growth equity capital to rapidly growing companies that are helping to drive the clean energy transition. At Lime Rock New Energy Mark is focused on investment sourcing, execution, and overall fund management. Prior to joining Lime Rock New Energy, Mark served as the President of TAE Technologies, Inc., a leading fusion energy technology development company. Mark also served as CEO of ONEnergy, Inc., a diversified energy services company involved in energy retailing, commercial and industrial energy efficiency and distributed solar projects. Previously, Mark was a Managing Director and co-Chair of the Investment Committee at MissionPoint Capital Partners. Earlier in his career, Mark served with General Electric in Europe and the U.S., including three years as the head of Global Business Development at GE Energy where he led a team of 35 professionals. Mark started his career in energy investment banking at Credit Suisse in New York and London. Mark serves as a director of Electric Power Engineers and ENER-i.ai, and he previously served on the boards of directors of Qmerit, Trilliant Networks, UpWind Solutions, ONEnergy and OZZ Clean Energy.

Mark Lewis is independent in relation to the Company and the Executive Management and affiliated with Lime Rock New Energy (a major shareholder of the Company).

Holdings: Mark Lewis owns no shares or options in Smart Wires.

Joanna Lohkamp
Director

Joanna Lohkamp is a seasoned Board Director, qualified Financial Expert, NACD Directorship Certified and Board Leadership Fellow, with global operating experience across technology, manufacturing and AEC (Architecture, Engineering and Construction) sectors. Joanna chairs the Audit & Risk Committee of Woods Bagot Holdings Pty Ltd., a global architecture and design firm headquartered in Australia, and the Nominating & Governance committee of Aspiriant, a U.S. based wealth management firm with $14 billion in assets. In addition, Joanna sits on the board of NACD Northwest Chapter, a National Association of Corporate Directors chapter delivering world-class director education programs and networking events.

Joanna is also co-Founder and CEO of Better Boards Initiative, a nonprofit organization aimed at uncovering and leveraging the best practices of diverse boards. Her previous executive roles as CEO, President, Chief Financial Officer, and Chief Operating Officer span high-growth Fortune 50, emerging and mid-market private companies, as well as companies in turnaround mode.

Holdings: Joanna Lohkamp owns no shares or options in Smart Wires.

Nicholas Walrod
Director

Nicholas Walrod is a Managing Director and co-Founder of 3x5 Partners, a growth equity venture capital firm in Portland, Oregon. The firm makes investments in the Life Sciences and Climate Solutions (water, agriculture, energy and natural resource) sectors. He brings 20 years of experience as an investor, board member and strategic partner to the service of ground-breaking companies in the resource and medical technologies fields. As a General Partner of three Funds and many special purpose vehicles, Nick serves on the board of directors of Claros Technologies, Smart Wires, Rubicon Global, Good Therapeutics, Fervo Energy and SOURCE Global. Previously, Nick sourced and managed hedge fund and private equity relationships at Arnerich Massena.

Nicholas Walrod is independent in relation to the Company and the Executive Management and affiliated with 3x5 Group (a major shareholder of the Company).

Holdings: Nicholas Walrod owns no shares or options in Smart Wires.

Group Management

Peter Wells
CEO

Peter Wells is the Chief Executive Officer of Smart Wires. Peter Wells is an accomplished power industry executive, with over three decades of global leadership experience in renewable energy products and services and manufacturing. Peter joined Smart Wires from GE Renewable Energy, where he served as CEO of Onshore Wind for the Europe and Sub-Saharan Africa (SSA) Region for two years. Peter had previously held the role of Senior Vice President and COO for Services and Projects with Vestas Americas.

Prior to Vestas, Peter spent five years with UpWind, where he was CEO, growing the business 10x to create the leading Independent Service Provider in the U.S., before successfully selling the business to Vestas in 2015. Before joining UpWind, Peter spent ten years with GE in various roles, including Six Sigma, Marketing, Parts GM and VP New Plant Project Operations in different GE Energy business units. Peter, who is originally from the UK, previously spent time at a variety of European companies, mostly in the EPC (Engineering, Procurement & Construction) space as a Chartered Surveyor, dealing with the commercial management of large and complex infrastructure projects.

Holdings: Peter Wells owns no shares and holds options exercisable into 4,652,268 shares of Smart Wires stock

Julie Andrews
Chief Financial Officer

Julie Andrews is the Chief Financial Officer responsible for leading the finance, accounting, IT and investor relations functions at Smart Wires.

Julie joins Smart Wires from Wright Medical Group N.V. where she most recently held the position of Sr. Vice President, Global Finance and previously served as Vice President and Chief Accounting Officer. At Wright Medical, Julie successfully led the Finance function for the $1B global business with oversight for all finance and accounting functions. Prior to joining Wright Medical, Julie spent nearly 15 years at Medtronic in a variety of finance roles including the VP of Finance (Business Unit CFO) for the $3.5B Spine and Biologics business.

Julie's 25-year career has included leading and executing strategic initiatives including divestitures, mergers, acquisitions and business restructuring, developing high-performing teams, and driving cultural transformation. Julie currently serves on the board of directors and as the audit committee chair for RxSight (NASDAQ: RXST) and Priveterra (NASDAQ: PMGM).

Holdings: Julie Andrews owns no shares and holds options exercisable into 1,250,000 shares of Smart Wires stock.

Shannon Ross
Chief People Officer

Shannon Ross is the Chief People Officer responsible for leading the strategy and programs related to building, developing and retaining an exceptional team of professionals at Smart Wires.

Shannon has spent more than a decade in Human Resources leadership roles within fast-paced, high-growth companies. She joins Smart Wires most recently from Peter Millar where she served as Vice President of Human Resources. Prior to her time at Peter Millar, Shannon spent nearly ten years in the Life Sciences industry including time at Asensus Surgical, Biogen and GE Healthcare. Early in her career she worked in the Telecom industry in Sales and Training & Development, spending two years in Singapore on an expat assignment.

In her career Shannon has gained invaluable experience building talent and growth strategies and specializing in creating programs to enhance culture and communication and drive employee and leadership development.

Holdings: Shannon Ross owns no shares and holds options exercisable into 475,000 shares of Smart Wires stock.

Alexandra Pressman
General Counsel

Alexandra Pressman is the General Counsel responsible for leading the company's legal department as well as risk management and compliance at Smart Wires.

Previously, Alexandra was an attorney at Fenwick & West, where she represented high-growth technology and life science companies in venture capital financings, mergers and acquisitions, and public offerings.

Prior to Fenwick, Alexandra served the Obama administration as a Senior Program Manager in the White House Council on Environmental Quality. In this role she led the interagency team that developed federal greenhouse gas accounting and reporting requirements.

Alexandra also worked in the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy. There she managed a multi-million dollar budget for international collaborations on geothermal technology and worked with leaders in government and industry from the U.S., Iceland, Australia and Switzerland, to develop and launch the International Partnership on Geothermal Technology. While at the Department of Energy, Alexandra also earned a "Special Service" award for strategic planning and analysis.

Holdings: Alexandra Pressman owns 161,421 shares and holds options exercisable into 230,473 shares of Smart Wires stock.

Michael Walsh
Chief Commercial Officer

Michael Walsh is the Chief Commercial Officer responsible for global business development and commercial activities at Smart Wires.

Prior to joining Smart Wires, Michael was Director of Future Grids at Ireland's Transmission System Operator, EirGrid. In this role he was responsible for planning the transmission system on the island of Ireland and bringing new technologies into its grid development strategy. It was in this role that he first became familiar with Smart Wires' innovative solutions. Seeing the potential, he decided to join the Smart Wires team.

During his tenure at EirGrid, Michael was a member of ENTSO-E's System Development Committee, which oversees the planning of the European-wide transmission system.

Previously, he was Chief Executive of the Irish Wind Energy Association (IWEA) and a Board member of the European Wind Energy Association (WindEurope). Other previous roles include Manager of market readiness at ESB National Grid, and Lecturer in Electronic Engineering at University College Dublin, Ireland.

Michael is also the Chairperson of the Port of Cork, a designated 'core' port under Europe's TEN-T Guidelines and a 'Tier 1 Port of National Significance' under the Irish Government's National Ports Policy. Michael is also a Fellow of Engineers Ireland.

Holdings: Michael Walsh owns 196,535 shares and holds options exercisable into 633,251 shares of Smart Wires stock.

Marie Hayden
Chief Engineer

Marie Hayden is the Chief Engineer responsible for delivering New Product Development Programs, Sustaining Engineering and Product Modeling & Analytics services at Smart Wires.

Marie joined Smart Wires in 2018 from EirGrid, the Irish Transmission System Operator, where she held several engineering leadership positions over a 25 year career. During her time at EirGrid, Marie was Chair of the Irish National Committee of CIGRE and in 2018, she was awarded the honor of becoming a Distinguished Member of CIGRE. After joining Smart Wires Marie led business development teams in Europe and Australia and went on to become the General Manager in Europe. In May 2021, Marie was appointed Chief Engineer.

Holdings: Marie Hayden owns 9,000 shares and holds options exercisable into 731,000 shares of Smart Wires stock.

Management, cont.

Haroon Inam
Chief Technology Officer

Haroon Inam is the Chief Technology Officer responsible for technology development, as well as maturing and evaluating select intellectual property at Smart Wires.

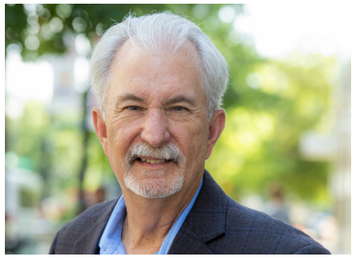
Haroon has more than 30 years of experience in technology and product development across diverse verticals such as utilities, industrials and aerospace. Throughout his career, Haroon has delivered more than 20 major global platforms, including ones for high-reliability and mission-critical applications.

His experience includes developing internet-connected distributed embedded systems, complex controls, firmware, hardware, mechatronics and cloud-based tools. Haroon has also led multiple global teams consisting of hundreds of engineers, product-management associates and manufacturing-engineering professionals.

Prior to joining Smart Wires, he held executive and management positions at companies such as United Technologies and Honeywell, plus several start-ups and smaller firms that had successful exits.

As an inventor, Haroon has 36 granted patents and more than 40 pending patents.

Holdings: Haroon Inam owns 331,969 shares and holds options exercisable into 909,829 shares of Smart Wires Ltd stock.



John Parks
Senior Vice President, Projects

John Parks is the Senior Vice President, Projects responsible for leading the deployment of Smart Wires' solutions across the world and working with customers to develop implementation strategies that meet their transmission grid needs.

Prior to Smart Wires, John worked for Pacific Gas and Electric (PG&E) where he led the Transmission and Distribution Maintenance and Construction organizations. He was responsible for the 24/7 operation of the PG&E transmission and distribution system. John ensured the safe and reliable delivery of electricity across PG&E's vast service territory, serving millions of Californians, and the transmission grid which is interconnected across the western United States.

As a Senior Director for PG&E, John gained extensive leadership skills and experience while leading more than 2,000 employees responsible for constructing and maintaining the system. Additionally, John's responsibilities included executing the large portfolio of transmission, distribution and substation projects, amounting to hundreds of millions of dollars annually. This required working with local and federal agencies, contractors, internal and external procurement departments, and vendors across the utility industry.

Prior to John's senior leadership positions, his 40 years of experience included working in craft positions as a journeyman lineman, frontline supervision, T&D technical specialist and leading PG&E's technical training departments.

Holdings: John Parks owns 90,000 shares and holds options exercisable into 239,005 shares of Smart Wires stock.

Brad Beard
Senior Vice President, Manufacturing

Brad Beard is the Senior Vice President, Manufacturing responsible for leading manufacturing and supply chain activities at Smart Wires.

Brad began his career working in various industries including polymers and fiber optics and has over 20 years of supply chain and leadership experience. Brad joined General Electric's Nuclear Power Business in 2003 as part of the Edison Engineering Development Program. After program graduation, he held roles of increasing responsibility in the nuclear business, including process/quality engineering, Maintenance Manager, Shop Manager and Plant Manager for the Fuel Component Operation and GE-Hitachi's Service Component Operation. In 2015 Brad was assigned the role of Plant Manager for GE Healthcare's medical device facility in Laurel, Maryland. In 2018 he was appointed as Vice President of Manufacturing for Global Nuclear Fuel, a GE joint venture, where he was responsible for all nuclear fuel manufacturing activities and held the NRC facility license for the company. Brad is certified in six sigma and lean, as well as having completed his APICS CPIM certification for material management.

Holdings: Brad Beard owns no shares and holds options exercisable into 300,000 shares of Smart Wires stock.

Brian Martin
Senior Vice President, Safety

Brian Martin is the Senior Vice President, Safety responsible for leading the health, safety, security and environmental strategies at Smart Wires.

Brian Martin started his career on the ground level in the oil and gas industry, beginning work in the marshes of Louisiana and evolving into a 40-year career in the energy industry. He grew through roles that included compressor operator, offshore oil and gas technician, and offshore production supervisor. Brian then shifted his career focus to health and safety. He began as a field safety advisor and progressed through various safety leadership roles at BP and BP Wind Energy, followed by Apex Clean Energy, and now Smart Wires.

Over his career in the various sectors of the energy industry including onshore and offshore oil and gas production operation, and wind energy, Brian has successfully balanced the implementation of safe work procedures with behavior-based and people-based safety processes, human performance and leadership development to eliminate workplace injuries.

During his long career Brian has earned certifications in Corporate Safety Management and Incident Investigations attaining the level of Master Root Cause Specialist.

Holdings: Brian Martin owns no shares and holds options exercisable into 175,000 shares of Smart Wires stock.

Smart Wires Technology Ltd. Consolidated Financial Statements December 31, 2021 and 2020

Consolidated Balance Sheets

In thousands, except par value amounts

	December 31, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash and cash equivalents	$90,729	$9,641
Restricted cash	10,020	–
Accounts receivable	1,277	2,448
Inventory	18,750	22,075
Prepaid expenses and other current assets	6,359	865
Unbilled Receivables	10,319	431
Total current assets	**137,454**	**35,460**
Property and Equipment, net	9,087	4,185
Deposits and other assets	2,281	256
Deferred Financing Costs	464	–
Intangible Assets, net	91	235
Total assets	**$149,377**	**$40,136**
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable	$5,030	$4,827
Accrued expenses and other current liabilities	12,650	2,807
Deferred revenue and customer deposits	12,158	15,916
Current portion of long-term debt, net of debt issuance costs and discounts	–	503
Convertible notes payable, net of debt discounts	–	8,295
Derivative liability	736	735
Total current liabilities	**30,574**	**33,083**
Long-Term Debt, net of debt issuance costs and discounts	28,585	22,756
Other liabilities	38	102
Total Long-term liabilities	**28,623**	**22,858**
Commitments and Contingencies (Notes 1, 5, 6, 8, 10, 13)		
Series I convertible preferred stock, $0.0001 par value, 615,000 shares authorized at December 31, 2020; 546,400 shares issued and outstanding at December 31, 2020; aggregate liquidation preference of $284,466 at December 31, 2020	–	282,179
Stockholders' equity (deficit)		
Common stock, $0.01 par value and $.0001, respectively - Authorized: 1,500,000 shares as of December 31, 2021 and 58,000 shares as of December 31, 2020; issued and outstanding: 99,434 and 3,523 shares as of December 31, 2021 and December 31, 2020, respectively	994	–
Additional paid-in capital	459,969	7,502
Accumulated deficit	(372,600)	(305,486)
Total Smart Wires Technology Ltd stockholders' equity (deficit)	**88,363**	**(297,984)**
Non-redeemable Non-controlling interests	1,817	–
Total liabilities, convertible preferred stock and stockholders' equity	**$149,377**	**$40,136**

Due to rounding numbers presented may not add to the totals provided.

Consolidated Statements of Operations

In thousands, except per share amounts

	Years Ended December 31,	
	2021	2020
Revenues		
Product revenue	$43,862	$6,551
Construction revenue	2,186	8,891
Revenues	46,048	15,442
Cost of Revenues	45,803	29,998
Gross profit (loss)	245	(14,556)
Operating Expenses		
Research and development	25,998	24,537
Selling, general and administrative	29,092	20,710
Other operating expenses	192	–
Total operating expenses	55,282	45,247
Loss before Financial Expenses, net	(55,037)	(59,803)
Preferred stock warrant liability revaluation (loss)	(6,528)	–
Financial Expenses, net	(5,757)	(3,308)
Net Loss	(67,322)	(63,111)
Less:		
Net loss attributable to Non-redeemable Non-controlling interests	(926)	–
Net Loss attributable to Smart Wires Technology Ltd	$(66,396)	$(63,111)
Net basic and diluted loss per share of ordinary and common stock	$(1.04)	$(15.14)
Weighted average number of shares used in computing net basic and diluted loss per share of common stock	63,762	4,168

Due to rounding numbers presented may not add to the totals provided.

Consolidated Statements of Cash Flows

In thousands, except per share amounts

	Years Ended December 31,	
	2021	2020
Cash flows from Operating Activities		
Net loss	$(67,322)	$(63,111)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,641	2,121
Impairment of intangibles	124	–
Loss on disposal of equipment	192	–
Loss on extinguishment of debt	1,752	–
Non-cash interest expense	559	1,303
Common stock warrant expense	764	–
Gain on writeoff of accrued interest	–	(206)
Revaluation of derivative liability	–	1
Revaluation of preferred stock warrant liability	6,528	–
Stock-based compensation	1,159	203
Restricted stock unit liability	–	10
Changes in operating assets and liabilities:		
Accounts receivable	1,171	6,292
Inventory	1,970	(11,185)
Prepaid expenses and other assets	(16,619)	(720)
Accounts payable	(1,146)	709
Accrued expenses and other liabilities	8,227	(2,198)
Deferred revenue and customer deposits	(3,758)	312
Net cash used in operating activities	**(64,657)**	**(66,469)**
Cash flows from Investing Activities		
Purchase of property and equipment	(2,404)	(2,198)
Deposits	–	(17)
Net cash used in investing activities	**(2,404)**	**(2,215)**
Cash flows from Financing Activities		
Proceeds from long-term debt	55,000	25,000
Deferred financing costs	(2,234)	(1,515)
Repayment of debt	(49,375)	(9,180)
Proceeds from issuance offering	155,154	–
IPO transaction related fees	(12,082)	–
Proceeds from issuance of ordinary and common shares related to exercised options	144	37
Proceeds from the issuance of convertible notes payable	4,626	9,000
Proceeds from the issuance of convertible preferred stock, net	7,838	25,733
Repurchase of early exercised options to purchase common stock	(12)	(16)
Net cash provided by financing activities	**159,058**	**49,059**
Net Increase (Decrease) in Cash, cash equivalents and restricted cash	91,897	(19,625)
Cash, cash equivalents and restricted cash, beginning of year	9,641	29,266
Cash, cash equivalents and restricted cash, end of period	$101,538	$ 9,641

Due to rounding numbers presented may not add to the totals provided.

Supplemental cash flow information

In thousands, except per share amounts

	Years Ended December 31,	
	2021	2020
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$2,310	$1,851
Cash paid for income taxes	$–	$2
Supplemental Non-Cash Disclosure		
Issuance of convertible preferred stock in exchange for convertible notes payable and accrued interest	$13,759	$2,500
Accretion of convertible preferred stock cumulative dividends	$8,990	$20,563
Extinguishment in derivative liability in connection with conversion of convertible notes payable	$735	$(625)
Issuance of convertible preferred stock in connection with conversion of restricted stock units	$55	$82
Issuance of common stock in exchange for services	$–	$1
Accrued and unpaid property and equipment	$2,954	$–
Issuance of common stock warrants	$6,528	$–

Due to rounding numbers presented may not add to the totals provided.

Consolidated Financial Statements

Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)

In thousands, share and per share amounts

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total	Non-Controlling Interests	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount					
Balances at January 1, 2020	**452,106**	**$232,677**	**3,625**	**$–**	**$7,278**	**$(221,812)**	**$(214,534)**	**–**	**$(214,534)**
Issuance of Series I-1 and Series I-2 convertible preferred stock at $.6165 per share in exchange for convertible notes payable	10,138	3,125	–	–	–	–	–	–	–
Issuance of Series I-1 and Series I-2 convertible preferred stock at $0.6165 per share in exchange for cash, net of issuance costs	84,034	25,732	–	–	–	–	–	–	–
Issuance of convertible preferred stock in connection with conversion of restricted stock units	122	82	–	–	–	–	–	–	–
Accretion of convertible preferred stock cumulative dividends	–	20,563	–	–	–	(20,563)	(20,563)	–	(20,563)
Issuance of common stock in exchange for services	–	–	12	–	1	–	1	–	1
Issuance of common stock upon exercise of stock options pre merger	–	–	45	–	37	–	37	–	37
Repurchase of early exercised stock options	–	–	(159)	–	(16)	–	(16)	–	(16)
Stock-based compensation and other	–	–	–	–	202	–	202	–	202
Net loss	–	–	–	–	–	(63,111)	(63,111)	–	(63,111)
Balances at December 31, 2020	**546,400**	**$282,179**	**3,523**	**$–**	**$7,502**	**$(305,486)**	**$(297,984)**	**–**	**$(297,984)**

	Convertible Preferred Stock		Common,Stock		Additional, Paid-In,Capital	Accumulated Deficit,	Total	Non-Controlling Interests	Total,Stockholders' (Deficit),Equity
	Shares	Amount	Shares	Amount					
Balances at January 1, 2021	**546,400**	**$282,179**	**3,523**	**$–**	**$7,502**	**$(305,486)**	**$(297,984)**	**$**	**$(297,984)**
Issuance of Series I-1 and Series I-2 convertible preferred stock at $.6165 per share in exchange for convertible notes payable	44,637	13,759	–	–	–	–	–	–	–
Issuance of Series I-1 and Series I-2 convertible preferred stock at $0.6165 per share in exchange for cash, net of issuance costs	25,675	7,838	–	–	–	–	–	–	–
Issuance of convertible preferred stock in connection with conversion of restricted stock units	83	55	–	–	–	–	–	–	–
Issuance of Series I-1 and Series I-2 convertible preferred stock as adjusted for anti-dilution	31,124	–	–	–	–	–	–	–	–
Issuance of Series I-1 convertible preferred stock in exchange for accumulated dividends	51,368	–	–	–	–	–	–	–	–
Accretion of convertible preferred stock cumulative dividends	–	8,990	–	–	–	(8,990)	(8,990)	–	(8,990)
Conversion of Series I-1 and Series I-2 preferred stock warrants at $.6165 per share	–	–	–	–	6,528	–	6,528	–	6,528
Issuance common stock warrants	–	–	–	–	764	–	764	–	764
Issuance of common stock upon exercise of stock options pre merger	–	–	112	–	144	–	144	–	144
Repurchase of early exercised stock options	–	–	(117)	–	(12)	–	(12)	–	(12)
Cancellation and conversion of Series I-1 and Series I-2 convertible preferred stock into common stock	(699,287)	(312,821)	66,204	7	312,814	–	312,821	–	312,821
Issuance of common stock in connection with a warrant exercise	–	–	1,466	–	–	–	–	–	–
Cancellation of common stock in connection with merger and stock split	–	–	(71,188)	(7)	(312,814)	–	(312,821)	–	(312,821)
Noncontrolling interest of common shareholders	–	–	–	–	–	–	–	2,749	2,749
Adjustment for NCI net asset	–	–	–	–	(11,021)	8,272	(2,749)	–	(2,749)
Issuance of Parent ordinary shares in connection with merger and stock split	–	–	68,943	689	312,110	–	312,799	–	312,799
Issuance of Parent ordinary shares in exchange for SDRs, net of costs	–	–	30,400	304	142,790	–	143,094	–	143,094
Conversion of NCI into parent company ordinary stock	–	–	60	1	5	–	6	(6)	–
Issuance of ordinary stock upon exercise of stock options in parent company	–	–	31	–	–	–	–	–	–
Stock-based compensation	–	–	–	–	1,159	–	1,159	–	1,159
Net loss	–	–	–	–	–	(66,396)	(66,396)	(926)	(67,322)
Balances at December 31, 2021	**–**	**$–**	**99,434**	**$994**	**$459,969**	**$(372,600)**	**$88,363**	**$1,817**	**$90,180**

Due to rounding numbers presented may not add to the totals provided.

Due to rounding numbers presented may not add to the totals provided.

Notes to Consolidated Financial Statements

1. Description of the Business

ORGANIZATION

Smart Wires Technology, Ltd. (the Company, Smart Wires Ltd) manufactures modular power flow control technology devices that control and direct power flow on high electric transmission systems. The power flow control devices attach to transmission lines and transmission towers and, with transmission owners using the power flow controllers to eliminate line overloads by redirecting power to other lines, reduce transmission congestion, and enable renewable energy connection and dispatch.

On May 12, 2021, the Company executed an Amended and Restated Agreement and Plan of Merger with Smart Wires Inc. and SW Acquisition Subsidiary Inc. (Merger Sub) whereby Merger Sub was merged into Smart Wires Inc. (the Merger) (the Agreement). In accordance with the Agreement, all options, warrants and other securities convertible into or exercisable for Smart Wires Inc. shares were either converted or exercised into Smart Wire Inc's common shares prior to the effective date of the Merger. After the conversion of the options and warrants, each share of the Smart Wires Inc's common shares, Series I-1 Preferred shares (Series I-1 shares) and Series I-2 Preferred shares (Series I-2 shares) were exchanged for and converted into common shares equal to the conversion ratio which was 1:1. The resulting common shares were then converted into Smart Wires Ltd. ordinary shares and effected by a reverse stock split of 10:1.

The Company accounted for the Merger as a recapitalization (the May 12, 2021 recapitalization) and not a business combination as Merger Sub did not meet the definition of a business under ASC 805, Business Combination, and therefore there were no changes in the basis of the Company's assets or liabilities.

The effect of the recapitalization was to change the Company's capital structure through the issuance of new shares and exchange of existing shares for shares in the new entity.

Because certain Smart Wires Inc. shareholders did not convert their shares as part of the recapitalization, the Company recorded the effect of these positions as noncontrolling interests in its Consolidated Financial Statements.

RECAPITALIZATION:

On May 12, 2021, the Company carried out a private placement of Swedish Depository Receipts (SDRs) representing ordinary shares in the Company. The private placement was directed to Swedish and international qualified investors. As part of the private placement, the Company issued 30.4 million shares at a price of SEK 41.50 ($4.92) for proceeds of SEK 1.3 billion ($149.6 million), net of issuance costs of SEK 101.9 million ($12.1 million). Subsequently, the shares were listed on Nasdaq First North Growth Market. May 18th, 2021, was the first day of trading.

The Company's offering on the Nasdaq First North Growth Market also included the full exercise of the underwriter's option to purchase 4.5 million shares to cover overallotments, at a price to the public of SEK 41.50 ($4.92) per share. The underwriter's exercised their option and after the stabilization period the Company purchased and cancelled the shares and received net proceeds of SEK 47.5 million ($5.6 million).

To process the private placement, the Company entered into a custodian agreement with Pareto Securities (Custodian) under which the Custodian issued one SDR for each deposited share.

ORDINARY SHARES:

As part of the May 12, 2021 recapitalization, the Company exchanged 68.9 million ordinary shares on a post-split basis for Smart Wires Inc. common shares. The common shares included the conversion of the Series I shares after adjusting the Series I shares for the exercise of warrants, accumulated dividends and antidilution. Existing common shares were also adjusted for warrants and options.

In addition, the Company issued 30.4 million shares at a price of SEK 41.50 ($4.92) for proceeds of SEK 1.3 billion ($149.6 million), net of issuance costs of SEK 101.9 million ($12.1 million) in a private placement. The Company's offering on the Nasdaq First North Growth Market also included the full exercise of the underwriters option to purchase 4.5 million shares to cover over allotments, at a price to the public of SEK 41.50 ($4.92) per share. The underwriter's exercised their option and after the stabilization period the Company purchased and cancelled the shares and received net proceeds of SEK 47.5 million ($5.6 million). In connection with the private placement, the Company's board of directors authorized an increase in the number of ordinary shares the Company could issue from 200,000,000 to 1,500,000,000 at a par value of $0.01 per share.

The Company has only one class of share which are freely transferable.

The Company, the Company's major shareholders, and the Company's board of directors entered into a lockup arrangement with the Custodian to sell, issue or dispose of ordinary shares for a period of six months for the Company and twelve months for the Company's executive management and directors, without the consent of the manager.

THE COMPANY'S ORDINARY SHARES HAVE THE FOLLOWING RIGHTS AND PRIVILEGES:

Voting

Ordinary shareholders are entitled to one vote for each ordinary share held at any meeting of stockholders and at the time of any written action in lieu of a meeting to be cast by the Custodian.

Dividends and Distributions

Provided consent is given by the Custodian, the holders of ordinary shares are entitled to receive dividends when declared.

Liquidation

All ordinary shareholders are entitled to share ratably in the Company's remaining assets available for distribution to its stockholders in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or upon occurrence of a deemed liquidation event.

COVID-19

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus disease (COVID-19) as a pandemic, and the Company expected its operations in all locations to be affected as the virus continues to proliferate. The Company's overall revenue increased compared to prior year due to increase in new construction revenue, however revenue from the sale of its power flow control devices decreased due to delayed product installations and delayed contract execution as customers assessed the impact of COVID-19 on their own businesses. In addition, due to the shelter in place ordinances in March, employees' ability to work on-site and complete development and conduct testing necessary to advance product lines was temporarily suspended. This ordinance delayed the ability to complete product design and has impacted the ability to manufacture product for timely delivery to customers. Accordingly, COVID-19 required the Company to incur unnecessary and higher costs for material purchases, manufacturing build out costs, and logistics.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), was signed into law in response to the COVID-19 pandemic. The CARES Act includes several significant income tax relief provisions as well as the deferral of the employer portion of the social security payroll tax. The income tax benefits include a favorable increase in the interest expense limitation under section 163(j), allowing a five-year net operating loss (NOL) carryback provision for certain NOLs, and increasing the amount of NOLs corporations may use to offset income for taxable years beginning before 2021. The Company has evaluated the income tax impacts of the CARES Act and does not expect that the income tax relief provisions of the CARES Act would significantly impact the Company, since it has had net losses since inception. The Company continued to experience supply chain disruptions, component shortages, and higher costs for material purchases and logistics due to COVID-19 which impacted the Company's ability to manufacture and deliver product timely to customers during the year ended December 31, 2021.

2. Summary of Signficant Accounting Policies

BASIS OF PRESENTATION

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Any reference in these notes to applicable guidance is meant to refer to the authoritative GAAP as found in the Accounting Standards Codification (ASC) and as amended by Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB).

PRINCIPLES OF CONSOLIDATION:

The Consolidated Financial Statements include the accounts of the Company, the Company's holding in Smart Wires, Inc. (SWI), and its wholly owned foreign subsidiary, SWG Europe, an Irish corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Segment Information:

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker views our operations and manages the business in one segment.

USE OF ESTIMATES:

The preparation of Consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures in the accompanying notes. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. On an ongoing basis, the Company evaluates these assumptions, judgments and estimates. Actual results may differ from these estimates.

FOREIGN CURRENCY TRANSLATION AND FOREIGN OPERATIONS:

Operations outside the United States include SWI operations as well as SWG Europe's activities in Ireland. The functional currency for the Company's holdings is the United States Dollar. Monetary accounts maintained in currencies other than the U.S. dollar are translated into U.S. dollars in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) No. 830 "Foreign Currency Matters". For consolidation purposes, the financial statements of SWG Europe were re-measured in United States dollars with the assets and liabilities translated at the current rate of exchange at the balance sheet date. Revenues and expenses are translated at the average exchange rate on a monthly basis. Additionally, SWI transactions with foreign customers and vendors may be settled in a foreign currency. All transaction gains and losses of the re-measurement of monetary balance sheet items are reflected in the statements of income as financial income or expenses, as appropriate. Any resulting gains or losses were included in operations. The Company recognized $417,000 and $223,000 in foreign currency transaction losses in 2021 and 2020, respectively and recorded them to financial expenses, net in the accompanying consolidated statements of operations.

REVENUE

Revenue is comprised of amounts earned from the sale of products and services performed under commercial product and services agreements and government agreements. The Company determines revenue recognition in accordance with the five-step model prescribed by Accounting Standards Codification (ASC) 606 through the following steps:

1. Identification of the contract, or contracts, with a customer;
2. Identification of the performance obligations in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when, or as, the Company satisfies a performance obligation.

Revenue is measured utilizing an input or output method based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenues when it satisfies a performance obligation by transferring control over a product or service to a customer.

A typical contract provides for the purchase and delivery of the Company's power flow control devices, consulting services to advise and assist customers as they undertake the installation, activation and integration of the devices into their electric grid, and a standard product assurance warranty, generally two years; however, it may be longer depending on negotiation with the customer. Construction services are provided to some customers to assist the customers site preparation for product delivery.

The Company identifies as many as four distinct performance obligations for the purposes of revenue recognition.

Products and Services	Nature and Timing of Satisfaction of Performance Obligations
Equipment Revenue	Equipment revenue is recognized at a point in time, specifically upon transfer of control to the customer which coincides with delivery of the product units from the point of manufacture.
Construction Revenue	Construction revenue, when applicable, is recognized over time, using an input method. Total costs incurred at each period end are utilized to calculate revenue earned for the period.
Government Revenue	Revenue from government research and development contracts is generated under terms that are cost plus. These contracts are set up such that the Company demonstrates the effectiveness of its products over a period of time to a group of future customers. The government agency facilitates the demonstrations as research and development of energy effectiveness projects. There is usually one performance obligation in these arrangements and revenue is recognized over time based on an input cost model. The Company constrains revenue when there is risk of future reversals.
Consulting Revenue	Consulting revenue includes customer training, device installation, and activation, and is recognized when complete at a point in time. Consulting revenue also includes separate revenues generated for studies performed and other services provided that is recognized when the obligation is complete.

COST OF REVENUES

The Company's cost of revenues consists primarily of raw material costs, labor and overhead related to the manufacturing of power flow control devices sold. The Company also performs construction activities for its customers to facilitate the sale of its power flow control devices and will subcontract the construction activities to third parties. The costs associated with these construction activities are expensed as the related construction revenues are recognized, which is based on the level of completion of the underlying construction project. Fulfillment costs are usually incurred in the same period revenue is recognized and are expensed when incurred.

WARRANTY

The Company's equipment is sold with a warranty that provides assurance that the equipment will function as intended. In the event of equipment failure due to faultiness, the Company will repair the equipment at no additional charge. Warranty periods are limited. The Company does not provide a lifetime warranty for any of its equipment. The Company does not sell a warranty separately, but may do so in the future. The Company does not provide extended warranty. The Company recorded $996,000 and $0 of warranty expense as cost of goods sold during 2021 and 2020, respectively. The warranty estimates are forecasts based upon the best available information, including historical factors, root cause analysis, etc. and actual costs may differ from amounts provided.

SHIPPING AND FREIGHT EXPENSES

Shipping and freight expenses are recorded to cost of revenues and are recognized during the period in which they are incurred. Amounts billed to the customer for shipping are recorded as equipment revenue.

DEFERRED REVENUE AND CUSTOMER DEPOSITS

Deferred revenue and customer deposits are contract liabilities consisting of amounts received from customers in advance of the associated services being performed, product being delivered or during customer trial periods.

ADVERTISING

All advertising costs are expensed as incurred and included in sales and marketing expenses. Advertising expenses incurred by the Company were insignificant in 2021 and 2020.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred. Research and development costs consist primarily of salaries, benefits, and certain facility costs.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash balances and highly liquid investments purchased with an original maturity of three months or less.

RESTRICTED CASH

Restricted cash is comprised of letters of credit established by contractual agreement with certain customers during the term of the contract. The restriction is released at the end of the contract period. One letter of credit extends beyond one year and is included in Deposits.

DEPOSITS AND OTHER ASSETS

Deposits and other assets are comprised of lease deposits, a letter of credit for a customer, a long-term receivable with a customer and a certificate of deposit. The certificate of deposit consists of funds in interest bearing instruments held as collateral in accordance with the Company's California operating lease agreements (Note 5). Restriction requirements continue through the term of the leases which were set to expire during 2021, but was extended and is expiring during 2022.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents, restricted certificates of deposit and accounts receivable. The Company's cash and cash equivalents are deposited with major financial institutions. Cash deposits at the institutions were in excess of the Federal Deposit Insurance Corporation's insurable limit. The Company has not experienced any losses on its cash and cash equivalents and its certificate of deposit to date.

Accounts receivable are unsecured receivables under the Company's customer contracts and the Company generally does not require collateral from its customers. The Company evaluates the collectability of its accounts receivable and provides an allowance for potential credit losses as necessary. The Company does not have any history of losses and as such does not have allowances in 2021 and 2020.

Major customers are defined as those generating revenue that exceeds 10% of the Company's annual revenues. For the periods ended December 31, 2021 and 2020, revenues were primarily earned from commercial sales and services by three and two customers, respectively. Revenue from the major customers accounted for 93% and 82% of revenues in 2021 and 2020, respectively. Accounts receivable from major customers totaled $0 and $2.2 million at December 31, 2021 and 2020, respectively.

CONCENTRATION OF SUPPLY RISKS

The Company depends on one contract manufacturer and some limited or single source component suppliers. Reliance on these vendors makes the Company vulnerable to possible capacity constraints and reduced control over component availability, delivery schedules, manufacturing yields, and costs.

As of December 31, 2021 and 2020, the Company had no trade payables, net with this one contract manufacturer related to manufacturing services. All services provided are paid within the month they are provided.

INVENTORY

The Company values inventories at the lower of cost or net realizable value using the first-in, first-out or weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonable predictable costs of completion, disposal and transportation.

Management reviews inventory annually to evaluate for impairment and reserves. Inventory identified as not useable in the production cycle or saleable to a customer is reserved for and the associated charge is recorded to cost of goods sold.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the improvements. Construction in progress represents the ongoing build of the new headquarters in Durham, North Carolina. Depreciation and amortization on property and equipment was $1.6 million and $2.1 million during 2021 and 2020, respectively.

	Useful life In Years
Machinery and equipment	5
Computer hardware and software	3
Leasehold improvements	Shorter of lease term or the estimated useful life

INTANGIBLE ASSETS

Intangible assets consist of developed technology acquired under a licensing arrangement, purchased domain names, and costs of filing and defending patents and trademarks. Intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated remaining useful life of the asset and is primarily included in research and development expense on the consolidated statements of operations.

The estimated useful life for patents and licenses and developed technology is generally 15 years. The Company began to amortize the developed technology and patents upon the first commercial sale of the product in March 2013. Amortization expense was $21,000 in 2021 and 2020, respectively. The Company determined in December 2021 that the value of certain intangibles were not recoverable and incurred an impairment loss of $124,000 in operating expenses for the period ended December 31, 2021. There were no impairments identified for the year ended December 31, 2020.

ACCOUNTING FOR IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property and equipment and intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with ASC 360, "Property, Plant, and Equipment," or ASC 360. The Company considered a continuing trend of significantly unsatisfactory operating results that are not in line with expectations to be the primary indicator of potential impairment. When an indicator of impairment is noted, assets are evaluated for impairment at the lowest level for which there are identifiable cash flows which is the individual asset. The Company deems the individual asset to be impaired if a forecast of undiscounted future operating cash flows directly related to the asset, including estimated disposal value, if any, is less than the asset carrying amount. If the asset is determined to be impaired, the loss is measured as the amount by which the carrying amount of the Company's assets exceeds its fair value and is recorded as a charge to operating income. The Company primarily use discounted cash flow methods to estimate the fair value of long-lived assets. Based on this calculation, the Company recognized impairment losses of $192,000 and $0 on long-lived assets for the years ended December 31, 2021 and 2020, respectively. The $192,000 impairment loss is recorded in Other operating expenses, net.

STOCK-BASED COMPENSATION

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The standard expands the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. The standard is effective beginning January 1, 2020, with early adoption permitted so long as it is not earlier than the entity's adoption of ASC 606.

The Company generally grants stock options to its employees for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for employee options using the fair value method and all stock-based compensation is recognized as the underlying options vest. The Company accounts for forfeitures of unvested options as an estimate upon issuance at a rate of 10% for the years ended December 31, 2021 and 2020.

Stock-based compensation recorded by the Company for the years ended December 31, 2021 and 2020 is not expected to be indicative of stock-based compensation in future years as the number of awards subject to measurement is expected to increase in those periods. Stock-based compensation for warrants issued or options granted to non-employees is measured on the date of performance at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Stock-based compensation for options granted to non-employees is periodically re-measured as the underlying options vest.

The Company also issues restricted stock units (RSUs) (Note 10), which are classified as liabilities on the consolidated balance sheets because the RSU can be converted to cash at the option of the holder. RSU are measured and recognized at fair value and are subject to re-measurement at each balance sheet date. At the end of each reporting period, changes in fair value of the RSU liability during the period are recognized as a revaluation gain or loss in the consolidated statements of operations. The Company recognized an immaterial revaluation loss for the years ended December 31, 2021 and 2020, respectively. In February 2021, the Company converted the remaining 82,492 restricted stock units to 82,492 Series I-1 preferred shares. The Series I-1 shares were converted into common stock based on a 1:1 conversion ratio as part of the May 12, 2021 recapitalization.

DERIVATIVE LIABILITY

The Company accounts for embedded features in its debt and equity instruments based upon the guidance of ASC 480, Distinguishing Liabilities from Equity and ASC 815, Derivatives and Hedging. Any embedded features are analyzed to determine if they should be bifurcated from the host instrument and recorded at fair value. The Company uses a probability weighted approach to determine the fair value of the derivative liability at inception of the notes and subsequently re-measured at each balance sheet date to reflect any changes in fair value. The offsetting entry is recorded as a debt discount to the original instrument and is amortized to interest expense using the effective interest method. At the end of each reporting period, changes in fair value of the derivative liability were recognized as a revaluation gain or loss in the consolidated statement of operations. The Company adjusts the derivative liability when the convertible notes are redeemed in cash or converted to convertible preferred stock.

PREFERRED STOCK WARRANTS

Freestanding warrants related to the Company's preferred stock were classified as liabilities because the underlying shares of preferred stock are contingently redeemable due to the liquidation rights of preferred stockholders upon a change in control event. Therefore, the Company may have been obli-

gated to transfer assets at a future date. Such warrants were measured and recognized at fair value and are subject to re-measurement at each balance sheet date. At the end of each reporting period, changes in fair value of the preferred stock warrant liabilities were recognized as a revaluation gain or loss in the consolidated statements of operations.

During February 2021, the Company issued 9.9 million warrants to purchase Series I-1 shares and 668,000 warrants to purchase Series I-2 shares which were classified as liabilities because the underlying shares of preferred stock are contingently redeemable due to the liquidation rights of preferred stockholders upon a change in control event. The Series I-1 and Series I-2 warrants were fair valued as of the date of issuance and each reporting period with changes reported in the Company's Consolidated Statement of Operations.

As part of the recapitalization, these warrants were remeasured on the date of the recapitalization and then converted into Series I-1 shares and Series I-2 shares. The Series I-1 and Series I-2 shares were then converted into common shares based on a 1:1 conversion ratios.

CONVERTIBLE PREFERRED STOCK:

The Company classifies convertible preferred stock outside of stockholders' deficit because, upon the occurrence of certain change in control events that are outside the Company's control, including liquidation, sale or transfer of the Company's assets, holders of the convertible preferred stock can cause redemption for cash. Holders of a majority of the outstanding convertible preferred stock can also require the Company to repurchase the convertible preferred stock by providing the Company a written notice requesting such redemption. The Company recognizes changes in the redemption value immediately as they occur and adjusts the carrying amount of the convertible preferred stock to equal the redemption value at the end of each reporting period. In the absence of retained earnings these accretion charges are recorded against additional paid in capital, if any, and then to accumulated deficit. The Company analyzed all embedded derivatives and beneficial conversion features for its convertible preferred stock and concluded that none requires bifurcation. All shares of the Company's convertible preferred stock were converted into common shares as a result of the recapitalization based on a 1:1 conversion ratio.

FAIR VALUE OF FINANCIAL INSTRUMENTS:

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements of ASC 820. The new guidance is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. The Company adopted this standard effective as of January 1, 2020, and the adoption of the standard did not have an impact on the Company's consolidated financial statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Company uses a three-level hierarchy, which prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information for fair value measurement based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with those financial instruments.

The three-level hierarchy for fair value measurement is defined as follows:

Level I:	Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level II:	Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level III:	Inputs to the valuation methodology, which are significant to the fair value measurement, are unobservable.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's certificate of deposit is valued daily and classified within Level II of the fair value hierarchy.

The Company's preferred stock warrants and restricted stock unit liabilities have been valued using a Black-Scholes model and are classified within Level III of the fair value hierarchy. The Company's conversion derivative liability for the year ended December 31, 2021, was valued using a probability weighted net present value methodology and is classified within Level III of the fair value hierarchy.

The Company accounts for embedded features in its debt and equity instruments based upon the guidance of ASC 480, Distinguishing Liabilities from Equity and ASC 815, Derivatives and Hedging. Any embedded features are analyzed to determine if they should be bifurcated from the host instrument and recorded at fair value. For the year ended December 31, 2021, the Company used a binomial lattice using the with-without method of the income approach. The with-without method values an embedded derivative by calculating the difference between two values: that of the host financial instrument valued with and without the embedded derivative. The offsetting entry is recorded as a debt discount to the original instrument and is amortized to interest expense using the effective interest method. At the end of each reporting period, changes in fair value of the derivative liability were recognized as a revaluation gain or loss in the Consolidated Statement of Operations. The Company adjusts the derivative liability when the convertible notes are redeemed in cash or converted to convertible preferred stock.

The Company's preferred stock warrants and restricted stock unit liabilities have been valued using a Black-Scholes model and are classified within Level III of the fair value hierarchy. The Company's conversion derivative liability for the period ended December 31, 2021, were valued using a binomial model using the with-without method and is classified within Level III of the fair value hierarchy.

The following table shows the fair value of assets and liabilities for each level (000s):

As of December 31, 2021	Assets	Liabilities
Level I	$-	$-
Level II	222	
Level III	-	736
Total	**$222**	**$736**

As of December 31, 2020	Assets	Liabilities
Level I	$-	$-
Level II	222	-
Level III	-	790
Total	**$222**	**$790**

A reconciliation of the changes in value of the preferred stock warrant, restricted stock unit, derivative liabilities and debt conversion feature are summarized below (000s):

Balances, January 1, 2021	$790
Extinguishment of the derivative liability upon conversion of the convertible notes to convertible preferred stock	(735)
Issuance of convertible preferred stock in connection with conversion of restricted stock units	(55)
Preferred stock warrant liability revaluation	6,528
Issuance of common stock in connection with conversion of Preferred stock warrant	(6,528)
Fair value of derivative liability relating to debt conversion feature	736
Balances, December 31, 2021	**$736**

Balances, January 1, 2020	$751
Increase in fair value of the restricted stock unit liability recorded in the consolidated statement of operations within stock-based compensation	10
Decrease in fair value of the derivative liability upon conversion of the convertible notes to convertible preferred stock	(624)
Fair value of the derivative liability recorded in connection with the issuance of convertible notes	735
Issuance of convertible preferred stock in connection with conversion of restricted stock units	(82)
Balances, December 31, 2020	**$790**

(LOSS) EARNINGS PER SHARE (EPS)

Basic net EPS is computed by dividing the net earnings attributable to Smart Wires Ltd. by the weighted-average number of shares of ordinary stock outstanding and common stock warrants during the period.

Diluted net EPS is computed by giving effect to all potential shares of ordinary stock, to the extent dilutive, including warrants, stock options, convertible preference shares and convertible debt in accordance with ASC No. 260, "Earnings Per Share."

INCOME TAXES

The Company accounts for income taxes using the asset and liability method. The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred income tax assets and liabilities are determined based on the difference between the consolidated financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

In evaluating the ability to recover its deferred income tax assets, the Company considers all available positive and negative evidence, including its operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction-by-jurisdiction basis. In the event the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, it would make an adjustment to the valuation allowance that would reduce the provision for income taxes. Conversely, in the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period when such determination is made. As of December 31, 2021 and 2020, respectively, the Company recorded a full valuation allowance on its deferred income tax assets.

Tax benefits related to uncertain tax positions are recognized when it is more likely than not that a tax position will be sustained during an audit. Interest and penalties related to unrecognized tax benefits are included within the provision for income tax expense to the extent applicable within the financial statement period.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year balances to conform with current year presentation.

- Sales, marketing, and customer support was combined with general and administrative;
- Certain operating income and expenses were combined and presented as financial expense, net
- Certain amounts previously reported in Prepaid expenses and other current assets are now reported as its own line item on the balance sheet as Unbilled Receivables

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

Business Combinations

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (ASU 2021-08), which clarifies that an acquirer of a business should recognize and measure contract assets and contract liabilities in a business combination in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers (Topic 606). This guidance is effective for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years. Early adoption is permitted. The impact of this ASU on the Company's Consolidated Financial Statements is expected to be immaterial.

Debt with Conversion and Other Options and Derivatives and Hedging:

In August 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06), which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company has not yet determined the impact that this new standard will have on the Company's Consolidated Financial Statements.

Leases

In February 2016, the FASB issued ASC Topic 842, Leases. This standard requires all entities that lease assets with terms of more than 12 months to capitalize the assets and related liabilities on the balance sheet.

Topic 842 is effective for the Company as of January 1, 2022 and requires the use of a modified retrospective transition approach for its adoption. The Company is currently evaluating the effect Topic 842 will have on its consolidated financial statements and related disclosures. The Company expects the assets leased under operating leases, similar to the leases disclosed in Note 5 to the consolidated financial statements, will be capitalized together with the related lease obligations on the consolidated balance sheet upon the adoption of the standard. The Company is currently assessing the impact the guidance will have on the Company's consolidated financial statements.

RECENTLY ISSUED AND ADOPTED PRONOUNCEMENTS

Simplifying the Accounting for Income Taxes

In December 2020, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12). ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 will be effective for public entities for interim and annual periods beginning after December 15, 2020, with early adoption permitted. ASU 2019-12 will be effective for private entities for annual periods beginning after December 15, 2021, and interim periods beginning after December 15,

2020, with early adoption permitted. The Company adopted ASU 2019-12 on January 1, 2021. The adoption of ASU 2019-12 did not have a material effect on the Company's consolidated financial statements or disclosures.

The consolidated financial statements for the year ended December 31, 2021 are presented under the new standards, while comparative periods presented are not adjusted and continue to be reported in accordance with the Company's historical accounting policy.

3. Revenues from Contracts with Customers (in 000s)

DISAGGREGATION OF REVENUES

	Year Ended December 31,	
Product or Service Line	**2021**	**2020**
Equipment Revenue	$41,233	$4,860
Construction Revenue	2,186	8,891
Government Revenue	674	743
Consulting Revenue	1,955	948
Total	**$46,048**	**$15,442**

ACCOUNTS RECEIVABLES AND CONTRACT BALANCES

Accounts receivables from contracts with customers were $1.3 million and $2.4 million at December 31, 2021 and 2020, respectively. The change in the balance relates to cash received and performance obligations completed during the year.

Deferred revenue and customer deposits are contract liabilities consisting of amounts received from customers in advance of the associated services being performed, product being delivered or during customer trial periods. The Company's contracts may include multiple performance obligations which often is not in direct relation to cash collections relating to milestone payments as determined in the contracts. These contracts are evaluated to determine if contract assets or liabilities exist. A contract asset exists when the timing of the actual billing differs from the revenue recognized. Contract liabilities exist when cash collected is in advance of fulfilling a contract's performance obligation and revenue is recognized. Contract assets were $11.2 million and $0.4 million as of December 31, 2021 and 2020, respectively. The December 31, 2021 amount consists of $10.3 million recorded to Unbilled and $0.9 million recorded as a long term asset in Deposits and other assets. The December 31, 2020 balance consists of $0.4 million recorded to Unbilled.

Contract liabilities were $12.2 million and $15.9 million at December 31, 2021 and 2020, respectively. Contract liabilities are included in current liabilities on the consolidated balance sheets. Revenue recognized from deferred revenue and customer deposits were $23.2 million and $13.3 million in 2021 and 2020, respectively. The remaining balance is expected to be recognized during the period ending December 31, 2022.

Following is an activity summary of the deferred revenue and customer deposits (000s):

	Amounts
Balances, January 1, 2020	$15,604
Customer deposits	13,625
Revenue recognized	(13,313)
Balances, December 31, 2020	**$15,916**
Customer deposits	19,468
Revenue recognized	(23,226)
Balances, December 31, 2021	**$12,158**

4. Balance Sheet Detail

RESTRICTED CASH

Our restricted cash primarily consists of amounts set aside by contractual agreement with certain customers during the term of the customer contract. The restriction will be released by the customer at the end of the contract period. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheet that sum to the total of the same amounts shown in the consolidated statement of cash flows for the years ended December 31, 2021 and 2020, respectively.

Restricted cash consists of the following (000s):

	Balance sheet classification	**December 31, 2021**	**December 31, 2020**
Cash and cash equivalents	Cash and cash equivalents	$90,729	$9,641
Restricted cash -current	Restricted cash	10,020	–
Restricted cash -non current	Deposits and other assets	789	–
Total		**$101,538**	**$9,641**

INVENTORY

Inventory consists of the following (000s):

	As of December 31, 2021	**As of December 31, 2020**
Raw materials, net of reserves of $1,165 and $1,208, respectively	$15,721	$15,352
Work-in-progress	1,737	4,166
Finished goods	1,292	2,557
Total	**$18,750**	**$22,075**

PREPAID EXPENSES AND OTHER CURRENT ASSETS:

Prepaids consists of the the following (000s)

	As of December 31, 2021	**As of December 31, 2020**
Prepaid insurance and other	$1,406	$865
Prepaid inventory	4,953	–
Total	**$6,359**	**$865**

PROPERTY AND EQUIPMENT CONSIST OF THE FOLLOWING (000S):

	As of December 31, 2021	**As of December 31, 2020**
Machinery and equipment	$8,074	$7,064
Computer hardware and software	1,551	1,468
Construction-in-progress	4,377	--
Leasehold improvements	580	580
Total	**14,582**	**9,112**
Less accumulated depreciation and amortization	(5,495)	(4,927)
Property and Equipment, net	**$9,087**	**$4,185**

INTANGIBLE ASSETS, NET:

Intangible assets consist of the following (000s):

	As of December 31, 2021	**As of December 31, 2020**
Developed technology	$-	$246
Domain names	89	89
Patents and licenses	-	63
Trademarks	2	2
Total	**91**	**400**
Less accumulated amortization	-	(165)
Intangible Assets, net	**$91**	**$235**

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES:

Accrued expenses and other current liabilities consist of the following (000s):

	As of December 31, 2021	**As of December 31, 2020**
Accrued compensation	$3,734	$1,385
Sales tax and VAT payable	1,244	799
Accrued warranty costs	996	-
General accrued expenses	6,676	592
Deferred rent	-	31
Accrued Expenses and Other Current Liabilities	**$12,650**	**$2,807**

During 2020, the Company recognized that due to changes in circumstances resulting from the COVID-19 pandemic, it would not pay all accrued discretionary bonuses and accordingly its actual payments related to 2019 compensation were $594,000 less than the accrued compensation. This change in estimated payments could not have been anticipated at December 31, 2019 and the $594,000 adjustment was recognized as a reduction to the 2020 discretionary bonus expense in the 2020 consolidated statement of operations.

5. Commitments and Contingencies

LEASE COMMITMENTS:

The Company leases its facilities under non-cancelable operating leases, which expire at various dates through September 2032. Certain facility leases provide for scheduled increases in minimum rental payments. The related rent expense for these leases is calculated on a straight-line basis with the difference recorded as deferred rent. Rent expense under operating leases was $1.4 million and $0.7 million for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021, the aggregate future minimum lease payments under all non-cancelable operating leases are $16.7 million from January 2022 to September 2032 as follows (000s):

Years Ending December 31,	**Amount (in thousands)**
2022	$1,247
2023	1,424
2024	1,445
2025	1,488
2026	1,533
Thereafter	9,597

INDEMNIFICATION AGREEMENTS:

From time to time, in its normal course of business, the Company may indemnify other parties, with which it enters into contractual relationships, including customers, lessors and parties to other transactions with the Company. The Company may agree to hold other parties harmless against specific losses, such as those that could arise from a breach of representation, covenant or third-party infringement claims. It may not be possible to determine the maximum potential amount of liability under such indemnification agreements due to the unique facts and circumstances that are likely to be involved in each particular claim and indemnification provision. Historically, there have been no such indemnification claims. As a result, management believes any potential liability from these agreements will not be material to the consolidated financial statements.

PURCHASE COMMITMENTS:

The Company has outstanding purchase non-cancellable, non-refundable orders for a total of $3.1 million and $6.5 million at December 31, 2021 and 2020, respectively, for various types of inventory.

6. Debt Financing

CONVERTIBLE NOTES PAYABLE

In December 2019, the Company entered into a convertible note payable agreement (the 2019 Convertible Affiliate Note) with an existing investor for a total of $2.5 million. The 2019 Convertible Affiliate Note bore interest at the rate of 12% per annum, compounding annually. Interest is accumulated throughout the term of the agreement and is due upon conversion, redemption or repayment. The 2019 Convertible Affiliate Note was to mature on October 31, 2020. In the event of conversion upon a qualified financing, the noteholder is entitled to receive the number of shares of the Company's equity securities sold at the close of the Company's Next Equity Financing by dividing the then outstanding principal (accrued interest shall automatically be forgiven in consideration for such conversion) by 80% of the price per share of the next equity financing price. Total principal and accrued interest on the 2019 Convertible Affiliate Note was $2.5 million at December 31, 2019. The Company evaluated whether the 2019 Convertible Affiliate Note contains embedded features that meet the definition of derivatives under ASC Topic 815. The Company determined that the beneficial conversion features represented an embedded derivative. Thus, the embedded conversion features were bifurcated from the face value of the note and accounted for as a derivative liability to be remeasured at the end of each reporting period. The derivative liability had a fair value of $624,000 on the issuance date with the offsetting amount being recorded as a debt discount. The derivative liability is subject to fair value remeasurement at the end of each reporting period. The discount and debt issuance costs are being amortized to interest expense using the effective interest method over the expected term of the 2019 Convertible Affiliate Note. The Company recognized $42,000 of amortization of debt discount as interest expense in the consolidated statement of operations for the year ended December 31, 2019 and the unamortized debt discount outstanding is $582,000 as of December 31, 2019. The effective interest rate on the 2019 Convertible Affiliate Note was 44.1%. The 2019 Convertible Affiliate Note including the 20% conversion discount of $3.1 million was converted into 5,068,937 shares of Series I-1 and 5,068,937 shares of Series I-2 in July of 2020 (accrued interest of $206,000 was waived upon conversion) (Note 8). The unamortized debt discount and the accrued interest were adjusted and a total of $582,000 of non-cash interest was recognized in the consolidated statement of operations for the year ended December 31, 2020.

All Series 1-1 and Series I-2 shares were converted into common shares as part of the May 12, 2021 recapitalization.

In December 2020, the Company entered into convertible note payable agreements for $9.0 million (the 2020 Convertible Notes) with existing investors. The 2020 Convertible Notes bear interest at the rate of 8% per annum and mature on December 31, 2021. In the event of conversion upon a qualified financing, the noteholder is entitled to receive the number of shares of the Company's equity securities sold at the close of the Company's Next Equity Financing by dividing the then outstanding principal and accrued interest by the price per share of the Next Equity Financing Price. If the Next Equity Financing does not occur before the maturity date, the entire principal amount and accrued interest of the 2020 Convertible Notes will automatically convert on the maturity date into shares of Series I-2 Preferred Stock at the same price as Series I-1 and an equal number of shares in Series I-2. Total principal and accrued interest on the 2020 Convertible Notes was $9.0 million at December 31, 2020. The Company evaluated whether the 2020 Convertible Notes contain embedded features that meet the definition of derivatives under ASC Topic 815. The Company determined that the conversion features represented an embedded derivative. Thus, the embedded conversion features were bifurcated from the face value of the note and accounted for as a derivative liability to be remeasured at the end of each reporting period. The derivative liability had a fair value of $735,000 on the issuance date with the offsetting amount being recorded as a debt discount. The derivative liability is subject to fair value remeasurement at the end of each reporting period. The discount and debt issuance costs are being amortized to interest expense using the effective interest method over the expected term of the 2020 Convertible Notes. The Company recognized $14,000 of amortization of debt discount as interest expense in the consolidated statement of operations for the year ended December 31, 2020 and the unamortized debt discount outstanding is $721,000 as of December 31, 2020. The effective interest rate on the 2020 Convertible Notes is 16.4%. The 2020 Convertible Notes were converted into shares of Series I-1 and I-2 in February 2021. The Series I-1 and I-2 were converted into common shares as part of the May 12, 2021 recapitalization.

NON-CONVERTIBLE NOTES:

In November 2019, the Company entered into non-convertible note payable agreements (the 2019 Affiliate Notes) with existing investors for a total of $3.5 million. The 2019 Affiliate Notes bear interest at the rate of 12% per annum, compounding monthly. The 2019 Affiliate Notes were set to mature on October 31, 2020. Interest is accumulated throughout the term of the agreements and is due upon repayment. The amount due under the 2019 Affiliate Notes upon any such prepayment will be the greater of (i) the then-outstanding principal amount and all accrued interest on or (ii) the then-outstanding principal amount and ninety days' interest. Total principal and accrued interest on the 2019 Affiliate Notes was $3.6 million at December 31, 2019. In January 2020, the Company paid the outstanding principal amount of $3.5 million and accrued interest of $105,000.

LOAN AGREEMENT:

In June 2020, the Company entered into a loan agreement with a new lender for total aggregate proceeds of $25.0 million (the 2020 Loan Agreement). The 2020 Loan Agreement bears interest at rate of LIBOR plus 13% (with a floor of 1%), (14% as of December 31, 2020). The 2020 Loan Agreement matures in June 2022 and includes financial covenants. The Company must maintain a cash and cash equivalents balance of $5.0 million and the Company must achieve $30.0 million in revenue for the trailing twelve-month period ending September 30, 2021, increasing to $50.0 million for the trailing twelve-month period ending December 31, 2021. The revenue covenant remains at $50.0 million for the trailing twelve-month periods in 2022 until maturity. During 2020 and as of December 31, 2020, the Company is compliant with the covenants. The 2020 Loan Agreement has a prepayment penalty of 2% if prepaid between June 2021 and June 2022. There is no prepayment penalty if repaid prior to the first anniversary of the 2020 Loan Agreement.

In conjunction with the 2020 Loan Agreement, the Company paid an origination fee of $750,000 and a loan agency fee of $125,000 to the lender and recorded these as debt discount. In addition, the Company paid $640,000 in debt issuance costs. The total debt discount and debt issuance costs of $1.5 million was amortized using the effective interest method and the effective interest was 17.8%. In 2020, the Company made principal payments of $625,000 and the outstanding principal amount is $24.4 million as of December 31, 2020. In 2020, the Company amortized $399,000 related to debt discount and debt issuance costs to interest expense and the unamortized amount is $1.1 million as of December 31, 2020. On the first anniversary of the 2020 Loan Agreement, the Company will pay an anniversary fee of $500,000 and a loan agency fee of $125,000. The 2020 Loan Agreement is secured by all assets of the Company.

In February 2021, the Company amended the 2020 Loan Agreement to add a delayed draw note of $25.0 million which was funded in March 2021 (the 2021 Loan Agreement). The new gross credit facility is $50.0 million. The draw down debt has the same covenants and bears similar interest as the 2020 Loan Agreement at a rate of LIBOR plus 13% (with a floor of 1%) and matures in January 2023. There is no prepayment penalty if paid on or before June 22, 2021 and a prepayment penalty of 3.0% applies thereafter. In conjunction with the 2021 Loan Agreement, the Company paid an upfront commitment fee of $750,000 to the lender in February 2021. The 2021 Loan Agreement also bears an anniversary fee of 2.0% of the amount outstanding on June 22, 2021 and then 2% of the full facility amount at each annual date thereafter (with a maximum amount of $1,000,000). In addition, the Company issued $0.00001 warrants of 2.0% of the fully diluted shares of the Company to the lender or approximately 2,195,757 of common stock, 9,920,953 of Series I-1, and 3,301,877 of Series I-2 at the time of issuance. These warrants have anti-dilution protection rights and are subject to adjustment. The warrant will terminate upon the earliest to occur of: a) the tenth anniversary of the issuance date, b) the closing of an acquisition, or c) initial public offering. As part of the 2021 Loan Agreement, the maturity date of the 2020 Loan Agreement was modified and extended from June 22, 2022 to January 22, 2023. Based on the terms of the delayed draw note, the Company concluded this amendment would be accounted for as a debt extinguishment and new issuance of debt. The loss on debt extinguishment was approximately $1.8 million in 2021 and is recorded in financial expenses, net. The loan was paid with proceeds from the recapitalization that occurred in May 12, 2021. The warrants Series I-1 shares and Series I-2 shares were converted into common stock as part of the May 12, 2021 recapitalization.

DECEMBER 31, 2021 TERM LOANS:

On December 31, 2021, the Company entered into Loan and Security Agreement with Innovatus Life Sciences Lending Fund I (the December 31, 2021 loan agreement), for two term loans: Term Loan A and Term Loan B. Term Loan A was drawn upon on December 31, 2021 and provided proceeds of $30.0 million. Term Loan B provides for proceeds of $20.0 million (the loans) which can be drawn from April 1, 2023 to September 30, 2023 subject to the Company achieving trailing six month revenue of $40 million. As of December 31, 2021, Term Loan B has not been drawn. The Company incurred $1.2 million in issuance costs which was allocated to Term Loan A and Term Loan B based on the relative fair value of the term loans. Issuance costs for Term Loan A of $679,000 are being amortized over the term of the loan and recorded as interest expense. Issuance cost of $464,000 for Term Loan B are recorded as a non-current asset and will be amortized over the term of the loan as interest expense when it is drawn. $17,000 was attributable to the conversion feature discussed below and was immediately expensed. Both loans have a maturity date of June 1, 2025 and the ability to extend to February 1, 2026. The interest on both loans is the greater of prime rate, or 3.25%, plus 4.25%. Interest is payable monthly. The amount of interest related to Term Loan A was not material for the period ended December 31, 2021.

Both loans have a prepayment option after the first anniversary of the date of execution. Repayment is mandatory for principal, interest and fees in the event of a change in control.

Prior to the fourth anniversary of the effective date, the lenders may convert up to 10% of the outstanding aggregate principal amount of the Term loans into ordinary shares of $0.01 par value each in the Company at a price per share of SEK 45.00 based on the exchange rate then in effect. The Company determined that the conversion feature was a derivative and therefore the conversion feature was bifurcated from the Term Loan A at fair value as the conversion feature was not clearly and closely related to the debt host as the Term Loan holders have a choice of receiving cash or ordinary shares. The fair value of the conversion feature was $736,000 and recorded as a derivative liability and will be remeasured each reporting period. The carrying value of Term Loan A was $28.6 million as of December 31, 2021.

The December 31, 2021 loan is collateralized by the Company's equipment, inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, general Intangibles including intellectual property, cash and deposit accounts.

The following is a summary of the future minimum principal payments for the next five years:

Years ending December 31, (000s)	Amount
2022	$-
2023	-
2024	-
2025	8,076
2026	13,845
Thereafter	8,079
Total	**$30,000**

	Year Ended December 31,	
Financial (Income) Expense, Net (000s)	**2021**	**2020**
Interest Income	$(34)	$(90)
Interest Expenses	2,787	3,153
Foreign currency transaction /losses	417	223
Bank Fees	71	22
Issuance of common warrants	764	-
Gain/Loss on Debt Extinguishment	1,752	-
FInancial expenses, net	**$5,757**	**$3,308**

LINE OF CREDIT:

In February 2019, the Company entered into a $5.0 million line of credit agreement (the Line Agreement) with an investor. Outstanding borrowings bear interest at a rate of 12% per annum. Interest is payable monthly beginning March 1, 2019. At December 31, 2019, the Line Agreement had an outstanding balance of $4.95 million. The outstanding balance, and unpaid interest, is due and payable February 1, 2021 or 120 days after demand for payment, provided the demand is issued after May 31, 2019.

In December 2019, the Line Agreement was amended to remove the on-demand repayment terms. In June 2020, the Line Agreement was fully repaid with the proceeds from the 2020 Loan Agreement.

7. Income Taxes

Net loss before income taxes was $67.2 million and $63.1 million for the years ended December 31, 2021 and 2020, respectively. The Company did not incur income tax expense or benefit for the years ending December 31, 2021 or December 31, 2020.

The Company's geographical breakdown of its loss before provision for income taxes is as follows (000s):

	Year Ended December 31,	
	2021	**2020**
Domestic	$(65,338)	$(62,223)
Foreign	(1,984)	(888)
Loss before provision for income taxes	**$(67,322)**	**$(63,111)**

The provision for income taxes differs from the amount which would result by applying the federal statutory income tax rate to pre-tax income (loss) for the years ended December 31, 2021 and 2020.

The reconciliation of the provision computed at the federal statutory rate to the Company's provision (benefit) for income taxes for the year ended December 31, 2021 and 2020 was as follows:

	Year Ended December 31,	
	2021	**2020**
Provision for income taxes at federal statutory rates	$(14,119)	$(13,253)
State taxes, net of federal benefit	(298)	(789)
Non-deductible expenses and other	2,118	378
Research and development credits	(376)	(447)
Change in valuation allowance	12,675	14,111
Total	**-**	**-**

For 2021 and 2020, the effective tax rate differs from the amount computed by applying the statutory federal and state income tax rates to net loss before income tax, primarily as the result of state income taxes, R&D credits and changes in our valuation allowance.

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets and liabilities are as follows at December 31, 2021 and 2020:

	Year Ended December 31,	
	2021	**2020**
Deferred tax assets (000s):		
Net operating loss carryforwards	$71,031	$59,247
Research and development credit carryforward	4,040	3,476
Other accruals	3,095	2,769
Total gross deferred tax assets	78,166	65,492
Less: valuation allowance	(78,116)	(65,492)
Net deferred tax assets	**$–**	**$–**

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain.

The Company could not conclude that it was more likely than not that tax benefits from operating losses would be realized and, accordingly, has provided a full valuation allowance against its deferred tax assets of $78.2 million and $65.5 million as of December 31, 2020, respectively. The valuation allowance increased by $12.7 million and $14.1 million for the years ended December 31, 2021 and 2020, respectively, due to current and previous year losses and credits claimed.

As of December 31, 2021, the Company had $305 million and $173.9 million of U.S. federal and state net operating losses (NOLs) available to reduce future taxable income, which will begin to expire in 2031 for federal and state tax purposes. Approximately $185.9 million of the federal NOLs included above can be carried forward indefinitely. As of December 31, 2020, the Company had $249.6 million and $111.1 million of federal and state NOLs available to reduce future taxable income.

The Company also has federal and state research and development tax credits carryforwards of $5.8 million and $2.8 million, respectively as of December 31, 2021 compared to $5.1 million and $2.4 million, respectively as of December 31, 2020. The federal credits begin to expire in 2031 and the state credits have no expiration date.

Sections 382 and 383 of the Internal Revenue Code limit the annual use of the Company's net operating loss and income tax credit carryforwards. The Company has not performed a Section 382 study to determine whether it had experienced a change in ownership and, if so, whether the tax attributes (NOLs or credits) were impaired. Under Section 382 of the Internal Revenue Code of 1986, as amended, the Company's ability to utilize NOL or other tax attributes, such as research tax credits, in any taxable year, may be limited if the Company has experienced an "ownership change." A Section 382 ownership change occurs if there is a cumulative increase of more than 50 percentage points in the stock ownership of one or more stockholders or groups of stockholders who owns at least 5% of a corporation's stock within a specified testing period. Similar rules may apply under state tax laws.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follow (000s):

	Year Ended December 31,	
	2021	**2020**
Balance at beginning of year	$3,723	$3,024
Additions based on tax positions related to the current year	613	699
Balance at end of year	**$4,336**	**$3,723**

The Company has not performed a research and development tax credit study. During the years ended December 31, 2021 and 2020 the amount of unrecognized tax benefits increased $613,000 and $699,000, respectively, due to additional research and development credits generated during the year. As of December 31, 2021 and 2020 the total amount of unrecognized tax benefits was $4.3 million and $3.7 million, respectively. The reversal of the uncertain tax benefits would not affect the Company's effective tax rate to the extent that it continues to maintain a full valuation allowance against its deferred tax assets.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company recognized no accrued interest and penalties associated with unrecognized tax benefits during 2020 and 2021 and for the years ended December 31, 2020 and 2021 no amounts have been recognized in the Company's consolidated statements of operations. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, foreign, state and local jurisdictions, where applicable. The Company believes all tax return years since inception remain open to examination by the major taxing jurisdictions to which the Company is subject to.

In March 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" (the Act) was signed into law. The Act includes provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. As of December 31, 2021, the Company has filed for an EPC credit through a third party payroll provider and expects a refund of approximately $400,000. This amount was not recorded in the Company's records as of December 31, 2021 and 2020, respectively.

8. Capital Stock

PREFERRED STOCK

From April to July 2020, the Company issued 42.0 million shares of Series I-1 and 42.0 million shares of Series I-2 shares in exchange for cash proceeds of $25.7 million, net of issuance costs.

In July 2020, the 2019 Convertible Affiliate Note was converted into 5.1 million shares of Series I-1 and 5.1 million shares of Series I-2 for a total equity value of $3.1 million, representing the note principal of $2.5 million and 20% beneficial conversion discount of $625,000 inclusive of any accrued interest and unamortized debt discount.

At December 31, 2020, the Company had the following shares of convertible preferred stock issued and outstanding (000s):

	Shares Authorized	Shares Issued and Outstanding	Aggregate Liquidation Preference
Series I-1	470,000	426,902	$263,185
Series I-2	145,000	119,498	-
Accretion of convertible preferred stock cumulative dividends	-	-	21,282
Total	**615,000**	**546,400**	**$284,467**

In February, 2021, the Company issued 12.8 million Series-1 shares and 12.8 million Series I-2 shares for cash proceeds of $7.9 million.

On May 12, 2021, all Series I-1 shares and Series I-2 shares converted into the Company's common stock as part of the May 12 2021, recapitalization.

The holders of Series I-1 and Series I-2 have rights, preferences and privileges as follows:

DIVIDENDS

Holders of Series I-1 are entitled to receive dividends, at an annual rate of 8%, compounding quarterly, of the conversion price listed below, per share, as adjusted for any stock dividends, combinations, splits or the like, prior to and in preference to any declaration or payment of dividends on common stock. Series I-2 is not entitled to receive dividends. All Series I-1 dividends are cumulative beginning on the respective share issuance date, and payable when and if declared by the Board of Directors. After payment of such dividends, any additional dividends or distributions will be distributed among holders of common stock and Series I-1 in proportion to the number of shares of common stock that would be held by each holder if all shares of Series I-1 were converted to shares of common stock. At December 31, 2020, the Company has accreted $21.3 million of Series I-1 cumulative dividends and included this amount in the liquidation preferences of the preferred stock. The Board of Directors has not declared any dividends during the years ended December 31, 2020 and May 12, 2021.

As part of the May 12, 2021 recapitalization, all Series I-1 cumulative dividends were converted into 51.4 million Series I-1 shares. These shares were then converted into common shares based on the Series I conversion ratio of 1:1.

CONVERSION

Series I-1 is convertible, one-for-one, into shares of common stock at any time at the option of the holder. Series I-2 was not originally convertible, however, conversion rights were provided as part of the May 12, 2021 recapitalization. The conversion ratio was not final and was also subject to adjustment, for any stock dividends, combinations, splits or the like and for dilutive issuances of new securities. The preliminary conversion ratio for Series I-1 shares was $0.6165. Each share of Series I-1 will automatically convert into the number of shares of common stock into which such shares are convertible at the then applicable conversion ratio, within six years after the preferred stock original issuance date, which is December 18, 2019, upon (i) the closing of the sale of the Company's ordinary stock in a public offering with aggregate gross proceeds of at least $100.0 million and a price per share no less than $1.233, or (ii) the affirmative vote or consent of the holders of two-thirds of the outstanding shares of Series I-1. As part of the May 12, 2021 recapitalization, the conversion ratio was finalized at $0.5893.

LIQUIDATION

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, as adjusted for stock splits, combinations or the like, plus any declared but unpaid dividends on such shares, prior and in preference to any distribution to the holders of common stock. The holders of Series I-2 are first entitled to receive an amount equal to the pro rata portion of the Series I-2 Preference. The Series I-2 Preference is defined as a percentage (Full Percentage) multiplied by the consideration paid in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company or a deemed liquidation event (Equity Proceeds). The Full Percentage is the sum of the number of Series I-1 shares issued pursuant the Series I Preferred Stock Purchase Agreement multiplied by $0.6165, less $75 million and multiplied by 15%. The adjusted Full Percentage will be ratably reduced by Equity Proceeds greater than $600.0 million to $1.0 billion. The percentage will be reduced to 0% with Equity Proceeds equal, or greater than $1.0 billion. After the payment of the Series I-2 Preference in full the holders of Series I-1 shares are entitled to be paid out of the remaining assets at an amount equal to $0.6165 per share. If assets or funds are insufficient to pay the full preferential amount, funds will be distributed ratably to the holders of Series I-1 in proportion to the full preferential amount. Certain events, including the sale of substantially all of the Company's assets or the merger of the Company into another entity in which the Company's stockholders immediately prior to the merger do not control at least a majority of the surviving entity, are deemed to be liquidating events. Once the holders of Series I-1 have received their entire preferential liquidation amount, any remaining assets of the Company will be distributed ratably among the holders of common stock and Series I-1, on an as converted basis, provided, however, if a holder of Series I-1 has elected to receive dividends, the shares held by such holder will not be included in the calculation.

VOTING RIGHTS

The holders of Series I-1 and common stock vote together, except as noted below. The holder of each share of Series I-1 is entitled to voting rights equal to the number of shares of common stock into which each share of Series I-1 could be converted. The holder of each share of common stock is entitled to one vote for each share held. Series I-2 does not have voting rights.

The holders of Series I-1, voting as a separate class, are entitled to elect seven members of the Board of Directors. The holders of Series I-1 and common stock, voting together as a single class, are entitled to elect one member of the Board of Directors. Any additional members of the Board of Directors are elected by the holders of common stock and Series I-1, voting together as a single class. If a vacancy on the Board of Directors is to be filled, only directors elected by the same class of stockholders as those who would be entitled to vote to fill such vacancy will vote to fill such vacancy.

PROTECTION PROVISIONS

As long as the Series I-1 remains outstanding, the vote of the holders of the majority of the outstanding shares of Series I-1 is necessary for consummation of certain transactions, including but not limited to: increasing or decreasing the authorized capital stock; creating any senior or pari passu security, privileges, preferences or voting rights senior to or on parity with those granted to Series I-1; altering or changing the rights of Series I-1; redeeming or repurchasing the Company's equity securities; issuing any debt security; investing in any subsidiary that is not wholly owned; changing the authorized number of members on the Board of Directors, or entering into any transaction deemed to be a liquidation or dissolution of the Company.

As long as a certain investor holds at least 50% of the shares of their of Series I-1 originally acquired, affirmative vote of this investor is necessary for consummation of certain transactions, including but not limited to: issuing any debt security exceeding certain thresholds; entering into any customer guarantees of $5.0 million or more; making, entering into, amending, waiving or terminating any contract, commitment, agreement or arrangement with an estimated value of $1.0 million or more; creating any additional class of capital stock with an original issuance price less than that of Series I-1; purchasing, paying or declaring any dividend or making any distribution; increasing by more than 10% the number of shares available for issuance under any equity incentive plan; entering into a line of business unrelated to the core business of the Company; acquiring or disposing of an material business or material assets; adopting or approving a budget with an increase of more than 10% in the aggregate in budgeted costs from the most recent budget; or entering into any transaction deemed to be a liquidation or dissolution of the Company.

As long as the Series I-2 stock remains outstanding, the vote of the holders of the majority of the outstanding shares of Series I-2 is necessary for consummation of certain transactions, including but not limited to: increasing or decreasing the authorized capital stock; creating any senior or pari passu security, privileges, preferences or voting rights senior to or on parity with those granted to Series I-2; altering or changing the rights of Series I-2; redeeming or repurchasing the Company's equity securities; issuing any debt security; investing in any subsidiary that is not wholly owned; changing the authorized number of members on the Board of Directors, or entering into any transaction deemed to be a liquidation or dissolution of the Company.

REDEMPTION

Shares of preferred stock are not redeemable by the holders.

ORDINARY STOCK

As part of the May 12, 2021 recapitalization, the Company exchange 68.9 million shares on a post-split basis for Smart Wires Inc. Series I shares after adjusting the Series I shares for the exercise of warrants, accumulated dividends and antidilution in addition to common Smart Wires Inc. stock adjusted for warrants and options. In addition, the Company issued 30.4 million shares to investors at a price of $4.92 per share for net proceeds of $143.1 million, net of issuance cost.

THE COMMON STOCK HAS THE FOLLOWING RIGHTS AND PRIVILEGES:

Voting

The holders of shares of common stock are entitled to one vote for each share of common stock held at any meeting of stockholders and at the time of any written action in lieu of a meeting.

Dividends
The holders of shares of common stock are not entitled to receive dividends

Liquidation
The holders of shares of common stock are entitled to share ratably in the Company's remaining assets available for distribution to its stockholders in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or upon occurrence of a deemed liquidation event.

Shares reserved for future issuance include:

Plan	Number of securities to be issued upon exercise of options, warrants and non-controlling interests	Number of securities available for issuance under equity plan
Warrants	544,662	-
Non-controlling interests	2,184,778	-
Stock Option Plan	11,236,232	4,046,217

COMMON STOCK WARRANT

In February 2019, in connection with the Line Agreement, the Company issued a detachable warrant to purchase 545,000 shares of common stock, with an exercise price of $0.10 per share. The warrant was immediately exercisable and expires in February 2029. The Company classified the warrant as equity warrants and determined the fair value of the warrant to be insignificant to the consolidated financial statements. The warrant remains outstanding at December 31, 2021.

In February 2021, the Company issued detachable warrants to purchase 2.2 million shares of common stock with an exercise price of $0.00001. The warrants are immediately exercisable into common shares and expire on a) the tenth anniversary of the date of issue (b) the closing of an acquisition or (c) the closing of an underwritten public offering on Nasdaq Global Market, Nasdaq Global Select Market, the New York Stock Exchange, the London Stock Exchange or the Euronext (or their respective successors).

These warrants were converted into common shares as part of the May 12, 2021 recapitalization based on a 1:1 conversion ratio.

SERIES I PREFERRED STOCK WARRANT

During February 2021, the Company issued 9,920,953 Series I-1 and 668,102 Series I-2 warrants to several Blue Torch entities (the Blue Torch warrants). Under the terms of the agreements, the warrant's purchase price was $0.0001 per share. The exercise price equaled the purchase price. The warrants could be exercised at any time prior to the expiration date defined as the tenth anniversary after the date of issuance, however, the warrants are immediately exercisable upon the closing of an acquisition or the closing of an underwritten public offering on Nasdaq Global Market, Nasdaq Global Select Market, the New York Stock Exchange, the London Stock Exchange or the Euronext. The terms of the warrant agreement limited transferability.

Because the Blue Torch warrants were convertible into shares that were redeemable outside of the control of the Company, the Company classified the Blue Torch warrants as liabilities at fair value which required remeasurement each reporting period.

All Blue Torch warrants converted to Series I-1 and Series I-2 shares based on a 1:1 conversion ratio, and then into common shares also on a 1:1 conversion ratio, as part of the May 12, 2021 recapitalization and were therefore remeasured on that date.

MAY 12, 2021 RECAPITALIZATION

On May 12, 2021, the Company effected a recapitalization with its investors whereby 35.1 million common shares, which were issued and outstanding immediately prior to the May 12, 2021 and 462.1 million Series I-1 shares were exchanged for and converted into ordinary stock and then Smart Wires Ltd Ordinary Shares based on a 1:1 conversion ratio. As part of the merger agreement, 85% of the Company's 154.7 million shares of Series I-2 shares were granted conversion rights. In addition, all options, warrants and other securities convertible into or exercisable for Smart Wires shares were converted or exercised into Smart Wires shares prior to the May 12, 2021. The Company accounted for the grant of conversion rights to the Series I-2 shareholders as a termination whereby the amounts received for Series I-1 shares in excess of par was reallocated to the par value of the Series I-2 share.

As part of the Merger Agreement, the Company also determined the final value of the Series I shares to be $0.5893. To effect change from the preliminary value of $0.6165 to $0.5893, the Company adjusted the number of Series I-1 to 486.1 million shares and Series I-2 shares to 165.1million shares such that the intrinsic value remained unchanged. As the change did not impact the value total value of the Series I shares, no gain or loss was recognized.

The Series I-1 shareholders were entitled to receive cumulative accrued but unpaid dividends at a rate of 8% of the conversion price. As part of the Merger Agreement, the accrued but unpaid dividends were exchanged for Series I-1 shares which were then converted into common shares immediately prior to May 12, 2021, recapitalization.

After the conversions into common shares and related adjustment adjustments for terminations and antidilution, the common shares were exchanged into Smart Wires Ltd ordinary shares adjusted for a reverse stock spilt of 10 common shares for 1 Smart Wires Ltd ordinary share and the Series I shares were cancelled.

As of December 31, 2021, certain Smart Wires common shareholders had not converted their Smart Wires common shares into Smart Wires Ltd shares. The Company accounted for these shares as a noncontrolling interest (NCI). The Company adjusted its net assets as of May 12, 2021 for the ownership percentage of the NCI. As of December 31, 2021, the Company adjusted the May 12, 2021, net asset value by the change in ownership to the conversion of Smart Wires common shares and the NCI percent of the net loss.

9. Stock Option Plan

In April 2011, the Company adopted the 2011 Stock Option Plan (the Plan). The Plan was amended in September 2011. As of December 31, 2020, the Company has reserved 87.6 million shares of common stock for issuance under the Plan.

The Plan was amended during 2021 and no further awards shall be granted under the Plan, but awards outstanding under the Plan shall remain outstanding in accordance with their terms and the terms of the Plan. The Company adopted the 2021 Plan (21 Plan) that was approved in December 2021. As of December 31, 2021, the Company has reserved 9.7 million shares of ordinary stock for issuance under the 21 Plan including a rollover of 1.062 million that were remaining in the Plan at the time of amendment.

The Plan and the 21 Plan provides for the granting of stock options and restricted stock awards to employees, directors, and consultants of the Company. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options (ISO) may be granted only to Company employees. Nonqualified stock options (NSO) and restricted stock awards may be granted to Company employees, directors and consultants.

Options under the Plan and 21 Plan, collectively the Plans may be outstanding for periods of up to ten years following the grant date. If an ISO is granted to an optionee who, at the time of grant, owns more than 10% of the voting power of all classes of capital stock, the term of the ISO is five years. Options issued under the Plans must be priced at no less than the fair value of the shares on the date of the grant, provided; however, that the exercise price of an option granted to a 10% stockholder is not less than 110% of the fair value of the shares on the date of grant. Fair value prior to the IPO was determined by the Board of Directors, post IPO the fair value is the market price on the day the option is granted. The Plan allows for the early exercise of options. Options generally vest over four years. Occasionally, the Company will issue options to purchase stock to nonemployee vendors in exchange for services. Historically, the options issued and the related stock-based compensation are insignificant and the Company is electing to combine these option grants with employee grants as a practical expedient.

In 2021 and 2020, the Company recognized $1.2 million and $203,000 respectively of employee and non-employee stock-based compensation, relating to stock options granted under the Plan. The compensation expense is allocated on a departmental basis, based on the classification of the option holder. No income tax benefits have been recognized in the consolidated statements of operations for stock-based compensation arrangements and no stock-based compensation costs have been capitalized as part of inventory or property and equipment at December 31, 2021 and 2020, respectively.

The fair value of each award to employees is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions in 2021: expected life of 5.66 years, risk-free interest rate of 0.88%; expected volatility of 68.58% and no dividends during the expected life (expected life of 5.89 years; risk-free interest rate of 0.51%; expected volatility of 62.90% and no dividends in 2020).

Black Scholes Valuation Assumptions

	2021	2020
Unvested Forfeiture Rate	10.00%	10.00%
Volatility	68.58%	62.90%
Risk Free Rate	0.88%	0.51%
Dividend Yield	0%	0%
Expected Life	5.66	5.89

Stock options granted after May 12, 2021, have an exercise price that is denominated in a Swedish Kroner which is not the Company's functional currency. The Company concluded that equity classification was appropriate as the Company's exercise price is in the same currency in which a substantial portion of the Company's equity securities trades.

Expected volatility is based on historical volatilities of public companies operating in the Company's industry. The expected life of the options represents the period of time options are expected to be outstanding and is estimated considering vesting terms and employees' historical exercise and post-vesting employment termination behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company accounts for forfeitures of unvested options at an estimated rate of 10%.

Stock option activity under the Plan and 21 Plan is as follows:

	Options Available	Options Outstanding	WA Exercise Price
Adjusted 1/1/2020	343,875	-	0.12
Authorized	4,400,000	-	0.01
Repurchase	159,011		
Granted	-	2,254,379	0.10
Exercised		(45,230)	0.07
Cancelled	236,034	(236,034)	0.15
Balance 12/31/20	**2,884,540**	**3,185,723**	**0.10**
Adjusted 12/31/2020	2,884,540	3,185,723	0.10
Authorized	9,237,627		0.01
Repurchase	117,292		
Granted	-	8,524,050	1.98
Exercised		(142,633)	0.11
Cancelled	330,808	(330,808)	0.15
Balance 12/31/21	**4,046,217**	**11,236,332**	**1.53**

At December 31, 2021, future stock-based compensation for unvested employee options granted and outstanding of $8.6 million will be recognized over a remaining weighted-average requisite service period of 3.48 years.

10. Restricted Stock Unit Plans

In September 2015, the Company adopted the 2015 Restricted Stock Unit Plan (the RSU Plan). The RSU Plan provided for the granting of RSU to employees, directors, and consultants of the Company.

In September 2015, the Company granted 427,000 RSUs under the RSU Plan, of which 119,000 were outstanding at December 31, 2018. There were no RSUs grants in 2019 or 2018. The Company recognized a net reduction of $9,000 to stock-based compensation for the RSU in 2019. The RSU are fully vested upon issuance, contain no voting rights and were provisioned to trigger a payout event upon the earlier of the following: termination or death of the holder; liquidation or change in control; or December 31, 2020. Upon a payout event, a holder of RSU has the option, unless terminated for cause, to receive either shares of preferred stock on a one-to-one basis for each RSU held, or a cash payment equal to the product of the number of RSU held on the date of termination multiplied by the per share fair value of preferred stock on the payout event date, as determined by the Board of Directors, less any income tax related costs.

In December 2020, the Company converted 122,000 restricted stock units into 122,000 Series I-1 preferred shares. In February 2021, the Company converted the remaining 83,000 restricted stock units to 83,000 Series I-1 preferred shares on a ratio of 1:1. These shares were then converted into common stock as part of the May 12, 2021 recapitalization.

Following is an activities summary of the restricted stock units (000s):

	Restricted Stock Units Available
Balances, January 1, 2020	205
Conversion to Series I-1	(122)
Balances, December 31, 2020	83
Conversion to Series I-1	(83)
Balances, December 31, 2021	**-**

11. Related Party Transactions

A director of the Company provided consulting services to the Company and invoiced $92,000 and $149,000 in 2021 and 2020, respectively. No amounts were due to the related parties as of December 31, 2021 and 2020.

12. Employee Benefit Plan

The Company has a 401(k) plan to provide defined contribution retirement benefits to all employees. All employees are eligible to participate in the plan after meeting eligibility requirements. Participants may contribute a portion of their compensation to the plan, subject to limitations under the Internal Revenue Code. The Company's contributions to the plan are at the discretion of the Board of Directors. As a result of the COVID-19 pandemic, the Company suspended its contribution to the 401(k) plan in May 2020. In January 2021, contributions to the 401(k) plan was reinstated. The Company contributed $461,000 and $153,000 to the plan in 2021 and 2020, respectively.

13. Earnings per Share

The following table presents the computation of basic and diluted EPS attributable to Smart Wires Technology Ltd., (000s) except per share amounts:

	Years Ended December 31,	
	2021	**2020**
Numerator:		
Net (loss)	$(67,322)	$(63,111)
Net (loss) attributable to Non-controlling interests	(926)	–
Net (loss) attributable to ordinary stockholders -basic and diluted	$66,396	$(63,111)
Denominator:		
Weighted average shares of ordinary shares outstanding - basic and diluted	63,762	4,168
Net loss per share attributable to ordinary stockholders:		
Basic and diluted	**$(1.04)**	**$(15.14)**

As part of the May 12, 2021 recapitalization, the Company's common share were effected by a 10:1 reverse stock split. Accordingly, the Company retroactively adjusted its common stock for the periods ended December 31, 2020 and 2021.

On a fully diluted basis, including outstanding options, warrants and convertible notes, total ordinary shares equivalent is 117,445,967 and 64,807,480 as of December 31, 2021 and 2020, respectively.

14. Subsequent Events

Subsequent events have been evaluated through April 27, 2022, which is the date the consolidated financial statements have been approved by management and available for issuance.

On January 1, 2022, the Company adopted ASC 842 using the modified retrospective basis and did not restate comparative periods as permitted under Accounting Standards Update (ASU) 2018-11. ASC 842 supersedes nearly all existing lease accounting guidance under GAAP issued by the Financial Accounting Standards Board (FASB) including ASC Topic 840, Leases. ASC 842 requires that lessees recognize ROU assets and lease liabilities calculated based on the present value of lease payments for all lease agreements with terms that are greater than twelve months. ASC 842 distinguishes leases as either a finance lease or an operating lease that affects how the leases are measured and presented in the statement of operations and statement of cash flows.

On September 16, 2021, the Company entered into a new lease in Durham, North Carolina, for approximately 45,090 square feet of office and laboratory space. The lease will serve as the Company's new corporate headquarters. The lease commencement date will begin during May 2022, as that is when the asset will be made available to use by the Company. The lease will terminate in August of 2032. The lease has an option to extend the lease term for an additional period of five years. The Company determined that given time between lease commencement and the renewal period for this lease agreement which is more than nine years from the commencement date and the uncertainty of business and market conditions in the future, it is not reasonably certain that the renewal option will be exercised.

The Company is obligated to make total fixed payments over the lease term of approximately $15.9 million. In accordance with the terms of the lease, the Company will be eligible to receive reimbursement of $5.4 million for the costs associated with the design, development and construction of certain improvements that are deemed to be the property of the landlord. Such expenditures for lessor assets will be recorded as prepaid rent and then reduced upon reimbursement. No rent expense was incurred during the year ended December 31, 2021.

Auditors Reports

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Smart Wires Technology Ltd.
Durham, North Carolina

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Smart Wires Technology Ltd. and subsidiaries (the "Company") as of December 31, 2021, and the related consolidated statements of operations, convertible preferred stock and stockholders' equity (deficit), and cash flows for the year ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Frank, Rimerman + Co. LLP

We have served as the Company's auditor since 2012.

San Francisco, California
April 27, 2022

Auditors Reports

INDEPENDENT AUDITORS' REPORT
To the Board of Directors and
Stockholders of Smart Wires Technology Ltd.
Durham, North Carolina

Report on Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Smart Wires Technology Ltd. and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations, convertible preferred stock and stockholders' equity (deficit), and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

/s/ Frank, Rimerman + Co. LLP

We have served as the Company's auditor since 2012.

San Francisco, California
April 27, 2022

Signatures

Michael Howard
Chairman of the Board

Anthony Arnerich
Director

Christopher Bass
Director

Sharon Cohen
Director

Mark Lewis
Director

Joanna Lohkamp
Director

Nicholas Walrod
Director

Peter Wells
CEO

Our audit report was submitted on
April 27 , 2022

/s/ Frank, Rimerman + Co. LLP

Definition of Terms

Orders: Signed contract with a customer for a purchase

Orders Backlog: Revenue not yet recognized on orders that have not yet been fulfilled, installed and / or commissioned

Gross Profit: Revenue from customer contracts less material, labor and overhead costs used in the production process, freight, installation and project materials and labor.

Gross Profit Margin: Gross profit as a percentage of revenue

EBITDA: Earnings before interest, tax, depreciation and amortization, stock-based compensation and gains / losses on foreign exchange.

EBTIDA Margin: EBITDA as a percentage of revenue

Net Working Capital: Total net amount of cash, restricted cash, accounts receivable, inventory, prepaid and other current assets less current liabilities.

Information and Contacts

Financial calendar

Q1 2022 Interim Report (Jan–Mar 2022)	12 May 2022
Annual General Meeting 2022	19 May 2022
Q2 2022 Interim Report (Jan–Jun 2022)	11 Aug 2022
Q3 2022 Interim Report (Jan–Sep 2022)	10 Nov 2022
Q4 2022 Interim Report (Jan–Dec 2022)	16 Mar 2023

Corporate Headquarters
1035 Swabia Ct., Suite 130,
Durham, NC 27703
U.S.A.

European Headquarters
Glencullen House, Kylemore Road
Dublin 10, D10 CA33
Ireland

Manufacturing Facility
JABIL
10560 Dr. Martin Luther King Jr. St. N.
St. Petersburg, FL 33716
USA

www.smartwires.com
info@smartwires.com
Tel. +1 (415) 800 5555

Investor Relations Contact
Julie Andrews, CFO
E-mail: julie.andrews@smartwires.com
Tel: +1 (901) 687-8314

Certified Adviser
Erik Penser Bank AB, Apelbergsgatan 27,
Box 7405, SE-103 91 Stockholm, Sweden
Email: certifiedadviser@penser.se
Tel: +46 (0) 8-463 83 00
www.penser.se