

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2024

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-40730

DRAGONFLY ENERGY HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of  
incorporation or organization)

85-1873463

(IRS Employer  
Identification No.)

1190 Trademark Drive #108  
Reno, Nevada

(Address of principal executive offices)

89521

(Zip Code)

(775) 622-3448

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

| Title of each class                                                                                                | Trading Symbol(s) | Name of each exchange on which registered |
|--------------------------------------------------------------------------------------------------------------------|-------------------|-------------------------------------------|
| Common Stock, par value \$0.0001 per share                                                                         | DFLI              | The Nasdaq Global Market                  |
| Redeemable Warrants, exercisable for common stock at an exercise price of \$11.50 per share, subject to adjustment | DFLIW             | The Nasdaq Capital Market                 |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐  
Non-accelerated filer ☒ Smaller reporting company ☒  
Emerging growth company ☒

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 13, 2024, there were 60,509,476 shares of the registrant's common stock, par value \$0.0001 per share, issued and outstanding.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
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# PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

### DRAGONFLY ENERGY HOLDINGS CORP. UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

|                                                                                                                                                                       | 2024             | 2023             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Current Assets</b>                                                                                                                                                 |                  |                  |
| Cash and cash equivalents                                                                                                                                             | \$ 8,501         | \$ 12,713        |
| Accounts receivable, net of allowance for credit losses                                                                                                               | 2,247            | 1,639            |
| Inventory                                                                                                                                                             | 33,578           | 38,778           |
| Prepaid expenses                                                                                                                                                      | 843              | 772              |
| Prepaid inventory                                                                                                                                                     | 1,468            | 1,381            |
| Prepaid income tax                                                                                                                                                    | 345              | 519              |
| Other current assets                                                                                                                                                  | 709              | 118              |
| <b>Total Current Assets</b>                                                                                                                                           | <b>47,691</b>    | <b>55,920</b>    |
| <b>Property and Equipment</b>                                                                                                                                         |                  |                  |
| Machinery and equipment                                                                                                                                               | 17,847           | 16,714           |
| Office furniture and equipment                                                                                                                                        | 319              | 319              |
| Leasehold improvements                                                                                                                                                | 1,727            | 1,727            |
| Vehicle                                                                                                                                                               | 33               | 33               |
| <b>Total</b>                                                                                                                                                          | <b>19,926</b>    | <b>18,793</b>    |
| Less accumulated depreciation and amortization                                                                                                                        | (3,156)          | (2,824)          |
| <b>Property and Equipment, Net</b>                                                                                                                                    | <b>16,770</b>    | <b>15,969</b>    |
| Operating lease right of use asset, net                                                                                                                               | 23,988           | 3,315            |
| <b>Total Assets</b>                                                                                                                                                   | <b>\$ 88,449</b> | <b>\$ 75,204</b> |
| <b>Current Liabilities</b>                                                                                                                                            |                  |                  |
| Accounts payable                                                                                                                                                      | \$ 9,550         | \$ 10,258        |
| Accrued payroll and other liabilities                                                                                                                                 | 8,295            | 7,107            |
| Accrued tariffs                                                                                                                                                       | 1,800            | 1,713            |
| Customer deposits                                                                                                                                                     | 231              | 201              |
| Uncertain tax position liability                                                                                                                                      | 91               | 91               |
| Notes payable, current portion, net of debt issuance costs                                                                                                            | 21,837           | 19,683           |
| Operating lease liability, current portion                                                                                                                            | 1,682            | 1,288            |
| Financing lease liability, current portion                                                                                                                            | 37               | 36               |
| <b>Total Current Liabilities</b>                                                                                                                                      | <b>43,523</b>    | <b>40,377</b>    |
| <b>Long-Term Liabilities</b>                                                                                                                                          |                  |                  |
| Warrant liabilities                                                                                                                                                   | 4,227            | 4,463            |
| Accrued expenses-long term                                                                                                                                            | 69               | 152              |
| Operating lease liability, net of current portion                                                                                                                     | 22,763           | 2,234            |
| Financing lease liability, net of current portion                                                                                                                     | 56               | 66               |
| <b>Total Long-Term Liabilities</b>                                                                                                                                    | <b>27,115</b>    | <b>6,915</b>     |
| <b>Total Liabilities</b>                                                                                                                                              | <b>70,638</b>    | <b>47,292</b>    |
| <b>Commitments and Contingencies (See Note 5)</b>                                                                                                                     |                  |                  |
| <b>Stockholders' Equity</b>                                                                                                                                           |                  |                  |
| Preferred stock, 5,000,000 shares at \$0.0001 par value, authorized, no shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively        | -                | -                |
| Common stock, 250,000,000 shares at \$0.0001 par value, authorized, 60,260,282 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively | 6                | 6                |
| Additional paid in capital                                                                                                                                            | 69,711           | 69,445           |
| Accumulated deficit                                                                                                                                                   | (51,906)         | (41,539)         |
| <b>Total Stockholders' Equity</b>                                                                                                                                     | <b>17,811</b>    | <b>27,912</b>    |
| <b>Total Liabilities and Stockholders' Equity</b>                                                                                                                     | <b>\$ 88,449</b> | <b>\$ 75,204</b> |

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

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

|                                                    | For The Three Months Ended<br>March 31, |            |
|----------------------------------------------------|-----------------------------------------|------------|
|                                                    | 2024                                    | 2023       |
| <b>Net Sales</b>                                   | \$ 12,505                               | \$ 18,791  |
| <b>Cost of Goods Sold</b>                          | 9,454                                   | 14,124     |
| <b>Gross Profit</b>                                | 3,051                                   | 4,667      |
| <b>Operating Expenses</b>                          |                                         |            |
| Research and development                           | 1,333                                   | 880        |
| General and administrative                         | 4,813                                   | 9,495      |
| Selling and marketing                              | 2,744                                   | 4,184      |
| <b>Total Operating Expenses</b>                    | 8,890                                   | 14,559     |
| <b>Loss From Operations</b>                        | (5,839)                                 | (9,892)    |
| <b>Other Income (Expense)</b>                      |                                         |            |
| Interest expense, net                              | (4,760)                                 | (3,856)    |
| Other expense                                      | (4)                                     | -          |
| Change in fair market value of warrant liability   | 236                                     | 18,523     |
| <b>Total Other Income (Expense)</b>                | (4,528)                                 | 14,667     |
| <b>Net (Loss) Income Before Taxes</b>              | (10,367)                                | 4,775      |
| <b>Income Tax (Benefit) Expense</b>                | -                                       | -          |
| <b>Net (Loss) Income</b>                           | \$ (10,367)                             | \$ 4,775   |
| Net (loss) income Per Share- Basic                 | \$ (0.17)                               | \$ 0.11    |
| Net (loss) income Per Share- Diluted               | \$ (0.17)                               | \$ 0.10    |
| <b>Weighted Average Number of Shares - Basic</b>   | 60,260,282                              | 45,104,515 |
| <b>Weighted Average Number of Shares - Diluted</b> | 60,260,282                              | 48,455,996 |

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

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023**  
**(IN THOUSANDS, EXCEPT SHARE DATA)**

|                                                            | Common Stock      |             | Additional       | Accumulated        |                  |
|------------------------------------------------------------|-------------------|-------------|------------------|--------------------|------------------|
|                                                            | Shares            | Amount      | Paid-In Capital  | (Deficit)          | Total            |
| <b>Balance -January 1, 2023</b>                            | <u>43,272,728</u> | <u>4</u>    | <u>38,461</u>    | <u>(27,722)</u>    | <u>10,743</u>    |
| Net Income                                                 | -                 | -           | -                | 4,775              | 4,775            |
| Common stock issued in public offering (ATM), net of costs | 73,500            | -           | 597              | -                  | 597              |
| Exercise of stock options                                  | 36,009            | -           | 93               | -                  | 93               |
| Exercise of public warrants                                | 64,971            | -           | 747              | -                  | 747              |
| Cashless exercise of liability classified warrants         | 2,348,294         | 1           | 10,166           | -                  | 10,167           |
| Stock compensation expense                                 | <u>-</u>          | <u>-</u>    | <u>4,487</u>     | <u>-</u>           | <u>4,487</u>     |
| <b>Balance - March 31, 2023</b>                            | <u>45,795,502</u> | <u>\$ 5</u> | <u>\$ 54,551</u> | <u>\$ (22,947)</u> | <u>\$ 31,609</u> |
| <b>Balance - January 1, 2024</b>                           | <u>60,260,282</u> | <u>\$ 6</u> | <u>\$ 69,445</u> | <u>\$ (41,539)</u> | <u>\$ 27,912</u> |
| Net loss                                                   | -                 | -           | -                | (10,367)           | (10,367)         |
| Stock compensation expense                                 | <u>-</u>          | <u>-</u>    | <u>266</u>       | <u>-</u>           | <u>266</u>       |
| <b>Balance - March 31, 2024</b>                            | <u>60,260,282</u> | <u>\$ 6</u> | <u>\$ 69,711</u> | <u>\$ (51,906)</u> | <u>\$ 17,811</u> |

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

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023**  
**(IN THOUSANDS)**

|                                                                                     | 2024        | 2023     |
|-------------------------------------------------------------------------------------|-------------|----------|
| Cash flows from Operating Activities                                                |             |          |
| Net (Loss) Income                                                                   | \$ (10,367) | \$ 4,775 |
| Adjustments to Reconcile Net (Loss) Income to Net Cash Used in Operating Activities |             |          |
| Stock based compensation                                                            | 266         | 4,487    |
| Amortization of debt discount                                                       | 894         | 219      |
| Change in fair market value of warrant liability                                    | (236)       | (18,523) |
| Non-cash interest expense (paid-in kind)                                            | 1,260       | 1,238    |
| Provision for credit losses                                                         | 47          | 52       |
| Depreciation and amortization                                                       | 332         | 297      |
| Amortization of right of use of assets                                              | 422         | 308      |
| Loss on disposal of property and equipment                                          | -           | 116      |
| Changes in Assets and Liabilities                                                   |             |          |
| Accounts receivable                                                                 | (655)       | (1,577)  |
| Inventory                                                                           | 5,200       | (1,966)  |
| Prepaid expenses                                                                    | (71)        | (196)    |
| Prepaid inventory                                                                   | (87)        | 299      |
| Other current assets                                                                | (591)       | (129)    |
| Income taxes payable                                                                | 174         | -        |
| Accounts payable and accrued expenses                                               | (100)       | 6,465    |
| Accrued tariffs                                                                     | 87          | 117      |
| Customer deposits                                                                   | 30          | 180      |
| Total Adjustments                                                                   | 6,972       | (8,613)  |
| Net Cash Used in Operating Activities                                               | (3,395)     | (3,838)  |
| Cash Flows From Investing Activities                                                |             |          |
| Purchase of property and equipment                                                  | (817)       | (589)    |
| Net Cash Used in Investing Activities                                               | (817)       | (589)    |

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

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023**  
**(IN THOUSANDS)**

(continued from previous page)

|                                                                                      | 2024      | 2023      |
|--------------------------------------------------------------------------------------|-----------|-----------|
| <b>Cash Flows From Financing Activities</b>                                          |           |           |
| Proceeds from public offering, net                                                   | -         | 597       |
| Proceeds from note payable, related party                                            | 2,700     | 1,000     |
| Repayment of note payable, related party                                             | (2,700)   | -         |
| Proceeds from exercise of public warrants                                            | -         | 747       |
| Proceeds from exercise of options                                                    | -         | 93        |
| Net Cash Provided by Financing Activities                                            | -         | 2,437     |
| Net Decrease in Cash and cash equivalents                                            | (4,212)   | (1,990)   |
| Cash and cash equivalents - beginning of period                                      | 12,713    | 17,781    |
| Cash and cash equivalents - end of period                                            | \$ 8,501  | \$ 15,791 |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                            |           |           |
| Cash paid for income taxes                                                           | \$ -      | \$ -      |
| Cash paid for interest                                                               | \$ 2,390  | \$ 2,003  |
| <b>Supplemental Non-Cash Items</b>                                                   |           |           |
| Purchases of property and equipment, not yet paid                                    | \$ 412    | \$ 352    |
| Recognition of right of use asset obtained in exchange for operating lease liability | \$ 21,095 | \$ -      |
| Cashless exercise of liability classified warrants                                   | \$ -      | \$ 10,167 |

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

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 1 - NATURE OF BUSINESS**

Dragonfly Energy Holdings Corp. (“New Dragonfly” or the “Company”) sells lithium ion battery packs for use in a wide variety of applications. The Company sells to distributors under the Dragonfly Energy brand name, and sells direct to consumers under the trade name Battleborn Batteries. In addition, the Company develops technology for improved lithium ion battery manufacturing and assembly methods.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN**

*Principles of consolidation*

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and present the consolidated financial statements of the Company and its wholly owned subsidiary. All significant intercompany transactions and balances are eliminated in consolidation.

*Basis of presentation*

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with U.S. GAAP for interim financial information, and with the rules and regulations of the United States Securities and Exchange Commission (the “SEC”) set forth in Article 8 of Regulation SX. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited interim financial statements furnished reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. Unaudited interim results are not necessarily indicative of the results for the full fiscal year. These condensed consolidated financial statements should be read along with the 10-K filed with the SEC on April 16, 2024 (as amended April 29, 2024, the “Annual Report”) of the Company for the annual period ended December 31, 2023. The consolidated balance sheet as of December 31, 2023 was derived from the audited consolidated financial statements as of and for the year then ended.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Going Concern*

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During the three months ended March 31, 2024 and 2023, the Company incurred losses from operations and had negative cash flow from operations. As of March 31, 2024, the Company had \$8,501 in cash and cash equivalents and working capital of \$4,168. The Company's ability to achieve profitability and positive cash flow depends on its ability to increase revenue, contain its expenses and maintain compliance with the financial covenants in its outstanding indebtedness agreements.

In connection with the Company's senior secured term loan facility in an aggregate principal amount of \$75,000 (the "Term Loan"), the Company is obligated to comply with certain financial covenants, which include maintaining a maximum senior leverage ratio, minimum liquidity, a springing fixed charge coverage ratio, and maximum capital expenditures (**See Note 6**). On March 31, 2024, the Company obtained a waiver from the Term Loan administrative agent and lenders of its failures to satisfy the liquidity requirement under the Term Loan for the quarter ended March 31, 2024. If the Company is unable to obtain a waiver or if the Company is unable to comply with such covenants, the lenders have the right to accelerate the maturity of the Term Loan. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

In addition, the Company may need to raise additional debt and/or equity financings to fund its operations, strategic plans, and meet its financial covenants. The Company has historically been able to raise additional capital through issuance of equity and/or debt financings and the Company intends to use its equity facility and raise additional capital as needed. However, the Company cannot guarantee that it will be able to raise additional equity, contain expenses, or increase revenue, and comply with the financial covenants under the Term Loan.

*Recently issued accounting pronouncements:*

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"). ASU 2023-07 requires, among other updates, enhanced disclosures about significant segment expenses that are regularly provided to the CODM, as well as the aggregate amount of other segment items included in the reported measure of segment profit or loss. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, and requires retrospective adoption. Early adoption is permitted. The Company is evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"). ASU 2023-09 requires enhanced annual disclosures regarding the rate reconciliation and income taxes paid information. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, and may be adopted on a prospective or retrospective basis. Early adoption is permitted. The Company is evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Cash and Cash Equivalents*

The Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. As of March 31, 2024 and December 31, 2023, the Company held no Cash Equivalents.

From time to time the Company has amounts on deposit with financial institutions that exceed federally insured limits. The Company has not experienced any significant losses in such accounts.

*Accounts Receivable*

The Company's trade receivables are recorded when billed and represent claims against third parties that will be settled in cash. Generally, payment is due from customers within 30- 90 days of the invoice date and the contracts do not have significant financing components. Trade accounts receivables are recorded gross and are net of any applicable allowance. The allowance for credit losses as of March 31, 2024 and December 31, 2023 were not material.

*Inventory*

Inventories (**Note 4**), which consist of raw materials and finished goods, are stated at the lower of cost (first in, first out) or net realizable value, net of reserves for obsolete inventory. We continually analyze our slow moving and excess inventories. Based on historical and projected sales volumes and anticipated selling prices, we established reserves. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates its estimate of future demand. Products that are determined to be obsolete are written down to net realizable value. The inventory reserve as of March 31, 2024 and December 31, 2023 is immaterial.

*Use of Estimates*

The preparation of financial statements in conformity with U.S GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company utilizes the use of estimates in its calculations for the reserve for obsolete or slow moving inventory, right of use assets, warrant liability, equity based compensation, and income taxes.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Revenue Recognition*

Under Topic 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer.

Revenue is recognized when control of the promised goods is transferred to the customer or reseller, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services. Revenue associated with products holding rights of return are recognized when the Company concludes there is not a risk of significant revenue reversal in the future periods for the expected consideration in the transaction. There are no material instances including discounts and refunds where variable consideration is constrained and not recorded at the initial time of sale. Generally, our revenue is recognized at a point in time for standard promised goods at the time of shipment when title and risk of loss pass to the customer.

The Company may receive payments at the onset of the contract before delivery of goods for customers in the retail channel. Payment terms for distributors and OEMs are typically due within 30-90 days after shipment. In such instances, the Company records a customer deposit liability. The Company recognizes these contract liabilities as sales after the revenue criteria are met. As of March 31, 2024 and December 31, 2023, the contract liability related to the Company's customer deposits are \$231 and \$201, respectively.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue Recognition (Continued)

The Company recognized \$134 of the contract liability as of December 31, 2023 during the three months ended March 31, 2024. The Company recognized \$211 of the contract liability as of December 31, 2022 during the three months ended March 31, 2023.

Disaggregation of Revenue

The following table present our disaggregated revenues by distribution channel:

|                                 | For the Three Months Ended<br>March 31 |           |
|---------------------------------|----------------------------------------|-----------|
|                                 | 2024                                   | 2023      |
| Sales                           |                                        |           |
| Direct to Customer              | 5,203                                  | 10,038    |
| Original equipment manufacturer | 7,302                                  | 8,753     |
| Total                           | \$ 12,505                              | \$ 18,791 |

During the year ended December 31, 2023, the Company deemed it more appropriate to classify Retail and Distributor revenues as a single line item referred to as direct-to-consumer revenue. The Company has combined previously reported retail and distributor amounts to direct-to-consumer revenue to conform with current year presentation. The consolidation into direct-to-consumer revenue is motivated by The Company's strategic perspective on its operations and better represents how it evaluates their sales channels.

Product Warranty

The Company offers assurance type warranties from 5 to 10 years on its products. The Company estimates the costs associated with the warranty obligation using historical data of warranty claims and costs incurred to satisfy those claims. The Company estimates, based upon a review of historical warranty claim experience, the costs that may be incurred under its warranties and record a liability in the amount of such estimate at the time a product is sold. Factors that affect our warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of our recorded warranty liability and adjust the accrual as claims data and historical experience warrants. The Company has assessed the costs of fulfilling its existing assurance type warranties and has determined that the estimated outstanding warranty obligation at March 31, 2024 and December 31, 2023 to be \$414 and \$307, respectively.

|                               | March 31,<br>2024 | December 31,<br>2023 |
|-------------------------------|-------------------|----------------------|
| Beginning warranty obligation | 307               | 328                  |
| Provision of warranty expense | 197               | 397                  |
| Settlement of warranty claims | (90)              | (418)                |
| Ending warranty obligation    | \$ 414            | \$ 307               |

Concentrations

As of March 31, 2024, receivables from Customer A, Customer B and Customer C comprised approximately 22%, 14% and 12%, respectively, of accounts receivable. As of December 31, 2023, receivables from Customer D and Customer E comprised approximately 28% and 10%, respectively, of accounts receivable.

For the three months ended March 31, 2024, sales from Customer A accounted for approximately 16% of the Company's total revenue. For the three months ended March 31, 2023, sales from Customer B accounted for approximately 26% of the Company's total revenue.

As of March 31, 2024, payables to Vendor A comprised approximately 60% of accounts payables. As of December 31, 2023, payables to Vendor A comprised approximately 65% of accounts payables.

For the three months ended March 31, 2024, Vendor A accounted for approximately 12% of the Company's total purchases. For the three months ended March 31, 2023, Vendor B and Vendor C accounted for approximately 38% and 10%, respectively, of the Company's total purchases.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Stock-Based Compensation*

The Company accounts for stock based compensation arrangements with employees and non employee consultants using a fair value method which requires the recognition of compensation expense for costs related to all stock based payments, including stock options (Note 11). The fair value method requires the Company to estimate the fair value of stock based payment awards to employees and non employees on the date of grant using an option pricing model. Stock based compensation costs are based on the fair value of the underlying option calculated using the Black Scholes option pricing model and recognized as expense on a straight line basis over the requisite service period, which is the vesting period. Restricted stock unit awards are valued based on the closing trading value of the Company's common stock on the date of grant and then amortized on a straight-line basis over the requisite service period of the award. The Company measures equity based compensation awards granted to non employees at fair value as the awards vest and recognizes the resulting value as compensation expense at each financial reporting period.

Determining the appropriate fair value model and related assumptions requires judgment, including estimating stock price volatility, expected dividend yield, expected term, risk free rate of return, and the estimated fair value of the underlying common stock. Due to the lack of company specific historical and implied volatility data, the Company has based its estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. The historical volatility is calculated based on a period of time commensurate with the expected term assumption. The group of representative companies have characteristics similar to the Company, including stage of product development and focus on the lithium ion battery industry. The Company uses the simplified method, which is the average of the final vesting tranche date and the contractual term, to calculate the expected term for options granted to employees as it does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. The risk free interest rate is based on a treasury instrument whose term is consistent with the expected term of the stock options. The Company uses an assumed dividend yield of zero as the Company has never paid dividends and has no current plans to pay any dividends on its common stock. The Company accounts for forfeitures as they occur.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Income Taxes*

Deferred income tax assets and liabilities are determined based on the estimated future tax effects of net operating loss, credit carryforwards and temporary differences between the tax basis of assets and liabilities and their respective financial reporting amounts measured at the current enacted tax rates.

The Company recognizes a tax benefit for an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The Company has a liability of \$91 as of March 31, 2024, and December 31, 2023, respectively, of uncertain tax positions.

The Company's accounting policy is to include penalties and interest related to income taxes if any, in selling, general and administrative expenses. The Company regularly assesses the need to record a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

*Net (Loss) Income per Common Share*

Basic net (loss) income per share is calculated by dividing net (loss) earnings by the weighted-average number of common shares outstanding during the period. Diluted net (loss) income per share is calculated using the weighted-average number of common shares outstanding during the period and, if dilutive, the weighted-average number of potential shares of common stock.

The weighted-average number of common shares included in the computation of diluted net (loss) income gives effect to all potentially dilutive common equivalent shares, including outstanding stock options and warrants.

Common stock equivalent shares are excluded from the computation of diluted net (loss) income per share if their effect is antidilutive. In periods in which the Company reports a net loss, diluted net loss per share is generally the same as basic net loss per share since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

*Leases*

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present in the arrangement including the use of an identified asset(s) and the Company's control over the use of that identified asset. The Company elected, as allowed under FASB ASU 2016-02, Leases ("ASC 842"), to not recognize leases with a lease term of one year or less on its balance sheet. Leases with a term greater than one year are recognized on the balance sheet as right-of-use ("ROU") assets and current and non-current lease liabilities, as applicable.

*Segment Reporting*

Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the Company's Chief Executive Officer to make decisions with respect to resource allocation and assessment of performance. To date, the Company has viewed its operations and manages its business as one operating segment.

*Reclassifications*

Certain prior period amounts have been reclassified to conform to the current period presentation in the condensed consolidated financial statements and these accompanying notes. The reclassifications did not have a material impact on the Company's unaudited condensed consolidated financial statements and related disclosures. The impact on any prior period disclosures was immaterial.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
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**NOTE 3 - FAIR VALUE MEASUREMENTS**

ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), establishes a fair value hierarchy for instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's own assumptions (unobservable inputs). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

ASC 820 identifies fair value as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy that distinguishes between the following:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs that reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
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**NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents assets and liabilities that were measured at fair value in the Condensed Consolidated Balance Sheets on a recurring basis as of March 31, 2024:

|                                               | Carrying<br>Amount | Fair Value      | (Level 1)   | (Level 2)   | (Level 3)       |
|-----------------------------------------------|--------------------|-----------------|-------------|-------------|-----------------|
| As of March 31, 2024                          |                    |                 |             |             |                 |
| Liabilities                                   |                    |                 |             |             |                 |
| Warrant liability- Term Loan                  | \$ 1,010           | \$ 1,010        | \$ -        | \$ -        | \$ 1,010        |
| Warrant liability- June Public Offering       | 3,214              | 3,214           | -           | -           | 3,214           |
| Warrant liability- Private Placement Warrants | 3                  | 3               | -           | 3           | -               |
| Total liabilities                             | <u>\$ 4,227</u>    | <u>\$ 4,227</u> | <u>\$ -</u> | <u>\$ 3</u> | <u>\$ 4,224</u> |

The following table presents assets and liabilities that were measured at fair value in the Condensed Consolidated Balance Sheets on a recurring basis as of December 31, 2023:

|                                               | Carrying<br>Amount | Fair Value      | (Level 1)   | (Level 2)    | (Level 3)       |
|-----------------------------------------------|--------------------|-----------------|-------------|--------------|-----------------|
| As of December 31, 2023                       |                    |                 |             |              |                 |
| Liabilities                                   |                    |                 |             |              |                 |
| Warrant liability- Term Loan                  | \$ 1,014           | \$ 1,014        | \$ -        | \$ -         | \$ 1,014        |
| Warrant liability- June Public Offering       | 3,434              | 3,434           | -           | -            | 3,434           |
| Warrant liability- Private placement warrants | 15                 | 15              | -           | 15           | -               |
| Total liabilities                             | <u>\$ 4,463</u>    | <u>\$ 4,463</u> | <u>\$ -</u> | <u>\$ 15</u> | <u>\$ 4,448</u> |

The carrying amounts of accounts receivable and accounts payable are considered level 1 and approximate fair value as of March 31, 2024 and December 31, 2023 because of the relatively short maturity of these instruments.

The carrying value of the term loan as of March 31, 2024 and December 31, 2023 approximates fair value as the interest rate does not differ significantly from the current market rates available to the Company for similar debt and is considered level 2.

**Level 3 Roll forward**

Fair value measurements categorized within Level 3 are sensitive to changes in assumptions or methodology used to determine fair value, and such changes could result in a significant increase or decrease in the fair value.

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The changes for Level 3 items measured at fair value on recurring basis using significant unobservable inputs are as follows:

|                                                                | Warrant Liability -<br>Term Loan | Warrant liability-<br>June Public<br>Offering |
|----------------------------------------------------------------|----------------------------------|-----------------------------------------------|
| <b>Fair value as of January 1, 2024</b>                        | \$ 1,014                         | \$ 3,434                                      |
| Change in fair value, gain included in net loss <sup>(1)</sup> | (4)                              | (220)                                         |
| <b>Fair value as of March 31, 2024</b>                         | <u>\$ 1,010</u>                  | <u>\$ 3,214</u>                               |

  

|                                                                | Warrant Liability -<br>Term Loan |
|----------------------------------------------------------------|----------------------------------|
| <b>Fair value as of January 1, 2023</b>                        | \$ 30,841                        |
| Warrant exercises                                              | (8,822)                          |
| Change in fair value, gain included in net loss <sup>(1)</sup> | (17,998)                         |
| <b>Fair value as of March 31, 2023</b>                         | <u>\$ 4,021</u>                  |

<sup>(1)</sup>Changes in fair value of warrant liabilities are disclosed separately in the Condensed Consolidated Statements of Operations

**NOTE 4 - INVENTORY**

Inventory consists of the following:

|                        | March 31,<br>2024 | December 31,<br>2023 |
|------------------------|-------------------|----------------------|
| Raw material           | \$ 26,995         | \$ 31,604            |
| Finished goods         | 6,583             | 7,174                |
| <b>Total inventory</b> | <u>\$ 33,578</u>  | <u>\$ 38,778</u>     |

**DRAGONFLY ENERGY HOLDINGS CORP.**  
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**NOTE 5 - COMMITMENTS AND CONTINGENCIES**

*Litigation*

From time to time the Company may be named in claims arising in the ordinary course of business. Currently, no legal proceedings, governmental actions, administrative actions, investigations or claims are pending against the Company or involve the Company that, in the opinion of the Company's management, could reasonably be expected to have a material adverse effect on the Company's business and financial condition.

*Operating Leases*

The Company has leases related to the main office, warehouse space, research and development lab, engineering office, and sales office, all located in Reno, Nevada. The leases require annual escalating monthly payments ranging from \$118 to \$361. On February 2, 2022, the Company entered into a 124-month lease agreement in Reno, Nevada. The lease calls for monthly base rent of \$230, \$23 of fixed operating expense costs, and estimated monthly property taxes of \$21. The monthly base rent and fixed operating expense costs are subject to escalation of 3% and 2.4%, respectively, on an annual basis. A certificate of substantial completion has been issued and the lease commencement date was March 25, 2024. The monthly rent under the lease will begin July 24, 2024.

The following table presents the breakout of the operating leases as of:

|                                        | March 31,<br>2024 | December 31,<br>2023 |
|----------------------------------------|-------------------|----------------------|
| Operating lease right-of-use assets    | \$ 23,988         | \$ 3,315             |
| Short-term operating lease liabilities | 1,682             | 1,288                |
| Long-term operating lease liabilities  | 22,763            | 2,234                |
| Total operating lease liabilities      | \$ 24,445         | \$ 3,522             |
| Weighted average remaining lease term  | 9.29 years        | 2.6 years            |
| Weighted average discount rate         | 7.75%             | 5.2%                 |

Assumptions used in determining our incremental borrowing rate include the Company's implied credit rating and an estimate of secured borrowing rates based on comparable market data.

At March 31, 2024, the future minimum lease payments under these operating leases are as follows:

| Fiscal Years Ending               |           |
|-----------------------------------|-----------|
| December 31, 2024 <sup>(1)</sup>  | \$ 2,460  |
| December 31, 2025                 | 4,267     |
| December 31, 2026                 | 3,810     |
| December 31, 2027                 | 3,004     |
| December 31, 2028                 | 3,094     |
| Thereafter                        | 19,070    |
| Total lease payments              | 35,705    |
| Less imputed interest             | 11,260    |
| Total operating lease liabilities | \$ 24,445 |

<sup>(1)</sup>Represents scheduled payments for the remaining nine-month period ending December 31, 2024.

| Lease cost           | Classification             | For The Three Months Ended March 31, |        |
|----------------------|----------------------------|--------------------------------------|--------|
|                      |                            | 2024                                 | 2023   |
| Operating lease cost | Cost of goods sold         | \$ 350                               | \$ 347 |
| Operating lease cost | Research and development   | 23                                   | 22     |
| Operating lease cost | General and administration | 270                                  | 12     |
| Operating lease cost | Selling and marketing      | 12                                   | 12     |
| Total lease cost     |                            | \$ 655                               | \$ 393 |

All lease costs included in the schedule above are fixed.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
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**NOTE 5 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

*Financing Leases*

The Company entered into finance lease agreements for equipment to support the Company's operations. Payments under the finance lease agreements are fixed for a term of 3-5 years. The leased assets are recognized in property plant & equipment.

The following table presents the breakout of the financing leases as of:

|                                       | March 31,<br>2024 | December 31,<br>2023 |
|---------------------------------------|-------------------|----------------------|
| Finance lease right-of-use assets     | \$ 99             | \$ 106               |
| Short-term finance lease liabilities  | 37                | 36                   |
| Long-term finance lease liabilities   | 56                | 66                   |
| Total finance lease liabilities       | \$ 93             | \$ 102               |
| Weighted average remaining lease term | 2.5 years         | 2.7 years            |
| Weighted average discount rate        | 5.2%              | 5.2%                 |

Assumptions used in determining our incremental borrowing rate include our implied credit rating and an estimate of secured borrowing rates based on comparable market data.

At March 31, 2024, the future minimum lease payments under these operating leases are as follows:

|                                   |       |
|-----------------------------------|-------|
| Fiscal Years Ending               |       |
| December 31, 2024 <sup>(1)</sup>  | \$ 31 |
| December 31, 2025                 | 41    |
| December 31, 2026                 | 24    |
| December 31, 2027                 | 4     |
| Total lease payments              | 100   |
| Less imputed interest             | 7     |
| Total operating lease liabilities | \$ 93 |

<sup>(1)</sup>Represents scheduled payments for the remaining nine-month period ending December 31, 2024.

*Other Contingencies*

See Note 7 for further discussion regarding contingent consideration arising from the April 2022 Asset Purchase agreement with Thomason Jones Company, LLC.

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**NOTE 6 - LONG TERM DEBT**

**Term Loan Agreement**

On October 7, 2022 (the “Closing Date”), in connection with the merger, CNTQ, Legacy Dragonfly and CCM Investments 5 LLC, an affiliate of CCM LLC (“CCM 5”, and in connection with the Term Loan, the “Chardan Lender”), and EICF Agent LLC (“EIP”) entered into the Term Loan, Guarantee and Security Agreement (the “Term Loan Agreement”) setting forth the terms of the Term Loan. The Chardan Lender backstopped its commitment under the Debt Commitment Letter by entering into a backstop commitment letter, dated as of May 20, 2022 (the “Backstop Commitment Letter”), with a certain third party financing source (the “Backstop Lender” and collectively with EIP, the “Term Loan Lenders”), pursuant to which the Backstop Lender committed to purchase from the Chardan Lender the aggregate amount of the Term Loan held by the Chardan Lender (the “Backstopped Loans”) immediately following the issuance of the Term Loan on the Closing Date. Pursuant to an assignment agreement, the Backstopped Loans were assigned by CCM 5 to the Backstop Lender on the Closing Date.

Pursuant to the terms of the Term Loan Agreement, the Term Loan was advanced in one tranche on the Closing Date. The proceeds of the Term Loan were used (i) to refinance on the Closing Date prior indebtedness (including the obligations underlying the Trust Indenture), (ii) to support the merger and related transactions under the merger agreement, (iii) for working capital purposes and other corporate purposes, and (iv) to pay any fees associated with transactions contemplated under the Term Loan Agreement and the other loan documents entered into in connection therewith, including the transactions described in the foregoing clauses (i) and (ii) and fees and expenses related to the merger. The Term Loan amortizes in the amount of 5% per annum (or \$937.5 on the first day of each calendar quarter) beginning 24 months after the Closing Date and matures on the fourth anniversary of the Closing Date (“Maturity Date”). The Term Loan accrues interest (i) until April 1, 2023, at a per annum rate equal to the adjusted Secured Overnight Financing Rate (“SOFR”) plus a margin equal to 13.5%, of which 7% will be payable in cash and 6.5% will be paid in kind, (ii) thereafter until October 1, 2024, at a per annum rate equal to adjusted SOFR plus 7% payable in cash plus an amount ranging from 4.5% to 6.5%, depending on the senior leverage ratio of the consolidated company, which will be paid in kind and (iii) at all times thereafter, at a per annum rate equal to adjusted SOFR plus a margin ranging from 11.5% to 13.5% payable in cash, depending on the senior leverage ratio of the consolidated company. In each of the foregoing cases, adjusted SOFR will be no less than 1%.

In addition to optional prepayments by the Company upon written notice, the Term Loan Agreement provides for mandatory prepayments upon receipt of proceeds from certain transactions or casualty events. The Company is required to prepay the Term Loan based on excess cash flow, as defined in the agreement, beginning with the financial statements for the year ended December 31, 2023.

During the year ended December 31, 2023, the Company prepaid the first four installments of the Term Loan which amounted to \$5,275 and pushed back the first principal payment to October 2025.

In connection with the entry into the Term Loan Agreement, and as a required term and condition thereof, the Company issued (i) the penny warrants to the Term Loan Lenders exercisable to purchase an aggregate of 2,593,056 and (ii) the \$10 warrants to issue warrants to the Term Loan Lenders exercisable to purchase an aggregate of 1,600,000 shares of common stock at \$10 per share. Refer to Note 9 for further information.

Unless the obligations under the Term Loan are accelerated under the terms of the agreement, the maturity date will be October 7, 2026.

The Term Loan Lenders have been granted a first priority lien, and security interest in, the mortgaged properties underlying the Company’s mortgages.

During the three months ended March 31, 2024 and 2023, a total of \$3,701 and \$3,496, respectively, of interest expense was incurred under the debt. Amortization of the debt issuance costs amounted to \$894 and \$219, respectively, during the three months ended March 31, 2024 and 2023.

The carrying balance of \$21,837 on March 31, 2024 consisted of \$69,725 in principal, plus \$7,389 PIK interest, less \$55,277 in unamortized debt discount related to the debt issuance costs. The carrying balance of \$19,683 on December 31, 2023 consisted of \$69,725 in principal, plus \$6,130 PIK interest, less \$56,172 in unamortized debt discount related to the debt issuance costs.

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**NOTE 6 - LONG TERM DEBT (CONTINUED)**

*Term Loan Agreement (continued)*

*Financial Covenants*

The Company is subject to restrictive financial covenants pertaining to Maximum Senior Leverage Ratio, Liquidity, Fixed Charge Coverage Ratio, and Capital Expenditures as defined in the Term Loan Agreement. As of March 31, 2024, the Company was not in compliance with our financial covenants pertaining to the fixed charge coverage ratio, liquidity, and the maximum senior leverage ratio. On March 31, 2024, the Company received a waiver from its Administrative Agent and Term Loan Lenders in regards to its compliance with the liquidity requirement under the Term Loan as of the last day of the quarter ended March 31, 2024. If the Company is unable to obtain a waiver or if the Company is unable to comply with such covenants, the lenders have the right to accelerate the maturity of the Term Loan. Because of this, the entire debt is classified as current instead of long-term debt.

At March 31, 2024, the future debt maturities are as follows:

|                                       |               |
|---------------------------------------|---------------|
| For Year Ended December 31,           |               |
| 2024                                  | -             |
| 2025                                  | 938           |
| 2026                                  | 78,703        |
| Total                                 | <u>79,641</u> |
| Less: Estimated interest paid-in-kind | (2,527)       |
| Total debt                            | 77,114        |
| Less: Unamortized debt issuance costs | (55,277)      |
| Total carrying amount                 | <u>21,837</u> |
| Less: Current portion of debt         | (21,837)      |
| Total long-term debt                  | <u>\$ -</u>   |

**NOTE 7 - ASSET PURCHASE AGREEMENT**

**Thomason Jones Company, LLC**

In April 2022, the Company entered into an Asset Purchase Agreement with William Thomason, Richard Jones, and Thomason Jones Company, LLC whereby the Company acquired inventory and intellectual property assets for a price not to exceed \$700 cash plus contingent payments of \$1,000 each to William Thomason and Richard Jones (the “Earn Out”). The transaction was determined to be a business combination under the guidance in FASB ASC 805: Business Combinations. The Company followed the guidance under ASC 805-10-55 and determined the contingent consideration to be separate from the business combination and the earn out to be recognized as contingent compensation to Mr. Thomason and Mr. Jones as the contingency became probable of being met. The Company concluded the purchase price to be \$444 and was allocated in its entirety to inventory.

Pursuant to the terms of the agreement dated April 2022, Dragonfly Energy Corp. agreed to a contingent compensation arrangement with Mr. Thomason and Mr. Jones. According to this agreement, if Dragonfly Energy Corp. realizes \$3,000 in gross sales from products sold under the Wakespeed brand or which incorporate any portion of the Purchased Intellectual Property (IP) within twenty-four months of the acquisition, the Company is obligated to pay each of Thomason and Jones \$1,000. The Company may satisfy this obligation in cash or by issuing common stock at its discretion.

The Company has determined that this arrangement constitutes compensation for post-acquisition services. Consequently, the Company has recognized this contingent consideration as a compensation expense, measured at its fair value at the acquisition date. The fair value was determined using a probability weighted expected outcome approach, considering the likelihood of reaching the gross sales target.

As of December 31, 2023, the Company has recognized \$2,000 of compensation expense in connection with this arrangement. This expense is reflected in the statement of operations under Sales and marketing expense. The total amount has been recognized as compensation expense as of December 31, 2023, since it was deemed earned and no further service performance was required.

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**NOTE 8 - RELATED PARTY**

On October 25, 2022, the Company entered into a separation and release of claims agreement with its Chief Operating Officer (“COO”). As consideration for the COO’s execution of the agreement, the Company agreed to pay the employee a lump sum payment of \$100 which is included in general and administrative expenses in the statements of operations, payments equivalent to \$1,000 divided into 24 monthly payments commencing on December 1, 2022, and all outstanding equity-based compensation awards to become fully vested and exercisable. The COO shall have 12 months from the termination date to exercise outstanding options. The twelve (12) month period ended on November 7, 2023 in which the COO exercised 100,000 options and 76,316 options expired.

In February 2023, the Company entered into an agreement with its former COO in which the COO waived their rights to a transaction bonus resulting from the merger transaction in lieu of a Company van. The Company accounted for the cost of the van as an employee bonus, resulting in \$116 of general and administrative expense for the prior year.

On March 5, 2023, the Company entered into a convertible promissory note (the “Note”) with a board member in the amount of \$1,000, or the Principal Amount. Upon execution of the Note and funding of the original principal sum, a payment of \$100 (the “Loan Fee”) was fully earned as of the date of the Note and was due and payable in full in cash on April 4, 2023. The Company paid the Principal Amount and the Loan Fee on April 1, 2023 and April 4, 2023, respectively.

On April 26, 2023, the Company entered into a separation and release of claims agreement with its former Chief Legal Officer (“CLO”). As consideration for the CLO’s execution of the agreement, the Company agreed to pay the employee payments equivalent to \$720 divided into 24 monthly payments commencing on June 1, 2023, and all outstanding equity based compensation awards to become fully vested and exercisable at an expense of \$76. The CLO shall have 3 months from the termination date to exercise outstanding options. The three (3) month period ended on July 26, 2023 in which the options were not exercised and the options were forfeited as a result.

On January 26, 2024 the Company entered into a convertible promissory note (the “January Note”) with a board member in the amount of \$1,000, or the January Principal Amount. Upon execution of the January Note and funding of the original principal sum, a payment of \$50 (the “January Loan Fee”) was fully earned as of the date of the January Note and was due and payable in full in cash on February 2, 2024. The Company paid the January Principal Amount and the January Loan Fee on February 1, 2024.

On February 27, 2024 the Company entered into a convertible promissory note (the “February Note”) with a board member in the amount of \$1,700, or the February Principal Amount. Upon execution of the February Note and funding of the original principal sum, a payment of \$85 (the “February Loan Fee”) was fully earned as of the date of the February Note and was due and payable in full in cash on March 1, 2024. The Company paid the February Principal Amount and the February Loan Fee on March 1, 2024.

**NOTE 9 - WARRANTS**

**Common Stock Warrants classified as Equity**

*Public Warrants*

The Company’s Public Warrants are classified as equity as of March 31, 2024 and March 31, 2023 there were 9,487,500 Public Warrants issued and outstanding.

During the three months ended March 31, 2024, no public warrants were exercised.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 9 - WARRANTS (CONTINUED)**

**Common Stock Warrants classified as Liability**

*Private Placement Warrants*

On October 7, 2022, in connection with the merger, the Company assumed the outstanding private placement warrants of CNTQ. There were no Private Placement Warrants outstanding prior to the merger. The Private Placement Warrants (the “Private Warrants”) may not be redeemed by the Company so long as the Private Placement Warrants are held by the initial purchasers, or such purchasers’ permitted transferees. The Private Warrants: (i) will be exercisable either for cash or on a cashless basis at the holders’ option and (ii) will not be redeemable by the Company, in either case as long as the Private Warrants are held by the initial purchasers or any of their permitted transferees (as prescribed in the Subscription Agreement). The Private Warrants may not be sold, transferred, assigned, pledged or hypothecated, or be the subject of any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of, the Private Warrants (or any securities underlying the Private Warrants) for a period of one hundred eighty (180) days following the effective date of the Registration Statement to anyone other than any member participating in the Public Offering and the officers or partners thereof, if all securities so transferred remain subject to the lock-up restriction for the remainder of the time period. During the year ended December 31, 2023, private placement warrant holders exercised 3,126,472 warrants on a cashless basis, with the Company agreeing to issue 1,100,000 shares of Common Stock in connection with such exercise. There were 1,501,386 private warrants outstanding as of March 31, 2024 and December 31, 2023, respectively. The Company accounts for the Private Warrants issued in connection with the Initial Public Offering in accordance with the guidance contained in ASC 815-40. Such guidance provides that because the private warrants do not meet the criteria for equity treatment thereunder, each private warrant must be recorded as a liability. This liability is subject to re-measurement at each balance sheet date. With each such re-measurement, the warrant liabilities will be adjusted to its current fair value, with the change in fair value recognized in the Company’s statement of operations. The Company will reassess the classification at each balance sheet date.

The private placement warrants are classified as Level 2 as the transfer of Private Placement Warrants to anyone who is not a permitted transferee would result in the Private Placement Warrants having substantially similar terms as the Public Warrants (with the exception of a different remaining life). We determined, through use of a Binomial Lattice model, that the fair value of each Private Placement Warrant less a discount for the difference in remaining life is equivalent to that of each Public Warrant.

*Term Loan Warrants*

In connection with the entry into the Term Loan Agreement on October 7, 2022, and as a required term and condition thereof, the Company issued (i) the penny warrants to the Term Loan Lenders exercisable to purchase an aggregate of 2,593,056 shares of Common Stock (the “Penny Warrants”) and (ii) the \$10 warrants to issue warrants to the Term Loan Lenders exercisable to purchase an aggregate of 1,600,000 shares of Common Stock at \$10 per share (the “\$10 Warrants” and, together with the Penny Warrants, the “Term Loan Warrants”). The \$10 Warrants were exercised on a cashless basis on October 10, 2022, with the Company issuing 457,142 shares of Common Stock in connection with such exercise. During the year ended December 31, 2023, Penny Warrant holders exercised 2,000,000 warrants on a cashless basis, with the Company agreeing to issue 1,996,323 shares of Common Stock in connection with such exercise. During the year ended December 31, 2023 the Company issued additional Penny Warrants to purchase 4,783 shares of Common Stock to the Term Loan Lenders in accordance with the anti-dilution provisions of the penny warrants with respect to certain sales made by the Company under the ChEF Equity Facility. In addition, pursuant to the Company’s limited waiver agreement on December 29, 2023 between the Company and the lenders and lending agent, the Company agreed to issue to the lenders additional penny warrants exercisable to purchase an aggregate 1,286,671 shares of its Common Stock. The Company concluded the Penny Warrants are not considered indexed to the Company’s Common Stock and to be accounted for as liabilities under ASC 815. As such, the estimated fair value is recognized as a liability each reporting period, with changes in the fair value recognized within income each period. There were no Term Loan Warrants outstanding prior to the merger.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 9 - WARRANTS (CONTINUED)**

**Common Stock Warrants classified as Liability (Continued)**

The following table provides the significant inputs to the Black-Scholes method for the fair value of the Penny Warrants:

|                    | As of<br>March 31,<br>2024 | As of<br>December 31,<br>2023 |
|--------------------|----------------------------|-------------------------------|
| Common stock price | \$ 0.54                    | \$ 0.54                       |
| Exercise price     | 0.01                       | 0.01                          |
| Dividend yield     | 0%                         | 0%                            |
| Term               | 8.52 -9.75                 | 10                            |
| Volatility         | 96.00%                     | 96.00%                        |
| Risk-free rate     | 4.20%                      | 3.90%                         |
| Fair value         | \$ 0.54                    | \$ 0.54                       |

The following table provides the significant inputs to the Black-Scholes method for the fair value of the Investor Warrants issued in the June 2023 Offering:

|                    | As of<br>March 31,<br>2024 | As of<br>December 31,<br>2023 |
|--------------------|----------------------------|-------------------------------|
| Common stock price | \$ 0.54                    | \$ 0.54                       |
| Exercise price     | \$ 2.00                    | \$ 2.00                       |
| Dividend yield     | 0%                         | 0%                            |
| Term               | 4.23                       | 4.48                          |
| Volatility         | 104.00%                    | 106.00%                       |
| Risk-free rate     | 4.30%                      | 3.90%                         |
| Fair value         | \$ 0.29                    | \$ 0.31                       |

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 9 - WARRANTS (CONTINUED)**

Term Loan Warrants:

|                                       | Common Stock<br>Warrants |
|---------------------------------------|--------------------------|
| Warrants Outstanding, January 1, 2024 | 1,884,510                |
| Exercise of warrants                  | -                        |
| Warrants issued                       | -                        |
| Warrants Outstanding, March 31, 2024  | 1,884,510                |

Investor Warrants:

|                                       | Common Stock<br>Warrants |
|---------------------------------------|--------------------------|
| Warrants Outstanding, January 1, 2023 | 11,131,900               |
| Issuance of warrants                  | -                        |
| Exercise of warrants                  | -                        |
| Warrants outstanding, March 31, 2024  | 11,131,900               |

**NOTE 10 - COMMON STOCK**

No dividends on common stock had been declared by the Company.

For the three months ended March 31, 2024 and 2023, the Company had reserved shares of common stock for issuance as follows:

|                                      | March 31, 2024 | March 31, 2023 |
|--------------------------------------|----------------|----------------|
| Options issued and outstanding       | 2,315,299      | 3,731,392      |
| Common stock outstanding             | 60,260,282     | 45,795,502     |
| Warrants outstanding                 | 24,510,575     | 12,266,971     |
| Earnout shares                       | 40,000,000     | 40,000,000     |
| Shares available for future issuance | 10,986,525     | 4,319,309      |
| Total                                | 138,072,681    | 106,113,174    |

*ChEF Equity Facility*

The Company and Chardan Capital Markets LLC, a New York limited liability company (“CCM LLC”) entered into a purchase agreement (the “Purchase Agreement”) and a Registration Rights Agreement in connection with the merger. Pursuant to the Purchase Agreement, the Company has the right to sell to CCM LLC an amount of shares of Common Stock, up to a maximum aggregate purchase price of \$150 million, pursuant to the terms of the Purchase Agreement. In addition, the Company appointed LifeSci Capital, LLC as “qualified independent underwriter” with respect to the transactions contemplated by the Purchase Agreement. Under the terms of the Purchase Agreement, the Company issued 73,500 shares pursuant to the Purchase Agreement with CCM LLC for aggregate net proceeds to the Company of \$597 from the period January 1, 2023 through March 31, 2023. No issuances have occurred for the period of January 1, 2024 through March 31, 2024.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 11 - STOCK-BASED COMPENSATION**

Share-based compensation expense for options and RSUs totaling \$266 and \$4,487 was recognized in the Company's consolidated statements of operations for the three months ended March 31, 2024 and 2023, respectively. Of the \$266 of share-based compensation incurred during the three months ended March 31, 2024, \$32 is allocated to cost of goods sold, \$65 to research and development, \$60 to selling and marketing, and \$109 to general and administrative expenses. Of the \$4,487 of share-based compensation incurred during the three months ended March 31, 2023, \$36 is allocated to cost of goods sold, \$29 to research and development, \$856 to selling and marketing, and \$3,566 to general and administrative expenses.

The Company maintains an Employee Stock Purchase Plan ("ESPP") which is designed to allow eligible employees and the eligible employees of our participating subsidiaries to purchase shares of our common stock, at semi-annual intervals, with their accumulated payroll deductions. A total of 2,464,400 shares of the Company's common stock will initially be available for issuance under the ESPP. The share limit will automatically increase on the first trading day in January of each year by an amount equal to lesser of (1) 1% of the total number of outstanding shares of our common stock on December 31 in the prior year, (2) 1,500,000 shares, or (3) such number as determined by the Company's board of directors.

A summary of the Company's option activity and related information follows:

|                             | Number of<br>Options | Weighted-<br>Average<br>Exercise Price | Weighted-<br>Average Grant<br>Date Fair<br>Value | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life (in years) | Aggregate<br>intrinsic value |
|-----------------------------|----------------------|----------------------------------------|--------------------------------------------------|---------------------------------------------------------------------|------------------------------|
| Balances, January 1, 2024   | 2,364,787            | \$ 2.69                                | \$ 1.57                                          | 7.60                                                                | \$ 60                        |
| Options granted             | -                    | -                                      | -                                                | -                                                                   | -                            |
| Options forfeited           | (49,488)             | 3.11                                   | 1.77                                             | -                                                                   | -                            |
| Options exercised           | -                    | -                                      | -                                                | -                                                                   | -                            |
| Balances, March 31, 2024    | <u>2,315,299</u>     | <u>\$ 2.68</u>                         | <u>\$ 1.56</u>                                   | <u>6.42</u>                                                         | <u>\$ 60</u>                 |
| At March 31, 2024           |                      |                                        |                                                  |                                                                     |                              |
| Vested and Exercisable      | 1,651,913            | \$ 2.46                                |                                                  | 6.34                                                                | \$ 60                        |
| Vested and expected to vest | 2,315,299            | \$ 2.68                                |                                                  | 6.42                                                                | \$ 60                        |

*Restricted Stock Units*

On February 10, 2023, the Company granted 461,998 restricted stock units under the 2022 plan which vest immediately. The fair value of the restricted stock units on the date of grant was \$3,464 and was recorded as compensation expense during the three months ended March 31, 2023. On February 5, 2024, the Company granted 220,000 restricted stock units of which 100,000 vested immediately. The fair value of the 220,000 restricted stock units was \$95 and an expense of \$45 was recorded as compensation expense during the three months ended March 31, 2024.

The following table presents the restricted stock units activity for the three months ended March 31, 2024:

|                                  | Number of<br>Shares | Weighted-Average<br>Fair Market Value |
|----------------------------------|---------------------|---------------------------------------|
| Unvested shares, January 1, 2024 | 47,000              | \$ 2.69                               |
| Granted and unvested             | 220,000             | 0.43                                  |
| Vested                           | (104,875)           | 2.34                                  |
| Unvested shares, March 31, 2024  | <u>162,125</u>      | <u>\$ 0.97</u>                        |

As of March 31, 2024, there were 10,986,525 shares of unissued authorized and available for future awards under the 2022 Equity Incentive Plan and Employee Stock Purchase Plan.

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 12 - SUPPLIER AGREEMENT**

On May 9, 2023, Ioneer Rhyolite Ridge LLC, or the seller, an emerging lithium-boron producer, and the Company announced a commercial offtake agreement partnership whereby the seller is developing the Rhyolite Ridge Project which, once completed, is expected to produce 20 ktpa of lithium carbonate, and 174 ktpa of boric acid (the “project”). Beginning on the Supply Start Date which is the date the seller notifies the Company that the project is fully completed and commissioned in accordance with the engineering, procurement and construction contract, and for the duration of the supply period, the Company shall purchase and receive product from seller, on the terms and conditions of the agreement. The agreement calls for a minimum annual purchase requirement. The agreement becomes effective when the seller has informed the Company that the seller has made a positive financial investment decision in respect of the project.

**NOTE 13 - (LOSS) INCOME PER SHARE**

**(Loss) Income per Common Share**

The following table sets forth the information needed to compute basic and diluted net (loss) income per share for the three months ended March 31, 2024 and 2023:

|                                                       | March 31, 2024 | March 31, 2023 |
|-------------------------------------------------------|----------------|----------------|
| <b>Basic Net (Loss) Income per common share:</b>      |                |                |
| Net (Loss) Income                                     | \$ (10,367)    | \$ 4,775       |
| Weighted average number of common shares-basic        | 60,260,282     | 45,104,515     |
| Net (Loss) Income per share, basic                    | \$ (0.17)      | \$ 0.11        |
| <b>Diluted Net (Loss) Income per common share:</b>    |                |                |
| Net (Loss) Income available to common stockholders    | \$ (10,367)    | \$ 4,775       |
| Weighted average number of common shares-basic        | 60,260,282     | 45,104,515     |
| Dilutive effect related to stock options and warrants | -              | 3,351,481      |
| Weighted average diluted shares outstanding           | 60,260,282     | 48,455,996     |
| Net (Loss) Income per share, diluted                  | \$ (0.17)      | \$ 0.10        |

The following table sets forth the number of potential shares of common stock that have been excluded from diluted net loss per share because their effect was anti-dilutive:

|                                                | March 31, 2024 | March 31, 2023 |
|------------------------------------------------|----------------|----------------|
| Warrants                                       | 24,510,575     | 10,923,915     |
| Restricted stock units                         | 162,125        | 111,015        |
| Options                                        | 2,315,299      | -              |
| Weighted average number of common shares-basic | 26,987,999     | 11,034,930     |

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 14 - REVISIONS OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

The Company has revised the previously issued financial statements for the quarter ended March 31, 2023 for the underpayment of tariffs to U.S. Customs and Border Protection (“CBP”) related to the improper classification and valuation of certain of the products used in its batteries. The Company has reported the underpayment to CBP. The underpayment of tariffs was primarily the result of utilizing an improper tariff rate. The additional amount of the tariffs was allocated between inventory and cost of goods sold based on the status of imported items (i.e. included in the inventories held vs included in the inventories already sold to customers).

In accordance with Staff Accounting Bulletin (“SAB”) 99, Materiality, and SAB 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, the Company evaluated the materiality of the error from qualitative and quantitative perspectives, and concluded that the error was immaterial to any prior annual or interim financial statements. Notwithstanding this conclusion, management has revised the accompanying condensed consolidated financial statements for the quarter ended March 31, 2023 and related notes included herein to correct this error for the financial statements for the quarter ended March 31, 2023 presented.

The following tables present the effect of correcting this error on the Company’s previously issued financial statements.

|                                              | For the Period Ended March 31, 2023 |            |            |
|----------------------------------------------|-------------------------------------|------------|------------|
|                                              | As previously reported              | Adjustment | As revised |
| <b>Consolidated Statements of Operations</b> |                                     |            |            |
| Cost of Goods Sold                           | 14,048                              | 76         | 14,124     |
| Gross Profit                                 | 4,743                               | (76)       | 4,667      |
| Loss From Operations                         | (9,816)                             | (76)       | (9,892)    |
| Interest Expense                             | (3,815)                             | (41)       | (3,856)    |
| Income Before Taxes                          | 4,892                               | (117)      | 4,775      |
| Net Income                                   | 4,892                               | (117)      | 4,775      |
| Net Income per share - Basic                 | (0.11)                              | (0.0)      | (0.11)     |
| Net Income per share – Diluted               | (0.10)                              | (0.0)      | (0.10)     |

|                                              | For the Period Ended March 31, 2023 |            |            |
|----------------------------------------------|-------------------------------------|------------|------------|
|                                              | As previously reported              | Adjustment | As revised |
| <b>Consolidated Statements of Cash Flows</b> |                                     |            |            |
| Net Income                                   | 4,892                               | (117)      | 4,775      |
| Change in Accrued Tariffs                    | -                                   | 117        | 117        |

|                                                        | For the Period Ended March 31, 2023 |            |            |
|--------------------------------------------------------|-------------------------------------|------------|------------|
|                                                        | As previously reported              | Adjustment | As revised |
| <b>Consolidated Statements of Stockholders’ Equity</b> |                                     |            |            |
| Accumulated Deficit - January 1, 2023                  | (27,133)                            | (589)      | (27,722)   |
| Net Income                                             | 4,892                               | (117)      | 4,775      |
| Accumulated Deficit - March 31, 2023                   | (22,241)                            | (706)      | (22,947)   |

**DRAGONFLY ENERGY HOLDINGS CORP.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

**NOTE 15 - SUBSEQUENT EVENTS**

On April 17, 2024, the Company issued 3,428 shares in exchange for 4,875 vested RSU's less shares deducted to cover taxes. On April 24, 2024, the Company issued 244,774 shares in connection with its Employee Stock Purchase Plan for a total consideration of approximately \$112. On April 30, 2024, the Company issued 992 shares as a result of exercised stock options upon the receipt of proceeds of approximately \$1.

On April 12, 2024 the Company entered into a lease agreement, pursuant to which the Company agreed to lease an approximately 64 square foot facility (the "Premises") located in Fernley, Nevada, to be used for general, warehousing, assembly/light manufacturing, painting of products, storage fulfillment, distribution of the Company's products, and other uses as permitted under the Fernley Lease Agreement (the "Fernley Lease Agreement"). The initial term of the Fernley Lease Agreement (the "Term") is for a period of sixty (60) months, effective April 1, 2024. The base rent for the Premises, payable monthly, is \$45 for the first twelve months of the Term and is subject to a three percent (3.0%) increase on the anniversary of each year. The Company also will be responsible for twenty-five percent (25%) of any operating expenses, taxes and insurance expenses incurred by the Landlord in connection with the building in which the Premises are located (the "Expenses") as well as utility expenses. The Expenses are subject to recalculation and increase upon the completion of the Initial Improvements (as defined in the Fernley Lease Agreement). The Landlord is responsible for completing the Initial Improvements. The Fernley Lease Agreement also contains customary default provisions allowing the Landlord to terminate the Fernley Lease Agreement if the Company fails to cure certain breaches of its obligations under the Fernley Lease Agreement within a specified period of time upon written notice to the Company. Concurrent with the execution of the Fernley Lease Agreement, the Company paid the Landlord a security deposit of \$50.

Effective April 12, 2024, the Company entered into amendments to the employment agreements with its Chief Executive Officer, its Chief Revenue Officer and its Chief Marketing Officer to amend the terms of their annual equity compensation (the "Amended Employee Agreements"). The Amended Employee Agreements allow the Company to issue a combination of cash and equity awards on an annual basis up to a specified amount (\$1,532 for the Chief Executive Officer, \$490 for the Chief Revenue Officer and \$236 for the Chief Marketing Officer), subject to approval and such other terms and conditions imposed by the compensation committee of the board of directors.

On April 12, 2024, the Company issued a total of 836,295 RSUs to the following employees: (i) 567,407 RSUs to the Chief Executive Officer; (ii) 181,481 RSUs to the Chief Revenue Officer; and (iii) 87,407 RSUs to the Chief Marketing Officer. Each of the RSUs granted will vest in three equal annual installments, with the first vesting date on the one (1) year anniversary of the date of issuance and the following two vesting dates on each subsequent anniversary of the date of issuance, subject to each employees' continued employment as of each vesting date. In addition to the RSU awards, the Board also approved the following cash awards to the above referenced employees: (i) \$511 to the Chief Executive Officer; (ii) \$163 to the Chief Revenue Officer; and (iii) \$79 to the Chief Marketing Officer. Each of the approved cash awards will not be paid out to the employees until the Company has achieved a minimum cash balance of \$30,000, and are subject to each employee's continued employment on the date of payment.

On April 12, 2024, the board of directors authorized the issuance of 222,222 RSUs to each director in connection with their service as directors for the year ended December 31, 2023. The RSUs will vest in three equal annual installments, with the first vesting date on the one (1) year anniversary date of their issuance, subject to the directors continued service on with the Company on each vesting date.

On April 15, 2024, the board of directors approved an amendment to the Company's Director Compensation Policy offering its directors long-term incentive awards that are issuable subject to the sole discretion of the Company's compensation committee. Each such long-term incentive award is payable in the form of cash and or equity awards. Each such award shall be determined each fiscal year and are subject to the director's continued service with the Company and other conditions as the Company's compensation committee deems appropriate. Where equity awards are issued, such awards are subject to the terms and conditions of the Dragonfly Energy Holdings Corp. 2022 Equity Incentive Plan.

On April 29, 2024, the Company obtained a waiver from the Term Loan administrative agent and lenders in regard to the Company's compliance with the liquidity requirement under the Term Loan as of the last day of the fiscal month ended April 30, 2024.

On May 13, 2024, the Company received a waiver from its Administrative Agent and Term Loan Lenders (the "May 2024 Waiver") in regards to its compliance with the to satisfy the Senior Leverage Ratio and Fixed Charge Coverage Ratio tests (the "Tests") as of the last day of the quarter ended March 31, 2024 from the Term Loan Lenders in regards to its compliance with the Tests as of the last day of the quarter ended March 31, 2024. The May 2024 Waiver provided for a one-time issuance of penny warrants (the "May 2024 Penny Warrants") to purchase up to 2,550,000 shares of the Company's common stock, par value \$0.0001 per share (the "May 2024 Penny Warrant Shares"), at an exercise price of \$0.01 per share, in connection with the Term Loan Lenders' agreement to waive the Tests under the Term Loan for the quarter ended March 31, 2024. The May 2024 Penny Warrants were immediately exercisable upon issuance and will expire ten years from the date of issuance.

## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*References in this report (the “Quarterly Report”) to “we,” “us,” “our” or the “Company” refer to Dragonfly Energy Holdings Corp., a Nevada corporation. References to “Legacy Dragonfly” refer to Dragonfly Energy Corp., a Nevada corporation and our wholly-owned subsidiary. The following discussion and analysis of the Company’s financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto contained elsewhere in this Quarterly Report. Certain information contained in the discussion and analysis set forth below includes forward-looking statements that involve risks and uncertainties.*

*As a result of the completion of the Business Combination (as defined herein), the financial statements of Legacy Dragonfly are now the financial statements of us. Prior to the Business Combination, we had no operating assets but, upon consummation of the Business Combination, the business and operating assets of Legacy Dragonfly acquired by us became our sole business and operating assets. Accordingly, the financial statements of Legacy Dragonfly and their respective subsidiaries as they existed prior to the Business Combination and reflecting the sole business and operating assets of the Company going forward, are now the financial statements of us.*

*The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and the related notes and the other financial information included elsewhere in this Quarterly Report and with our audited consolidated financial statements (and notes thereto) for the year ended December 31, 2023 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on April 16, 2024, as amended April 29, 2024 (the “Annual Report”), particularly those under “Risk Factors.” This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Quarterly Report. We undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this report or to reflect actual outcomes.*

### CAUTIONARY NOTE REGARDING FORWARD LOOKING-STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under Section 27A of the Securities Act of 1933, as amended (the “**Securities Act**”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as “may,” “can,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “seek,” “estimate,” “continue,” “plan,” “point to,” “project,” “predict,” “could,” “intend,” “target,” “potential” and other similar words and expressions of the future.

There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statement made by us. These factors include, but are not limited to:

- our ability to successfully increase market penetration into target markets;
- the addressable markets that we intend to target do not grow as expected;
- the potential for events or circumstances that result in our failure to timely achieve the anticipated benefits of our customer arrangements with THOR Industries and its affiliate brands (including Keystone RV Company (“Keystone”)), including Keystone’s decision in July 2023, that, due to weaker demand for its products and their subsequent focus on reducing costs, it would no longer install our storage solutions as standard equipment, but rather return to offering those solutions as an option to dealers and consumers;
- our ability to generate revenue from future product sales and our ability to achieve and maintain profitability;
- the loss of any members of our senior management team or other key personnel;
- the loss of any relationships with key suppliers, including suppliers in China;
- the loss of any relationships with key customers;
- our ability to protect our patents and other intellectual property;

- the failure to successfully optimize solid-state cells or to produce commercially viable solid-state cells in a timely manner or at all, or to scale to mass production;
- the failure to produce lithium battery cells in the United States in a timely manner or at all, or to scale to mass production;
- changes in applicable laws or regulations, including changes in the rates of tariffs or any adjustments to the amounts payable by us to customs as a result of improperly identifying the applicable tariff rate payable on our products;
- our ability to maintain the listing of our common stock on the Nasdaq Global Market and our public warrants on the Nasdaq Capital Market;
- the possibility that we may be adversely affected by other economic, business and/or competitive factors (including an economic slowdown or inflationary pressures);
- our ability to sell the desired amounts of shares of common stock at desired prices under our equity facility;
- our ability to raise additional capital to fund our operations;
- our ability to generate revenue from future product sales and our ability to achieve and maintain profitability;
- the accuracy of our projections and estimates regarding our expenses, capital requirements, cash utilization, and need for additional financing;
- developments relating to our competitors and our industry;
- our ability to engage target customers and successfully retain these customers for future orders;
- the reliance on two suppliers for our lithium iron phosphate cells and a single supplier for the manufacture of our battery management system;
- the potential impact of geopolitical events, including the Russia-Ukraine conflict and Hamas' attack on Israel, and their effects on our operations; and
- our current dependence on a single manufacturing facility.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipated in such forward-looking statements. Please see “*Part I-Item 1A-Risk Factors*” of our Annual Report, for additional risks which could adversely impact our business and financial performance.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this Quarterly Report or the date of the document incorporated by reference into this report. We have no obligation, and expressly disclaims any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. We have expressed our expectations, beliefs and projections in good faith and believe they have a reasonable basis. However, we cannot assure you that our expectations, beliefs or projections will result or be achieved or accomplished.

## Overview

### *Our Business*

We are a manufacturer of non-toxic deep cycle lithium-ion batteries that are designed to displace lead acid batteries in a number of different storage applications and end markets including recreational vehicle (“RV”), marine vessel, and solar, oil and gas and off-grid industries, with disruptive solid-state cell technology currently under development.

Since 2020, we have sold over 300,000 batteries. For the quarters ended March 31, 2024, and March 31, 2023, we sold 11,098 and 20,331 batteries, respectively, and had \$12.5 million and \$18.8 million in net sales, respectively. We currently offer a line of batteries across our “Battle Born” and “Dragonfly” brands, each differentiated by size, power and capacity, consisting of seven different models, four of which come with a heated option. We primarily sell “Battle Born” branded batteries directly to consumers (“DTC”) and “Dragonfly” branded batteries to original equipment manufacturers (“OEMs”).

Our decrease in sales is a reflection of weaker demand from both OEM and DTC customers in our core RV and marine markets due to rising interest rates and inflation. Our RV OEM customers currently include Keystone, THOR, Airstream, and REV, and we are in ongoing discussions with a number of additional RV OEMs to further increase adoption of our products. Related efforts include seeking to have RV OEMs “design in” our batteries as original equipment and entering into arrangements with members of the various OEM dealer networks to stock.

We currently source the lithium iron phosphate (“LFP”) cells incorporated into our batteries from a limited number of carefully selected suppliers that can meet our demanding quality standards and with whom we have developed long-term relationships.

In May 2024, we announced that we achieved full certification for our energy storage products to be deployed for use in oil & gas operations in North America. As a result of this certification, we are working Connexa Energy Company (“**Connexa**”) to deliver a power product to Alegacy Equipment, a market leading natural gas compressor package company, and their affiliate Agnes Systems. The power system, which Connexa expects to integrate, are expected to be used in natural gas compression equipment to reduce methane emissions across the oilfield. We expect the first of these systems to be deployed in the third quarter of 2024 and this business line to begin contributing to net sales by the fourth quarter of 2024.

To supplement our battery offerings, we are also a reseller of accessories for battery systems. These include chargers, inverters, monitors, controllers and other system accessories from brands such as Victron Energy, Progressive Dynamics, Magnum Energy and Sterling Power. Pursuant to the Asset Purchase Agreement dated April 22, 2022 by and among us and Thomason Jones Company, LLC (“**Thomason Jones**”) and the other parties thereto, we also acquired the assets, including the Wakespeed Offshore brand (“**Wakespeed**”) of Thomason Jones, allowing us to include our own alternator regulator in systems that we sell.

In addition, we have successfully developed innovative manufacturing processes for dry-electrode manufacturing of lithium-ion cells, and continue development efforts relating to next-generation solid-state technology. Since our inception, we have built a comprehensive patent portfolio around our proprietary dry-electrode battery manufacturing process, which eliminates the use of harmful solvents and energy-intensive drying ovens compared to traditional methods. This translates to significant environmental and cost benefits, including reduced energy consumption, smaller space requirements, and a lower carbon footprint.

Moreover, our solid-state technology in development removes the need for a liquid electrolyte, thereby addressing safety concerns related to flammability. Our unique competitive edge lies in the combination of solid-state technology with its scalable dry-electrode manufacturing process. This enables the rapid production of cells having an intercalation anode (like graphite or silicon), unlike many competitors reliant on less stable lithium metal anodes. We believe this design offers superior cyclability and safety, serving as a key differentiator in the energy storage market. Furthermore, internal production of both conventional and solid-state cells streamlines our supply chain and enables vertical integration, ultimately driving down production costs. In October 2023, we announced the successful dry deposition of anode and cathode electrodes at scale using our patented battery manufacturing process. We are currently producing sample cells for prospective customers across a variety of chemistries and end-markets and expect to begin scaling production in the second half of 2024.

As of March 31, 2024, we had cash totaling \$8.5 million. Our net loss for the quarter ended March 31, 2024 was \$10.4 million and our net income for the quarter ended March 31, 2023 was \$4.8 million. As a result of becoming a publicly traded company, we continue to need to hire additional personnel and implement procedures and processes to address public company regulatory requirements and customary practices. We have incurred and expect to continue to incur additional expenses as a public company for, among other things, directors’ and officers’ liability insurance, director fees and additional internal and external accounting and legal and administrative resources, including increased audit and legal fees. As discussed under “*Liquidity and Capital Resources*” below, we expect that we will need to raise additional funds, including through the use of our \$150 million equity facility (the “**ChEF Equity Facility**”) with Chardan Capital Markets LLC (“**CCM LLC**”) and the issuance of equity, equity-related or debt securities or by obtaining additional credit from financial institutions to fund, together with our principal sources of liquidity, ongoing costs, such as research and development relating to our solid-state batteries, expansion of our facilities, and new strategic investments. If such financings are not available, or if the terms of such financings are less desirable than we expect, we may be forced to take actions to reduce our capital or operating expenditures, including not seeking potential acquisition opportunities, eliminating redundancies, or reducing or delaying our production facility expansions, which may adversely affect our business, operating results, financial condition and prospects.

### *ChEF Equity Facility*

We intend to opportunistically use the ChEF Equity Facility to help maintain minimum cash balances required by the lenders as we continue to execute on growing the business through product releases, customer/market expansion, and R&D milestones. We expect to use the ChEF Equity Facility as a regular source of funds over the next twelve months and our available share balance increases, allowing for more consistent purchases under the ChEF Equity Facility. Use of the ChEF Equity Facility may adversely affect us, including the market price of our common stock and future issuances may be dilutive to existing stockholders.

### *June 2023 Offering*

On June 20, 2023, we entered into an underwriting agreement (the “**Underwriting Agreement**”) with Roth Capital Partners, LLC, as representative of the several underwriters (the “**Underwriters**”), pursuant to which we sold to the Underwriters, in a firm commitment underwritten public offering (the “**June 2023 Offering**”), an aggregate of (i) 10,000,000 shares of our common stock, par value \$0.0001, and (ii) accompanying warrants to purchase up to 10,000,000 shares of common stock (the “**Investor Warrants**”), at the combined public offering price of \$2.00 per share and accompanying Investor Warrant, less underwriting discounts and commissions, and (iii) warrants to purchase up to an aggregate of 570,250 shares of common stock (the “**Underwriters’ Warrants**”). In addition, we granted the Underwriters a 45-day over-allotment option to purchase up to an additional 1,500,000 shares of common stock and/or Investor Warrants to purchase up to an aggregate of 1,500,000 shares of common stock at the public offering price per security, less underwriting discounts and commissions.

The Investor Warrants are exercisable for five years from the closing date of the Offering, have an exercise price of \$2.00 per share and are immediately exercisable. In the event of certain fundamental transactions, holders of the Investor Warrants will have the right to receive the Black Scholes Value (as defined in the Investor Warrants) of their Investor Warrants calculated pursuant to the formula set forth in the Investor Warrants, payable either in cash or in the same type or form of consideration that is being offered and being paid to the holders of common stock. The Underwriters’ Warrants are exercisable upon issuance and will expire on June 20, 2028. The initial exercise price of the Underwriters’ Warrants is \$2.50 per share, which equals 125% of the per share public offering price in the Offering.

As part of the June 2023 Offering, the Underwriters partially exercised their over-allotment option in the amount of 1,405,000 shares of common stock and Investor Warrants to purchase 1,405,000 shares of common stock. The June 2023 Offering closed on June 22, 2023. The aggregate net proceeds from this offering, including the partial over-allotment option, was approximately \$20.7 million.

#### *December 2023 Private Placement*

On December 29, 2023, we received a waiver (the “**December 2023 Waiver**”) from the Term Loan Lenders (as defined below) in regards to our compliance with the fixed charge coverage ratio and maximum senior leverage ratio with respect to the minimum cash requirements (the “**Tests**”) under the Term Loan (as defined below) as of the last day of the quarter ended December 31, 2023. The December 2023 Waiver provided for a one-time issuance of penny warrants (the “**December 2023 Penny Warrants**”) to purchase up to 1,286,671 shares of our common stock, at an exercise price of \$0.01 per share, in connection with the Term Loan Lenders’ agreement to waive the Tests under the Term Loan for the quarter ended December 31, 2023. The December 2023 Penny Warrants were immediately exercisable upon issuance and will expire ten years from the date of issuance.

#### *May 2024 Private Placement*

On May 13, 2024, we received a waiver (the “**May 2024 Waiver**”) from the Term Loan Lenders in regards to our compliance with the Tests as of the last day of the quarter ended March 31, 2024. The May 2024 Waiver provided for a one-time issuance of penny warrants (the “**May 2024 Penny Warrants**”) to purchase up to 2,550,000 shares of our common stock (the “**May 2024 Penny Warrant Shares**”), at an exercise price of \$0.01 per share, in connection with the Term Loan Lender’s agreement to waive the Tests under the Term Loan for the quarter ended March 31, 2024. The May 2024 Penny Warrants were immediately exercisable upon issuance and will expire ten years from the date of issuance.

### **Key Factors Affecting Our Operating Results**

Our financial position and results of operations depend to a significant extent on the following factors:

#### ***End Market Consumers***

The demand for our products ultimately depends on demand from consumers in our current end markets. We generate sales through (1) DTC and (2) through OEMs, particularly in the RV market.

An increasing proportion of our sales has been and is expected to continue to be derived from sales to RV OEMs, driven by continued efforts to develop and expand sales to RV OEMs with whom we have longstanding relationships. Our RV OEM sales have been on a purchase order basis, without firm revenue commitments, and we expect that this will likely continue to be the case. Therefore, future RV OEM sales will be subject to risks and uncertainties, including the number of RVs these OEMs manufacture and sell, which in turn may be driven by the expectations these OEMs have around end market consumer demand.

Demand from end market consumers is impacted by a number of factors, including fuel costs and energy demands (including an increasing trend towards the use of green energy), as well as overall macro-economic conditions, such as interest rates and inflation. Sales of our batteries have benefited from the increased adoption of the RV lifestyle, the demand for and inclusion of additional appliances and electronics in RVs, and the accelerating trend of solar power adoption among RV customers. However, rising fuel costs and other macro-economic conditions have caused a downward shift in decisions taken by end market consumers around spending in the RV market and in July 2023, we were notified by our largest RV OEM customer that, due to weaker demand for its products and their subsequent focus on reducing costs, it would no longer install our storage solutions as standard equipment, but rather return to offering those solutions as an option to dealers and consumers. While this customer is not moving to a different solution or competitor, as a result in this change in strategy there was a material limiting effect on our revenue in 2023. Based on our discussions with customers and current forecast projections, we expect our revenue in the RV market to increase in the second half of 2024.

While a significant portion of our sales come from the RV market, we also offer targeted solutions using the same products for the marine market. These solutions cater to OEMs and consumers alike, addressing the power needs of various vessels like sailboats, powerboats, and fishing boats (center console and bass). We have worked closely to follow ABYC (American Boat & Yacht Council) Standards to develop systems that adhere to the recent ABYC E-13 Guidelines (Standards for Lithium Batteries).

Our strategy includes plans to expand into new end markets that we have identified as opportunities for our LFP batteries, including medium and heavy duty trucking, specialty and work vehicles, solar integration, oil and gas, industrial, rail, material handling, and emergency and standby power in the medium term, and data centers, telecom and distributed on-grid storage in the longer term. We believe that our current LFP batteries and, eventually, our solid-state batteries, will be well-suited to supplant traditional lead-acid batteries as a reliable power source for the variety of low power density uses required in these markets (such as powering the increasing number of on-board tools needed in emergency vehicles). The success of this strategy requires (1) continued growth of these addressable markets in line with our expectations and (2) our ability to successfully enter these markets. We expect to incur significant marketing costs understanding these new markets, and researching and targeting customers in these end markets, which may not result in sales. If we fail to execute on this growth strategy in accordance with our expectations, our sales growth would be limited to the growth of existing products and existing end markets.

## ***Supply***

We currently rely on two carefully selected cell manufacturers located in China, and a single supplier, also located in China, to manufacture our proprietary battery management system, and we intend to continue to rely on these suppliers going forward. Our close working relationships with our China-based LFP cell suppliers, reflected in our ability to increase our purchase order volumes (qualifying us for related volume-based discounts) and order and receive delivery of cells in anticipation of required demand, has helped us moderate increased supply-related costs associated with inflation, currency fluctuations and U.S. government tariffs imposed on our imported battery cells and to avoid potential shipment delays. To mitigate against potential adverse production events, we opted to build our inventory of key components, such as battery cells. However, as many of the supply chain challenges and delays that were prevalent over the last several years have eased, we are now actively working down our inventory to more appropriate safety stock levels.

As a result of our battery chemistry and active steps we have taken to manage our inventory levels, we have not been subject to the shortages or price impacts that have been present for manufacturers of nickel manganese cobalt and nickel cobalt aluminum batteries. As we look toward the production of our solid-state cells, we have signed a Commercial Offtake Agreement with a lithium mining company located in Nevada for the supply of lithium, which we expect will enable us to further manage our cost of goods over time.

## ***Product and Customer Mix***

Our product sales consist of sales of seven different models of LFP batteries, along with accessories for battery systems (individually or bundled). These products are sold to different customer types (e.g., consumers, OEMs and distributors) and at different prices and involve varying levels of costs. In any particular period, changes in the mix and volume of particular products sold and the prices of those products relative to other products will impact our average selling price and our cost of goods sold. Despite our work to moderate increased supply-related costs, the price of our products may also increase as a result of increases in the cost of components due to inflation, currency fluctuations and tariffs. OEM sales typically result in lower average selling prices and related margins, which could result in margin erosion, negatively impact our growth or require us to raise our prices. However, this reduction is typically offset by the benefits of increased sales volumes. Sales of third-party sourced accessories typically have lower related margin. We expect accessory sales to increase as we further develop full-system design expertise and product offerings and consumers increasingly demand more sophisticated systems, rather than simple drop-in replacements. In addition to the impacts attributable to the general sales mix across our products and accessories, our results of operations are impacted by the relative margins of products sold. As we continue to introduce new products at varying price points, our overall gross margin may vary from period to period as a result of changes in product and customer mix.

## ***Production Capacity***

All of our battery assembly currently takes place at our 99,000 square foot headquarters and manufacturing facility located in Reno, Nevada. We currently operate three LFP battery production lines. Consistent with our operating history, we plan to continue to automate additional aspects of our battery production lines. Our existing facility has the capacity to add up to four additional LFP battery production lines and construct and operate a pilot production line for domestic cell manufacturing, all designed to maximize the capacity of our manufacturing facility. Although our automation efforts are expected to reduce our costs of goods, we may not fully recognize the anticipated savings when planned and could experience additional costs or disruptions to our production activities.

In addition, we entered into a lease on February 8, 2022 for an additional 390,240 square foot warehouse in Reno, Nevada, which is expected to be completed in the second half of 2024. The commencement date for the lease for this facility was March 25, 2024, based on the construction project being identified as “substantially complete”. This facility will enable us to consolidate various operations in Reno, NV and will allow for expected expansion for new markets.

On April 12, 2024, we entered into a lease agreement (the “**Fernley Lease Agreement**”) pursuant to which we agreed to lease an approximately 64,000 square foot facility (the “**Premises**”) in Fernley, Nevada, to be used for general, warehousing, assembly/light manufacturing, painting of products, storage fulfillment, distribution of our products, and other uses as permitted under in the Fernley Lease Agreement.

## ***Competition***

We compete with traditional lead-acid battery manufacturers and lithium-ion battery manufacturers, who primarily either import their products or components or manufacture products under a private label. As we continue to expand into new markets, develop new products and move towards production of our solid-state cells, we will experience competition with a wider range of companies. These competitors may have greater resources than we do, and may be able to devote greater resources to the development of their current and future technologies. Our competitors may be able to source materials and components at lower costs, which may require us to evaluate measures to reduce our own costs, lower the price of our products or increase sales volumes in order to maintain our expected levels of profitability.

## ***Research and Development***

Our research and development is primarily focused on the advanced manufacturing of solid-state lithium-ion batteries using an LFP catholyte, a solid electrolyte and an intercalation-based anolyte (intercalation being the reversible inclusion of a molecule or ion into layered solids). The next stage in our technical development is to construct the battery to optimize performance and longevity to meet and exceed industry standards for our target storage markets. Ongoing testing and optimizing of more complicated batteries incorporating layered pouch cells will assist us in determining the optimal cell chemistry to enhance conductivity and increase the number of cycles (charge and discharge) in the cell lifecycle. This is expected to require significant additional expense, and we may need to raise additional funds to continue these research and development efforts.

## **Components of Results of Operations**

### ***Net Sales***

Net sales are primarily generated from the sale of our LFP batteries to OEMs and consumers, as well as chargers and other accessories, either individually or bundled.

### ***Cost of Goods Sold***

Cost of goods sold includes the cost of cells and other components of our LFP batteries, labor and overhead, logistics and freight costs, and depreciation of manufacturing equipment.

### ***Gross Profit***

Gross profit, calculated as net sales less cost of goods sold, may vary between periods and is primarily affected by various factors including average selling prices, product costs, product mix and customer mix.

### ***Operating Expenses***

#### *Research and development*

Research and development costs include personnel-related expenses for scientists, experienced engineers and technicians as well as the material and supplies to support the development of new products and our solid-state technology. As we work towards completing the development of our solid-state lithium-ion cells and the manufacturing of batteries that incorporate this technology, we anticipate that research and development expenses will increase significantly for the foreseeable future as we continue to invest in product development and optimizing and producing solid-state cells.

#### *General and administrative*

General and administrative costs include personnel-related expenses attributable to our executive, finance, human resources, and information technology organizations, certain facility costs, and fees for professional services.

## Selling and marketing

Selling and marketing costs include outbound freight, personnel-related expenses, as well as trade show, industry event, marketing, customer support, and other indirect costs. We expect to continue to make the necessary sales and marketing investments to enable the execution of our strategy, which includes expanding into additional end markets.

### Total Other Income (Expense)

Other income (expense) consists primarily of interest expense, the change in fair value of the warrant liability and amortization of debt issuance costs.

## Results of Operations

### Comparisons for the Three months ended March 31, 2024, and March 31, 2023

The following table sets forth our results of operations for the three months ended March 31, 2024 and March 31, 2023. This data should be read together with our financial statements and related notes included elsewhere in this Quarterly Report, and is qualified in its entirety by reference to such financial statements and related notes.

|                                                  | Three months ended March 31, |             |           |             |
|--------------------------------------------------|------------------------------|-------------|-----------|-------------|
|                                                  | 2024                         | % Net Sales | 2023      | % Net Sales |
|                                                  | (in thousands)               |             |           |             |
| <b>Net Sales</b>                                 | \$ 12,505                    | 100.0       | \$ 18,791 | 100.0       |
| Cost of Goods Sold                               | 9,454                        | 75.6        | 14,124    | 75.2        |
| <b>Gross profit</b>                              | 3,051                        | 24.4        | 4,667     | 24.8        |
| Operating expenses                               |                              |             |           |             |
| Research and development                         | 1,333                        | 10.7        | 880       | 4.7         |
| General and administrative                       | 4,813                        | 38.5        | 9,495     | 50.5        |
| Sales and marketing                              | 2,744                        | 21.9        | 4,184     | 22.3        |
| <b>Total Operating expenses</b>                  | 8,890                        | 71.1        | 14,559    | 77.5        |
| <b>Loss From Operations</b>                      | (5,839)                      | (46.7)      | (9,892)   | (52.6)      |
| Other Income (Expense)                           |                              |             |           |             |
| Interest expense, net                            | (4,760)                      | (38.1)      | (3,856)   | (20.5)      |
| Other expense                                    | (4)                          | 0.0         | -         | -           |
| Change in fair market value of warrant liability | 236                          | 1.9         | 18,523    | 98.6        |
| <b>Total Other Income (Expense)</b>              | (4,528)                      | (36.2)      | 14,667    | 78.1        |
| <b>Loss Before Taxes</b>                         | (10,367)                     | (82.9)      | 4,775     | 25.4        |
| <b>Income Tax Benefit</b>                        | -                            | -           | -         | -           |
| <b>Net (Loss) Income</b>                         | \$ (10,367)                  | (82.9)      | \$ 4,775  | 25.4        |

|             | Three months ended March 31, |        |
|-------------|------------------------------|--------|
|             | 2024                         | 2023   |
|             | (in thousands)               |        |
| DTC         | 5,203                        | 10,038 |
| % Net Sales | 41.6                         | 53.4   |
| OEM         | 7,302                        | 8,753  |
| % Net Sales | 58.4                         | 46.6   |
| Net Sales   | \$ 12,505                    | 18,791 |

### Net Sales

Net sales decreased by \$6.3 million, or 33.5%, to \$12.5 million for the quarter ended March 31, 2024, as compared to \$18.8 million for the quarter ended March 31, 2023. This decrease was primarily due to lower DTC and OEM battery and accessory sales offset by a higher average sales price. For the quarter ended March 31, 2024, DTC revenue decreased by \$4.8 million due to decreased customer demand for our products related to rising interest rates and inflation. OEM revenue decreased by \$1.5 million primarily due to our largest Recreation Vehicle (RV) customers changing our product from a standard offering to an option. Excluding this customer our RV OEM sales were up 69% year over year. We expect our sales to increase as the cyclical recovery of the RV market gains momentum in the second half of 2024. We expect our deployment of products for use in oil and gas operations in North America to begin contributing to net sales by the fourth quarter of 2024.

### ***Cost of Goods Sold***

Cost of revenue decreased by \$4.7 million, or 33.1%, to \$9.5 million for the quarter ended March 31, 2024, as compared to \$14.1 million for the quarter ended March 31, 2023. This decrease was primarily due to lower unit volume and lower material costs associated with consuming lower-priced inventory resulting in a \$4.6 million decrease of product cost and \$0.1 million decrease in overhead expense associated with lower labor costs due to reduced headcount. We expect our Cost of Goods Sold to increase in conjunction with the anticipated increase in revenue over the next 12 months.

### ***Gross Profit***

Gross profit decreased by \$1.6 million, or 34.6%, to \$3.1 million for the quarter ended March 31, 2024, as compared to \$4.7 million for the quarter ended March 31, 2023. The decrease in gross profit was primarily due to a lower unit volume of sales.

### ***Research and Development Expenses***

Research and development expenses increased by \$0.4 million, or 51.5%, to \$1.3 million for the quarter ended March 31, 2024, as compared to \$0.9 million for the quarter ended March 31, 2023. The increase was primarily due to higher wage expense in the amount of \$0.3 million and \$0.1 million for increased patent and material expenses. While we expect to continue to grow the Research and Development headcount, we expect to do so at a slower rate than in prior years.

### ***General and Administrative Expenses***

General and administrative expenses decreased by \$4.7 million, or 49.3%, to \$4.8 million for the quarter ended March 31, 2024, as compared to \$9.5 million for the quarter ended March 31, 2023. This decrease was primarily due to the issuance of stock-based compensation in the prior year in the amount of \$3.5 million along with lower employee related costs in the amount of \$0.5 million due to decreased headcount. In addition, legal and compliance costs decreased by \$0.6 million due to reduced support required for Exchange Act reporting and compliance, including the preparation of our Annual Report. Travel expenses in General and Administrative decreased by \$0.2 million due to allocation to the other functional areas in 2024. We expect General and Administrative Expenses, as a percentage of revenue, to decline over the next 12 months.

### ***Selling and Marketing Expenses***

Sales and marketing expenses decreased by \$1.4 million, or 34.4%, to \$2.7 million for the quarter ended March 31, 2024, as compared to \$4.2 million for the quarter ended March 31, 2023. This decrease was primarily due to lower employee-related costs in the amount of \$1.3 million of which \$0.8 million is due to the prior year stock-based compensation. Lower shipping costs in the amount of \$0.4 million is related to a reduction in units sold is offset by \$0.3 million other marketing expense which includes travel expenses allocated from general and administrative to selling and marketing in 2024. We expect our Selling and Marketing Expenses to be relatively stable over the next 12 months.

### ***Total Other (Expense) Income***

Other expense totaled \$4.5 million for the quarter ended March 31, 2024 as compared to total other income of \$14.7 million for the quarter ended March 31, 2023. Other expense of \$4.5 million in quarter ended March 31, 2024 was comprised primarily of interest expense of \$4.8 million related to our debt securities offset by a change in fair market value of warrant liability in the amount of \$0.2 million. The \$14.8 million of other income in quarter ended March 31, 2023 is comprised of the change in fair market value of warrant liability of \$18.5 million offset by interest expense of \$3.9 million related to our debt securities.

### ***Income Tax (Benefit) Expense***

There was no tax expense recorded for the three months ended March 31, 2024 or March 31, 2023. Based on available evidence as of March 31, 2024 and March 31, 2023, management believes it is more likely than not that some or all the deferred tax assets will not be realized. Accordingly, we established a 100% valuation allowance. As a result of the full valuation allowance, we did not record a tax benefit during the quarter ended March 31, 2023 or 2024.

### ***Net (Loss) Income***

We experienced a net loss of \$10.4 million for the quarter ended March 31, 2024, as compared to net income of \$4.8 million for the quarter ended March 31, 2023. As described above, this result was driven by lower sales partially offset by lower cost of goods sold, and lower operating expenses, and a decrease in other income (due to the change in fair market value of our warrants).

### ***Critical Accounting Estimates***

Our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these condensed consolidated financial statements requires us to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in our financial statements. We base our estimates on historical experience, known trends and events and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions. On a recurring basis, we evaluate our judgments and estimates in light of changes in circumstances, facts, and experience. The effects of material revisions in an estimate, if any, will be reflected in the consolidated financial statements prospectively from the date of the change in the estimate.

We consider an accounting estimate to be critical if: (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our board of directors. In addition, there are other items within our financial statements that require estimation but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements.

We believe that the following accounting policies are those most critical to the judgments and estimates used in the preparation of our financial statements.

### ***Inventory Valuation***

We periodically review physical inventory for excess, obsolete, and potentially impaired items and reserves. Any such inventory is written down to net realizable value. The reserve estimate for excess and obsolete inventory is dependent on expected future use and requires management judgement. The level of the estimate is assessed by considering the recent sales experience, the aging of inventories, and other factors that affect inventory obsolescence.

### ***Warrants***

We apply relevant accounting guidance for warrants to purchase our stock based on the nature of the relationship with the counterparty. For warrants issued to investors or lenders in exchange for cash or other financial assets, we follow guidance issued within ASC 480, Distinguishing Liabilities from Equity (“**ASC 480**”), and ASC 815, Derivatives and Hedging (“**ASC 815**”), to assist in the determination of whether the warrants should be classified as liabilities or equity. Warrants that are determined to require liability classifications are measured at fair value upon issuance and are subsequently remeasured to their then fair value at each subsequent reporting period with changes in fair value recorded in current earnings. Warrants that are determined to require equity classifications are measured at fair value upon issuance and are not subsequently remeasured unless they are required to be reclassified. See “*Note 9-Warrants*” in our accompanying condensed consolidated financial statements for information on the warrants.

### ***Equity-Based Compensation***

We use the Black-Scholes option-pricing model to determine the fair value of option grants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of units, volatility of our future share price, risk-free rates, future dividend yields and estimated forfeitures at the initial grant date. RSU awards are valued based on the closing trading price of our common stock on the date of grant. Changes in assumptions used to estimate fair value could result in materially different results.

## Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities using enacted rates. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date.

We recognize the financial statement effect of an uncertain income tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Recognized income tax positions are measured at the largest amount that is greater than 50% likely to be realized. A valuation allowance is recorded to reduce deferred income tax assets to an amount, which in the opinion of management is more likely than not to be realized.

Management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets. We consider factors such as the cumulative income or loss in recent years; reversal of deferred tax liabilities; projected future taxable income exclusive of temporary differences; the character of the income tax asset, including income tax positions; tax planning strategies and the period over which we expect the deferred tax assets to be recovered in the determination of the valuation allowance. In the event that actual results differ from these estimates or we adjust our estimates in the future, we may need to adjust our valuation allowance, which could materially impact our financial position and results of operations.

## Leases

Acquired right-of-use assets and assumed lease liabilities are measured based on the remaining lease payments over the remaining portion of the lease term. As our leases do not provide an implicit rate, our incremental borrowing rate is used as a discount rate in determining the present value of lease payments. Our incremental borrowing rate was determined by comparing current low- and high-end mortgage loan rates and calculating an average. For our new Damonte lease, to be conservative in our estimate, we chose to use the high-end average as our incremental borrowing rate.

## Non-GAAP Financial Measures

This Quarterly Report includes a non-generally accepted account principles within the United States (“**U.S. GAAP**”) measure that we use to supplement our results presented in accordance with U.S. GAAP. Earnings before interest tax and amortization (“**EBITDA**”) is defined as earnings before interest and other income (expenses), income taxes, and depreciation and amortization. Adjusted EBITDA is calculated as EBITDA adjusted for stock-based compensation, employee separation expenses, costs associated with the June 2023 Offering, promissory note forgiveness, and change in the fair market value of warrant liabilities. Adjusted EBITDA is a performance measure that we believe is useful to investors and analysts because it illustrates the underlying financial and business trends relating to our core, recurring results of operations and enhances comparability between periods.

Adjusted EBITDA is not a recognized measure under U.S. GAAP and is not intended to be a substitute for any U.S. GAAP financial measure and, as calculated, may not be comparable to other similarly titled measures of performance of other companies in other industries or within the same industry. Investors should exercise caution in comparing our non-GAAP measure to any similarly titled measure used by other companies. This non-GAAP measure excludes certain items required by U.S. GAAP and should not be considered as an alternative to information reported in accordance with U.S. GAAP.

The table below presents our adjusted EBITDA, reconciled to net loss for the three months ended March 31, 2024, and March 31, 2023.

|                                                                 | Three months ended March 31, |                   |
|-----------------------------------------------------------------|------------------------------|-------------------|
|                                                                 | 2024                         | 2023              |
|                                                                 | (in thousands)               |                   |
| Net income (loss)                                               | \$ (10,367)                  | \$ 4,775          |
| Interest Expense                                                | 4,760                        | 3,856             |
| Depreciation and Amortization                                   | 332                          | 297               |
| EBITDA                                                          | (5,275)                      | 8,928             |
| Adjusted for:                                                   |                              |                   |
| Stock-Based Compensation <sup>(1)</sup>                         | 266                          | 4,487             |
| Change in fair market value of warrant liability <sup>(2)</sup> | (236)                        | (18,523)          |
| <b>Adjusted EBITDA</b>                                          | <b>\$ (5,245)</b>            | <b>\$ (5,108)</b> |

- (1) Stock-Based Compensation is comprised of costs associated with option and RSU grants made to our employees, consultants and board members.
- (2) Change in fair market value of warrant liabilities represents the change in fair value for the three months ended March 31, 2024 and March 31, 2023.

## **Liquidity and Capital Resources**

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, debt service, acquisitions, contractual obligations and other commitments. We assess liquidity in terms of our cash flows from operations and their sufficiency to fund our operating and investing activities. As of March 31, 2024, we had cash totaling \$8.5 million.

We expect our capital expenditures and working capital requirements to increase materially in the near future, as we continue our research and development efforts (particularly those related to solid-state lithium-ion battery development), expand our production lines, scale up production operations and look to enter into adjacent markets for our batteries (with operating expenses expected to increase across all major expense categories). We expect to deploy a significant amount of capital to continue our optimization and commercialization efforts dedicated to our solid-state technology development, as well as continued investment to automate and increase the production capacity of our existing assembly operation, expansion of our facilities and new strategic investments. To date, our focus has been on seeking to prove the fundamental soundness of our manufacturing techniques and our solid-state chemistry. Moving forward, our solid-state related investments will focus on chemistry optimization and establishing a pilot line for pouch cell production. Over the next two to three years, we expect to spend in excess of \$50 million on solid-state development and cell manufacturing technologies. In connection with the contraction of our business and uncertainty around the timing of future needs, we reduced our purchase activities in 2023. As a result, our inventory balance at March 31, 2024 decreased by \$5.2 million to \$33.6 million, compared to \$38.8 million at December 31, 2023.

We expect that we will need to raise additional funds, including through the use of the ChEF Equity Facility and the issuance of equity, equity-related or debt securities or by obtaining additional credit from financial institutions to fund, together with our principal sources of liquidity, ongoing costs, such as research and development relating to our solid-state batteries, expansion of our facilities, and new strategic investments. If such financings are not available, or if the terms of such financings are less desirable than we expect, we may be forced to take actions to reduce our capital or operating expenditures, including by not seeking potential acquisition opportunities, eliminating redundancies, or reducing or delaying our production facility expansions, which may adversely affect our business, operating results, financial condition and prospects. Further, any future debt or equity financings may be dilutive to our current stockholders.

## **Financing Obligations and Requirements**

On November 24, 2021, we issued \$45 million of fixed rate senior notes, secured by among other things, a security interest in our intellectual property. As part of the Business Combination, we entered into a senior secured term loan facility in an aggregate principal amount of \$75 million (the “**Term Loan**”) pursuant to the Term Loan, Guarantee and Security Agreement (the “**Term Loan Agreement**”), the proceeds of which were used to repay the \$45 million fixed rate senior notes, and ChEF Equity Facility.

The Term Loan proceeds were used to: (i) support the Business Combination, (ii) prepay the fixed rate senior notes at closing of the Business Combination, (iii) pay fees and expenses in connection with the foregoing, (iv) to provide additional growth capital and (v) for other general/corporate purposes. The Term Loan will mature on October 7, 2026, or the Maturity Date, and will be subject to quarterly amortization of 5% per annum beginning 24 months after issuance. The definitive documents for the Term Loan incorporate certain mandatory prepayment events and certain affirmative and negative covenants and exceptions hereto. The financial covenants for the Term Loan include a maximum senior leverage ratio covenant, a minimum liquidity covenant, a springing fixed charge coverage ratio covenant, and a maximum capital expenditures covenant. On March 29, 2023, September 29, 2023, December 29, 2023 and May 13, 2024, we obtained waivers from Alter Domus (US) LLC, as the administrative agent for the lenders (the “**Administrative Agent**”) and EICF Agent LLC and certain third-party financing source of our failure to satisfy the Tests under the Term Loan during the quarters ended March 31, 2023, September 30, 2023, December 31, 2023 and March 31, 2024. On March 31, 2024 and April 29, 2024, we received additional waivers from the Administrative Agent and the Term Loan Lenders in regard to our compliance with the liquidity requirement under the Term Loan as of the last day of the fiscal quarter ended March 31, 2024 and as of the last fiscal day for the month ended April 30, 2024. However, it is probable that we will fail to meet these covenants within the next twelve months. In accordance with U.S. GAAP, we reclassified our notes payable from a long-term liability to a current liability. The Term Loan accrues interest (i) until April 1, 2023 at a per annum rate equal to adjusted secured overnight financing rate (“**SOFR**”) is a margin equal to 13.5%, of which 7% will be payable in cash and 6.5% will be paid in-kind, (ii) thereafter until October 1, 2024, at a per annum rate equal to adjusted SOFR plus 7% payable in cash plus an amount ranging from 4.5% to 6.5%, depending on the senior leverage ratio of the consolidated company. In each of the foregoing case, adjusted SOFR will be no less than 1%.

We may elect to prepay all or any portion of the amounts owed prior to the Maturity Date, provided that we provide notice to the Administrative Agent and the amount is accompanied by the applicable prepayment premium, if any. Prepayments of the Term Loan are required to be accompanied by a premium of 5% of the principal amount so prepaid if made prior to the October 7, 2023, 3% if made on and after October 7, 2023 but prior to October 7, 2024, 1% if made after October 7, 2024 but prior to October 7, 2025, and 0% if made on or after October 7, 2025. If the Term Loan is accelerated following the occurrence of an event of default, Legacy Dragonfly is required to immediately pay to lenders the sum of all obligations for principal, accrued interest, and the applicable prepayment premium.

Pursuant to the Term Loan Agreement, we have guaranteed the obligations of Legacy Dragonfly and such obligations will be guaranteed by any of Legacy Dragonfly's subsidiaries that are party thereto from time to time as guarantors. Also pursuant to the Term Loan Agreement, the Administrative Agent was granted a security interest in substantially all of the personal property, rights and assets of us as and Legacy Dragonfly to secure the payment of all amounts owed to lenders under the Term Loan Agreement. In addition, we entered into a Pledge Agreement pursuant to which we pledged to the Administrative Agent our equity interests in Legacy Dragonfly as further collateral security for the obligations under the Term Loan Agreement. At the closing of the Business Combination, we issued to the Term Loan Lenders (i) the Penny Warrants exercisable to purchase an aggregate of 2,593,056 shares at an exercise price of \$0.01 per share, and (ii) warrants exercisable to purchase 1,600,000 shares of our common stock at an exercise price of \$10.00 per share.

Pursuant to the Purchase Agreement, on the terms of and subject to the satisfaction of the conditions in the Purchase Agreement, including the filing and effectiveness of a registration statement registering the resale by CCM LLC of the shares of common stock issued to it under the Purchase Agreement, we will have the right from time to time at our option to direct CCM LLC to purchase up to a specified maximum amount of shares of common stock, up to a maximum aggregate purchase price of \$150 million over the term of the ChEF Equity Facility. In connection with the ChEF Equity Facility, we filed a registration statement registering the resale of up to 21,512,027 shares that may be resold into the public markets by CCM LLC, which represented approximately 36% of the shares of our common stock outstanding as of December 31, 2023. During the year ended December 31, 2022, we did not sell any shares of our common stock under the ChEF Equity Facility. During the year ended December 31, 2023, we issued and sold approximately 588,500 shares of our common stock under this facility, resulting in net cash proceeds of \$1,278,566. From January 1, 2024 through May 14, 2024, we did not issue any shares of common stock under this facility. Any sales of such shares into the public market could have a significant negative impact on the trading price of our common stock. This impact may be heightened by the fact that sales to CCM LLC will generally be at prices below the current trading price of our common stock. If the trading price of our common stock does not recover or experiences a further decline, sales of shares of common stock to CCM LLC pursuant to the Purchase Agreement may be a less attractive source of capital and/or may not allow us to raise capital at rates that would be possible if the trading price of our common stock were higher.

On March 5, 2023, we issued a note in the principal amount of \$1.0 million (the "**Principal Amount**") to Brian Nelson, one of our directors, in a private placement in exchange for cash in an equal amount (the "**Note**"). The Note became due and payable in full on April 1, 2023. We were also obligated to pay a fee in the amount of \$100,000 (the "**Loan Fee**") to Mr. Nelson on April 4, 2023. The Principal Amount of the Note was paid in full on April 1, 2023 and the Loan Fee was paid in full on April 4, 2023.

On January 30, 2024, we issued an unsecured convertible promissory note (the “**January Note**”) in the principal amount of \$1.0 million (the “**January Principal Amount**”) to Brian Nelson, one of our directors, in a private placement in exchange for cash in an equal amount. The January Note became due and payable in full on February 2, 2024. We were also obligated to pay \$50,000 (the “**January Loan Fee**”) to Mr. Nelson on February 2, 2024. We paid the January Principal Amount and the January Loan Fee in full on February 2, 2024.

On February 27, 2024 we issued a convertible promissory (the “**February Note**”) in the amount of \$1.7 million (the “**February Principal Amount**”) to Mr. Nelson, in a private placement in exchange for cash in an equal amount. The February Note became due and payable in full on March 1, 2024. We were also obligated to pay a \$85,000 loan fee (the “**February Loan Fee**”) to Mr. Nelson on March 1, 2024. We paid the February Principal Amount and the February Loan Fee on March 1, 2024.

In June 2023, we completed the June 2023 Offering which provided net proceeds to us, including the partial over-allotment option exercise, of approximately \$20.7 million. In July 2023, upon a request from our lenders under the Term Loan Agreement, we repaid \$5.3 million to satisfy a portion of its outstanding principal.

In 2024, we identified an underpayment of tariffs to CBP in the amount of approximately \$1.58 million in the aggregate, related to the improper classification and valuation of certain of the products used in our batteries. We have reported the underpayment to CBP.

### Going Concern

For the quarter ended March 31, 2024, we generated a net loss of \$10.4 million and had a negative cash flow from operations. As of March 31, 2024, we had approximately \$8.5 million in cash and cash equivalents and working capital of \$4.2 million.

Under the Term Loan Agreement, we are obligated to comply with certain financial covenants, which include maintaining a maximum senior leverage ratio, minimum liquidity, a springing fixed charge coverage ratio, and maximum capital expenditures. On March 29, 2023, September 29, 2023, December 29, 2023 and May 13, 2024, we obtained waivers from our Administrative Agent and Term Loan Lenders of our failures to satisfy the fixed charge coverage ratio and maximum senior leverage ratio with respect to the minimum cash requirements under the Term Loan for the quarters ended, March 31, 2023, September 30, 2023, December 31, 2023 and March 31, 2024. On March 31, 2024 and April 29, 2024, we received additional waivers from our Administrative Agent and Term Loan Lenders in regard to our compliance with our liquidity requirement under the Term Loan as of the last day of the fiscal quarter ended March 31, 2024 and as of the last day of the fiscal month ended April 30, 2024. It is probable that we will fail to meet these covenants within the next twelve months. If we are unable to comply with the financial covenants in our loan agreement, the Term Loan Lenders have the right to accelerate the maturity of the Term Loan. These conditions raise substantial doubt about our ability to continue as a going concern.

In addition, we may need to raise additional debt and/or equity financing to fund our operations and strategic plans and meet our financial covenants. We have historically been able to raise additional capital through issuance of equity and/or debt financing and we intend to use the ChEF Equity Facility and raise additional capital as needed. However, we cannot guarantee that we will be able to raise additional equity, contain expenses, or increase revenue, and comply with the financial covenants under the Term Loan. If such financings are not available, or if the terms of such financings are less desirable than we expect, we may be forced to take actions to reduce our capital or operating expenditures, including by not seeking potential acquisition opportunities, eliminating redundancies, or reducing or delaying our production facility expansions, which may adversely affect our business, operating results, financial condition and prospects. Further, future debt or equity financings may be dilutive to our current stockholders.

### Cash Flows for the Three months ended March 31, 2024, and March 31, 2023

|                                 | Three months ended March 31, |            |
|---------------------------------|------------------------------|------------|
|                                 | 2024                         | 2023       |
|                                 | (in thousands)               |            |
| Net Cash (used in)/provided by: |                              |            |
| Operating Activities            | \$ (3,395)                   | \$ (3,838) |
| Investing activities            | \$ (817)                     | \$ (589)   |
| Financing activities            | \$ -                         | \$ 2,437   |

### ***Operating Activities***

Net cash used in operating activities was \$3.4 million for the three months ended March 31, 2024, primarily due to a net loss of \$10.4 million partially offset by \$1.3 million of payment in-kind interest accrued on the term loan and \$5.2 million decrease in inventory as a result of management's decision to lower overall stocking levels to adjust for more modest demand.

Net cash used in operating activities was \$3.8 million for the three months ended March 31, 2023. Net income of \$4.8 million was offset by \$12.1 million in operating adjustments, primarily due to a \$18.5 million change in the fair market value of warrant liability and an increase in working capital of \$3.5 million as a result of an increase accounts payable offset by an increase in inventory and accounts receivable.

### ***Investing Activities***

Net cash used in investing activities was \$0.8 million for the three months ended March 31, 2024, as compared to net cash used in investing activities of \$0.6 million for the three months ended March 31, 2023. The increase in cash used in investing activities was primarily due to an increase in capital equipment expenses to support our core battery business and ongoing efforts to develop solid-state battery technology and manufacturing process.

### ***Financing Activities***

There was zero net cash provided in financing activities, proceeds of \$2.7 million note payable was subsequently repaid for the three months ended March 31, 2024, as compared to net cash provided by financing activities of \$2.4 million for the three months ended March 31, 2023 which consisted of \$1.0 million note payable and proceeds related to public warrants.

### **Contractual Obligations**

Our estimated future obligations consist of short-term and long-term operating lease liabilities. As of March 31, 2024, we had \$1.7 million in short-term operating lease liabilities and \$22.8 million in long-term operating lease liabilities.

As disclosed above, we have a Term Loan and as of March 31, 2024, the principal amount outstanding under the Term Loan was \$69.7 million.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### *Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer, as our principal executive officer, and Interim Chief Financial Officer, as our principal financial officer, to allow timely decisions regarding required disclosure.

In connection with the preparation of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. As described in our Annual Report, our management identified a material weakness in our internal control over financial reporting as a result of our failure to capture, and record, and pay tariffs correctly related to the imported merchandise on previously filed 2022 and 2021 financial statements. Based upon the evaluation described above, our Chief Executive Officer and Interim Chief Financial Officer concluded that, due to the material weakness previously reported in our Annual Report that has not yet been remediated, our disclosure controls and procedures were not effective as of March 31, 2024.

#### *Changes in Internal Control over Financial Reporting*

Management described a plan to remediate the material weakness within our Annual Report. Management, with the assistance of a third-party service provider, continues to design and implement additional internal controls. Additionally, management continued its risk assessment to identify risks and objectives. There were no other changes in our internal controls over financial reporting that occurred during the quarter ended March 31, 2024 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management will continue to evaluate and enhance our processes as noted in the remediation plan described within our Annual Report. The elements of our remediation plan can only be accomplished over time, and we can offer no assurance that these will ultimately have the intended effects.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may become involved in litigation or other legal proceedings. We are not currently a party to any litigation or legal proceedings that, in the opinion of our management, are likely to have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

### **ITEM 1A. RISK FACTORS**

As a smaller reporting company, we are not required to provide the information required by this item.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

- (a) On May 13, 2024, we received the May 2024 Waiver in regards to our compliance with the Tests as of the last day of the quarter ended March 31, 2024 from the Term Loan Lenders. The May 2024 Waiver provided for a one-time issuance of 2,550,000 May 2024 Penny Warrants to purchase the May 2024 Penny Warrant Shares at an exercise price of \$0.01 per share, in connection with the Term Loan Lenders' agreement to waive the Tests under the Term Loan for the quarter ended March 31, 2024. The May 2024 Penny Warrants were immediately exercisable upon issuance and will expire ten years from the date of issuance. The May 2024 Penny Warrant and the May 2024 Penny Warrant Shares have not been registered under the Securities Act and were offered pursuant to the exemption provided in Section 4(a)(2) under the Securities Act.
- (b) None.
- (c) During the fiscal quarter ended March 31, 2024, none of our directors or "officers" (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(c) of Regulation S-K.

## ITEM 6. EXHIBITS

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

| Exhibit No. | Description                                                                                                                                                                                                                                                                            | Incorporation by Reference |         |             |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|---------|-------------|
|             |                                                                                                                                                                                                                                                                                        | Form                       | Exhibit | Filing Date |
| 3.1         | <a href="#">Articles of Incorporation of Dragonfly Energy Holdings Corp.</a>                                                                                                                                                                                                           | 8-K                        | 3.1     | 03/31/2023  |
| 3.2         | <a href="#">Bylaws of Dragonfly Energy Holdings Corp.</a>                                                                                                                                                                                                                              | 8-K                        | 3.2     | 03/31/2023  |
| 4.1         | <a href="#">Form of January Note.</a>                                                                                                                                                                                                                                                  | 8-K                        | 4.1     | 04/04/2024  |
| 4.2         | <a href="#">Form of February Note.</a>                                                                                                                                                                                                                                                 | 8-K                        | 4.1     | 04/04/2024  |
| 4.3*        | <a href="#">Form of May 2024 Penny Warrant.</a>                                                                                                                                                                                                                                        |                            |         |             |
| 10.1*       | <a href="#">Limited Waiver, dated as of May 13, 2024, to the Term Loan, Guarantee and Security Agreement, dated as of October 7, 2022, by and among Dragonfly Energy Holdings Corp., Dragonfly Energy Corp., the lenders from time to time party thereto and Alter Domus (US) LLC.</a> |                            |         |             |
| 31.1*       | <a href="#">Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>                                                                                |                            |         |             |
| 31.2*       | <a href="#">Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>                                                                                |                            |         |             |
| 32.1**      | <a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>                                                                                         |                            |         |             |
| 101.INS*    | Inline XBRL Instance Document                                                                                                                                                                                                                                                          |                            |         |             |
| 101.CAL*    | Inline XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                                                           |                            |         |             |
| 101.SCH*    | Inline XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                                                         |                            |         |             |
| 101.DEF*    | Inline XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                                                            |                            |         |             |
| 101.LAB*    | Inline XBRL Taxonomy Extension Labels Linkbase Document                                                                                                                                                                                                                                |                            |         |             |
| 101.PRE*    | Inline XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                                                          |                            |         |             |
| 104*        | Cover Page Interactive Data File (embedded within the Inline XBRL document and included as Exhibit 101)                                                                                                                                                                                |                            |         |             |

\* Filed herewith.

\*\* Furnished.

## SIGNATURES

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

### **Dragonfly Energy Holdings Corp.**

Date: May 14, 2024

By: /s/ Denis Phares

Denis Phares

Chief Executive Officer, President and Interim Chief Financial Officer  
(Principal Executive Officer and Principal Financial and Accounting  
Officer)

**PENNY WARRANT**

**THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE ACT, AND ANY APPLICABLE STATE SECURITIES LAWS OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE. THIS WARRANT MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, TRANSFER, PLEDGE OR HYPOTHECATION OF ANY INTEREST IN ANY OF THE SECURITIES REPRESENTED HEREBY.**

NUMBER W-A-[ ]

[ ] WARRANTS

**THIS WARRANT WILL BE VOID IF NOT EXERCISED PRIOR TO THE EXPIRATION DATE  
(DEFINED BELOW)**

**DRAGONFLY ENERGY HOLDINGS CORP.****WARRANT**

THIS WARRANT CERTIFIES THAT, for value received \_\_\_\_\_, is the registered holder (the “Holder”) of a warrant or warrants (the “Warrant(s)”) and is entitled to purchase up to \_\_\_\_\_ fully paid and non-assessable shares of common stock, par value \$0.0001 per share (“Shares”), of Dragonfly Energy Holdings Corp., a Delaware corporation (the “Company”) at a purchase price per Share (the “Warrant Price”) of \$0.01 per share (as adjusted from time to time in accordance with this Warrant). This Warrant is issued in connection with that certain (i) term loan, guarantee and security agreement among Alter Domus (US) LLC, Dragonfly Energy Corp., EICF Agent LLC and the other credit parties signatory thereto (the “Loan Agreement”) and (ii) limited waiver among Alter Domus (US) LLC, Dragonfly Energy Corp., EICF Agent LLC and the other credit parties signatory thereto (the “Limited Waiver”). The Warrant represented by this certificate is referred to herein as the “Warrant Certificate”.

1. Term and Exercise of Warrants.

- (a) Subject to the terms and conditions set forth herein, this Warrant shall be exercisable, in whole or in part, commencing the date hereof (the “Issuance Date”) and ending on the ten-year anniversary of the issuance date of this Warrant (the “Expiration Date”).
- (b) The Warrant entitles the holder thereof to purchase Shares from the Company, commencing on the Issuance Date upon surrender of this Warrant, delivery of the Notice of Exercise form attached hereto (the “Notice of Exercise”) duly executed to the office of the Company, Dragonfly Energy Holdings Corp., Attention: Chief Financial Officer, 1190 Trademark Dr. #108, Reno, NV 89521 legal@dragflyenergy.com (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company) and payment of the Warrant Price (by cash or by check or bank draft payable to the order of the Company or pursuant to Section 1(d) below) whereupon the Holder shall be entitled to receive from the Company a stock certificate representing the number of Shares so purchased. In no event will the Company be required to net cash settle any warrant exercise.
- (c) The Holder shall have the right, in lieu of paying the Warrant Price in cash, to surrender a number of Warrants having a Fair Market Value equal to the aggregate Warrant Price (a “Cashless Exercise”).

“Fair Market Value” shall mean, as of any particular date of determination, (i) if the Shares are then traded or quoted on a nationally recognized securities exchange, inter-dealer quotation system or over-the-counter market (a “Trading Market”), the average closing price or last sale price of the Shares reported for the five (5) business days prior to the applicable date of determination (or, if the Shares have not been actively trading during the 5 business days prior to the applicable date of determination, the last sale price of the Shares for the business day immediately prior to the applicable date of determination) and (ii) if the Shares are not traded or quoted on a Trading Market, the Board of Directors of the Company (the “Board”) shall determine the fair market value of a Share in its reasonable, good faith judgment, subject to the Holder’s right to dispute such determination as provided in Section 1(d) below

In the event of such a Cashless Exercise, the number of Shares to be issued to the Holder shall be determined as follows:

$$X = Y[(A - B)/A]$$

X = the number of Shares to be issued to the Holder

Y = the number of Shares with respect to which this Warrant is being exercised

A = the Fair Market Value of one Share

B = the Warrant Price

- (d) In the case of any dispute as to the determination of Fair Market Value, any closing price or sales price of the Shares, the arithmetic calculation of the Warrant Price or the number of Shares for which this Warrant is exercisable, or any other computation required to be made hereunder, if the Holder and the Company are unable to settle such dispute within five business days (or such longer period as the parties may agree), then either party may elect to submit the disputed matter(s) for resolution by an independent accountant, appraiser or investment bank with relevant experience mutually acceptable to the Company and the Holder. Such independent party's determination of such disputed matter(s) shall be binding upon all parties absent demonstrable error, and the Company and the Holder shall each pay one half of the fees and expenses of the independent party.
- (e) If, upon the Expiration Date, the Fair Market Value of one Share (or other security issuable upon the exercise hereof) is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed to be exercised on a Cashless Exercise basis as of the Expiration Date as to all the Shares for which it shall not previously have been exercised, and the Company shall, within a reasonable time, deliver a certificate representing the Shares issued upon such exercise to the Holder (and if the Company's shares are uncertificated, the Company shall deliver reasonably satisfactory evidence to the Holder signifying the valid issuance of such uncertificated shares).

## 2. Issuance of Shares; No Fractional Shares.

- (a) Within three business days after the exercise of this Warrant and the clearance of the funds in payment of the applicable Warrant Price (if any) (the "Delivery Deadline"), the Company, at its expense, shall issue to the registered holder of such Warrant a certificate or certificates, or book entry position, for the number of Shares to which he, she or it is entitled, registered in such name or names as may be directed by him, her or it. Upon any exercise of the Warrant for less than the total number of full Shares provided for herein, there shall be issued to the registered holder hereof or the registered holder's assignee a new Warrant Certificate covering the number of Shares for which the Warrant has not been exercised.
  - (b) If, at the time of exercise, the Company has a transfer agent (the "Transfer Agent"), then upon the exercise of this Warrant in whole or in part, the Company shall, at its expense, take all necessary action, including (if necessary) obtaining and delivering an opinion from its counsel, to ensure that the Transfer Agent shall issue Shares in the name of the Holder (or its nominee) or such other persons as designated by the Holder and in such denominations to be specified in the applicable Notice of Exercise. The Company represents and warrants that if the Unrestricted Conditions set forth in Section 6 below are met, the Shares will be free-trading, and freely transferable, and will not contain a legend restricting the resale or transferability of the Shares and that no instructions other than the foregoing instructions will be given to the Transfer Agent.
  - (c) If the Transfer Agent is participating in the DTC Fast Automated Securities Transfer ("FAST") program, upon written request of the Holder and in lieu of delivering physical certificates representing Shares to be delivered under or in connection with this Warrant Certificate, the Company shall use its commercially reasonable efforts to cause the Transfer Agent to electronically transmit the Shares to the Holder by crediting the account of the Holder's prime broker with the DTC through its Deposit Withdrawal Agent Commission ("DWAC") system. The time periods for delivery and penalties described herein shall apply to the electronic transmittals described herein. Any delivery not effected by electronic transmission shall be effected by delivery of physical certificates.
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- (d) If the Company fails to transmit, or cause the Transfer Agent to transmit, to the Holder the Shares by the Delivery Deadline, then the Holder will have the right to rescind such Warrant exercise.
- (e) In addition to any other rights available to the Holder, including the right to rescind the exercise as provided above, if as a result of a failure to deliver the Shares by the Delivery Deadline (so long as the failure to deliver the Shares is not caused by any action or inaction by the Holder) (a “Delivery Failure”) the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder’s brokerage firm otherwise purchases shares of the Company’s capital stock to deliver in satisfaction of a sale anticipated to be made by the Holder of all or portion of such Shares which are the subject of such Delivery Failure (an “Anticipated Sale”), then the Company shall (i) pay in cash to the Holder the amount by which (x) the Holder’s total purchase price (including brokerage commissions, if any) for the shares of the Company’s capital stock so purchased exceeds (y) an amount equal to the product of (A) the number of Shares that the Holder anticipated to sell in such Anticipated Sale, multiplied by (B) the Warrant Price that would have been payable for such Shares, and (ii) at the option of the Holder, either reinstate the portion of this Warrant and equivalent number of Shares in respect of which such Delivery Failure occurred or deliver to the Holder the number of Shares that would have been issued had the Company timely complied with its obligations hereunder to issue such Shares upon such exercise. The Holder shall provide the Company written notice indicating the amounts payable to the Holder, together with applicable confirmations and other evidence reasonably requested by the Company.
- (f) No fraction of a Share will be issued upon any exercise of a Warrant. If the holder of a Warrant would be entitled to receive a fraction of a Share upon any exercise of a Warrant, the Company shall, upon such exercise, issue or cause to be issued only the largest whole number of Shares issuable on such exercise (and such fraction of a Share will be disregarded).
- (g) For purposes of Rule 144, it is acknowledged and agreed that (i) the Shares issuable upon any exercise of this Warrant in any Cashless Exercise transaction shall be deemed to have been acquired on the Issuance Date, and (ii) the holding period for any of the Shares issuable upon the exercise of this Warrant in any Cashless Exercise transaction shall be deemed to have commenced on the Issuance Date.

3. Exchange and Registry of Warrant.

- (a) Warrant Certificates, when surrendered at the office of the Company by the Holder in person or by attorney duly authorized in writing, may be exchanged without payment of any service charge, for another Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants.
  - (b) Upon due presentment for registration of transfer of the Warrant Certificate at the office of the Company, a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee in exchange for this Warrant Certificate, without charge except for any applicable tax or other governmental charge.
  - (c) The Company shall keep and properly maintain at its principal executive offices a register for the registration of this Warrant and any transfers thereof. The Company may deem and treat the person in whose name this Warrant is registered on such register as the Holder thereof for all purposes, and the Company shall not be affected by any notice to the contrary, except any assignment, division, combination or other transfer of this Warrant effected in accordance with the provisions of this Warrant.
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#### 4. Anti-Dilution Adjustments.

##### (a) Adjustments for Change in Shares.

- i. In the event that, after the Issuance Date and prior to the exercise in full of this Warrant, the outstanding number of Shares shall be subdivided (by distribution, subdivision or otherwise), into a greater number of Shares, the number of Shares issuable on the exercise of each Warrant then in effect shall, concurrently with the effectiveness of such subdivision, be equally, ratably and proportionally increased, as determined in good faith by the Board, which determination shall be final and binding on the Holders absent manifest error. In the event the outstanding Shares shall be combined or consolidated, by reclassification or otherwise, into a lesser number of Shares, the number of Shares issuable on the exercise of each Warrant then in effect shall, concurrently with the effectiveness of such subdivision, be equally, ratably and proportionally decreased, as determined in good faith by the Board, which determination shall be final and binding on the Holders absent manifest error.
- ii. In the event that, after the Issuance Date and prior to the exercise in full of this Warrant, the Shares are exchanged for, or converted into, another form of equity security of the Company or of any other entity, this Warrant shall be exercisable for an equivalent number of such equity securities, at an equivalent Warrant Price, in each case as determined by the Board acting reasonably, so as to provide the Holder with rights equitably equivalent to the rights held by the Holder by virtue of this Warrant in effect immediately prior to such exchange or conversion, and each reference herein to the Shares issuable on exercise of this Warrant shall be deemed to be a reference to such other equity securities.

- (b) Adjustment for Issuance of Applicable Shares. If, after the Issuance Date, the Company shall issue or sell any Shares (other than shares included in the Excluded Issuances, as defined below) (the “Applicable Shares”), or options, warrants, convertible securities and similar instruments exercisable or otherwise convertible or exchangeable for Applicable Shares, in each case without consideration or for a consideration per Share initially deliverable upon issuance, conversion or exchange of such securities less than \$10] (as proportionately adjusted to account for stock splits, stock combinations, stock dividends or other distributions and recapitalizations affecting the Common Stock) (the “Original Price”), then effective immediately upon such issuance or sale, the number of Shares issuable upon exercise of this Warrant immediately prior to any such issuance or sale shall be increased, and shall not be reduced, in accordance with the following formula:

$$S1 = S \times [(OS + D) / (OS + PS)]$$

S1 = new number of Shares issuable upon exercise of this Warrant

S = then applicable number of Shares issuable upon exercise of this Warrant immediately prior to the issuance or sale

OS = the number of Shares outstanding immediately prior to the issuance of such securities D = the maximum number of Shares deliverable upon issuance of such securities

PS = the aggregate number of Shares which the aggregate amount of consideration received by the Company upon such issuance or sale would have purchased at the Original Price

- (c) Other Dividends and Distributions. If the Company shall make or declare, or fix a record date for the determination of holders of equity securities entitled to receive, a dividend or any other distribution payable in cash, securities of the Company or other property, then, and in each such event, the Company shall ensure that provisions are made so that the Holder shall receive upon exercise of this Warrant, in addition to the number of the Shares receivable thereupon, the kind and amount of cash, securities of the Company or other property which the Holder would have been entitled to receive had this Warrant been exercised in full into the Shares on the date of such event and had the Holder thereafter, during the period from the date of such event to and including the date this Warrant is exercised, retained such cash, securities or other property receivable by them as aforesaid during such period, giving application to all adjustments called for during such period under this Section with respect to the rights of the Holder; *provided*, that no such provision shall be made if the Holder receives, simultaneously with the distribution to the holders of equity securities, a dividend or other distribution of such securities, cash or other property in an amount equal to the amount of such securities, cash or other property as the Holder would have received if this Warrant had been exercised in full into the Shares on the date of such event.
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- (d) Certain Events. If any event of the type contemplated by the provisions of this Section but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features) occurs, then the Board shall make an appropriate adjustment in the number of the Shares issuable upon exercise of this Warrant so as to protect the rights of the Holder in a manner consistent with the provisions of this Section; *provided*, that no such adjustment pursuant to this Section 4(d) shall increase the Warrant Price or decrease the number of the Shares issuable hereunder.
- (e) Exceptions to Adjustments. Except as specifically provided for herein, there shall be no adjustment or readjustment to the number of Shares issuable in the following circumstances (each of the following, an “Excluded Issuance”): (1) upon the exercise of this Warrant or any of the other Warrants issued to the Company’s other lenders on the Issuance Date; (2) upon conversion, exercise or exchange of securities, including convertible debt securities, outstanding prior to the Issuance Date; (3) pursuant to agreements in effect as of the Issuance Date (provided that such agreements are not amended after the Issuance Date to increase the number of securities, reduce the consideration payable in connection with such securities, or otherwise change the terms of such agreements so as to have a dilutive effect on this Warrant); (4) pursuant to the Company’s management, directors or other service providers as part of compensation and incentive programs approved by the Board; (5) pursuant to any joint venture arrangement, strategic arrangements, real property lease, financing transaction or other similar transaction in which equity financing is not the purpose of the transaction; and (6) pursuant to any public equity offerings. Notwithstanding the foregoing, the parties agree that any equity securities issued in “PIPE” transactions, and any equity securities issued pursuant to the Committed Equity Facility shall be “Excluded Issuances” if the securities issued in such “PIPE” transactions or pursuant to the Committed Equity Facility are issued for consideration equal to at least \$5 per share (as proportionately adjusted to account for stock splits, stock combinations, stock dividends or other distributions or recapitalizations affecting the Common Stock). For example (x) if the Company issues equity securities in a PIPE Transaction or pursuant to the Committed Equity Facility, and the consideration paid for those equity securities is \$4 per equity security, then such issuance shall not be an Excluded Issuance and the adjustment set forth in Section 4(b) shall apply, and (y) if the Company issues equity securities in a PIPE Transaction or pursuant to the Committed Equity Facility, and the consideration paid for those equity securities is \$5 per equity security, then such issuance shall be an Excluded Issuance and the adjustment set forth in Section 4(b) shall not apply. As used herein, “Committed Equity Facility” means the ChEF Purchase Agreement by and between Chardan Capital Markets LLC and Dragonfly Energy Holdings Corp., including any modification, amendment or replacement thereof.
- (f) Notice of Adjustment. Upon the occurrence of each adjustment or readjustment of the number of Shares issuable on the exercise of each Warrant, the Company (at its expense) shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to the Holder a notice setting forth (1) such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based and (2) the number of Shares issuable on the exercise of each Warrant at the time in effect.
- (g) Closing of Books. The Company will not close its stockholder books or records, other than in the ordinary course, in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.
- (h) Miscellaneous. All calculations hereunder shall be made to the nearest cent or to the nearest twentieth decimal place of a fractional Share, as the case may be.
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5. Registration Rights.

- (a) As soon as practicable following the Issuance Date but no later than thirty (30) calendar days after the Issuance Date, the Company shall submit to or file with the SEC a registration statement registering the resale of this Warrant, the Shares, and any securities issued or issuable with respect to the Shares by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation, spin-off, reclassification or other reorganization or similar transaction (including Shares received pursuant to Section 4 above) (the “Registrable Securities”) on any form of registration statement (a “Registration Statement”) as is then available to effect a registration for resale of such Registrable Securities, which may be on Form S-1, for an offering to be made on a continuous basis pursuant to Rule 415 of the Securities Act registering the resale from time to time by the Holder(s) (or a bona fide pledgee thereof) of all of the Registrable Securities held by the Holder (or bona fide pledgee thereof) (the “Initial Registration Statement”). The Holder shall not be named as an underwriter on any Registration Statement, provided, that if the SEC requires that the Holder be identified as a statutory underwriter in a Registration Statement, the Holder will have the option, in its sole and absolute discretion, to either (i) withdraw from the Registration Statement, it being understood that such withdrawal shall not relieve the Company of its obligation to register for resale such Holder’s Registrable Securities at a later date or (ii) be included as such in the Registration Statement. In the event that a Holder elects to include its Registrable Securities on a Registration Statement in accordance with the foregoing clause (ii), the Company shall provide such Holder with a draft of such Registration Statement (and any amendments or supplements thereto) as soon as reasonably practicable, and any disclosures contained therein relating to such Holder shall be subject to the approval of such Holder (which approval shall not be unreasonably withheld or delayed). Such Registrable Securities will cease to become Registrable Securities upon the earliest to occur of: (A) a Registration Statement with respect to the sale of such securities shall have become effective under the Securities Act and all Registrable Securities held by the Holder shall have been sold, transferred, disposed of or exchanged in accordance with such Registration Statement by the applicable Holder; (B) such securities shall have ceased to be outstanding; (C) such securities may be sold without restriction on volume or manner of sale in any three-month period pursuant to Rule 144 or any successor rule promulgated under the Securities Act; and (D) all Registrable Securities held by the Holder have been sold to, or through, a broker, dealer or underwriter in a public distribution or other public securities transaction.
- (b) The Company shall use commercially reasonable efforts to have the Initial Registration Statement declared effective as soon as practicable after the filing thereof, but no later than the earlier of (i) the ninetieth (90th) calendar day following the filing date thereof if the SEC notifies the Company that it will “review” the Registration Statement and (ii) the tenth (10th) business day after the date the Company is notified (orally or in writing, whichever is earlier) by the SEC that the Registration Statement will not be “reviewed” or will not be subject to further review. The Company shall notify the Holders as promptly as practicable after the Registration Statement is declared effective and shall simultaneously or prior thereto file with the SEC pursuant to Rule 424(b) promulgated under the Securities Act, and provide the Holders with copies of, any related prospectus to be used in connection with the sale or other disposition of the securities covered thereby (each, a “Prospectus”). The Registration Statement shall contain a Prospectus in such form as to permit any Holder to sell such Registrable Securities pursuant to Rule 415 under the Securities Act (or any successor or similar provision adopted by the Commission then in effect) at any time beginning on the effective date for such Registration Statement, and shall provide that such Registrable Securities may be sold pursuant to any method or combination of methods legally available to, and requested by, the Holders.
- (c) The Company shall maintain the Initial Registration Statement and any subsequent Registration Statement in accordance with the terms hereof, and shall prepare and file with the SEC such amendments, including post-effective amendments, and supplements as may be necessary to keep the Initial Registration Statement and any subsequent Registration Statement continuously effective, available for use to permit the Holders named therein to sell their Registrable Securities included therein and in compliance with the provisions of the Securities Act until such time as there are no longer any Registrable Securities (the “Effectiveness Period”).
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(d) In furtherance of the foregoing, the Company shall:

- i. provide copies to, and permit the Holder to review, the Registration Statement and all amendments and supplements thereto not less than five (5) business days prior to the filing of the Registration Statement and not less than one (1) business day prior to the filing of any related Prospectus or any amendment or supplement thereto (except any amendment or supplement in relation to annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any similar or successor reports) and provide the Holder a reasonable opportunity to comment thereon, and the Company shall consider such comments in good faith before filing any Registration Statement or amendment or supplement thereto;
- ii. use commercially reasonable efforts to (x) prevent the issuance of any stop order or other suspension of effectiveness and (y) if such order is issued, obtain the withdrawal of any such order as soon as practicable;
- iii. prior to any public offering of Registrable Securities, use commercially reasonable efforts to register or qualify or cooperate with the Holder and its counsel in connection with the registration or qualification of such Registrable Securities for the offer and sale under the securities or blue sky laws of such jurisdictions upon notice and as requested by the Holder and do any and all other commercially reasonable acts or things necessary or advisable as requested by the Holder to enable the distribution in such jurisdictions of the Registrable Securities covered by the Registration Statement; provided, that the Company shall not be required in connection therewith or as a condition thereto to (i) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this provision; (ii) subject itself to general taxation in any jurisdiction where it would not otherwise be subject but for this provision; or (iii) file a general consent to service of process in any such jurisdiction;
- iv. use commercially reasonable efforts to cause all Registrable Securities covered by a Registration Statement to be listed on each national securities exchange or other market on which similar securities issued by the Company are then listed;
- v. provide a transfer agent or warrant agent, if any, as applicable, and registrar for all such Registrable Securities no later than the effective date of such Registration Statement;
- vi. promptly notify the Holder at any time prior to the end of the Effectiveness Period, upon discovery that, or upon the happening of any event as a result of which, the Prospectus included in the Registration Statement, as then in effect, includes a untrue statement of a material fact or an omission to state a material fact required to be stated in a Registration Statement or Prospectus or necessary to make the statements in a Registration Statement or Prospectus (in the case of a Prospectus, in the light of the circumstances under which they were made) not misleading (a "Misstatement"), which the Holder will maintain in confidence, and (i) promptly prepare, file with the SEC and furnish to such holder a supplement to or an amendment of such Prospectus as may be necessary so that such Prospectus shall not include such Misstatement or (ii) suspend the filing, initial effectiveness or continued use of any Registration Statement in accordance with Section 5(g) below;
- vii. use commercially reasonable efforts to comply with all applicable rules and regulations of the SEC under the Securities Act and the Exchange Act; and
- viii. otherwise, in good faith, cooperate reasonably with, and take such customary actions as may reasonably be requested by the Holder, consistent with the terms of this Warrant, in connection with such registration.

(e) In the event that any Holder holds Registrable Securities that are not registered for resale on a delayed or continuous basis, the Company, upon written request of such Holder, shall promptly use its commercially reasonable efforts to cause the resale of such Registrable Securities to be covered by either, at the Company's option, any then available Registration Statement (including by means of a post-effective amendment) or by filing a subsequent Registration Statement and causing the same to become effective as soon as reasonably practicable after such filing and such subsequent Registration Statement shall be subject to the terms hereof.

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- (f) If the Initial Registration Statement ceases to be effective under Securities Act for any reason at any time while Registrable Securities are still outstanding, the Company shall use its commercially reasonable efforts to as promptly as is reasonably practicable to cause such Initial Registration Statement to again become effective under the Securities Act or file a subsequent Registration Statement registering the resale of all Registrable Securities (determined as of two (2) business days prior to such filing) pursuant to any method or combination of methods legally available to the Company.
- (g) For not more than ninety (90) consecutive days or for a total of not more than one-hundred twenty (120) days, in each case, in any twelve (12) month period, the Company may suspend the filing, initial effectiveness or continued use of any Registration Statement in respect of any registration contemplated by this Section 5 in the event that the Company determines in good faith that such suspension is necessary to (A) delay the disclosure of material non-public information concerning the Company, the disclosure of which at the time is not, in the good faith opinion of the Company, in the best interests of the Company; (B) amend or supplement the affected Registration Statement or the related prospectus so that such Registration Statement or prospectus shall not include any misstatement; or (C) require the inclusion in such Registration Statement of financial statements that are unavailable to the Company for reasons beyond the Company's control (each, an "Allowed Delay"); provided that the Company shall promptly (1) notify the Holder in writing of the commencement of an Allowed Delay, but shall not (without the prior written consent of a Holder) disclose to such Holder any material non-public information giving rise to an Allowed Delay, (2) advise the Holder in writing to cease all sales under such Registration Statement until the end of the Allowed Delay (but not, for the avoidance of doubt, any sale pursuant to Rule 144 or other applicable exemption under the Securities Act) and (3) use commercially reasonable efforts to terminate an Allowed Delay as promptly as reasonably practicable.
- (h) In the event that any Holder holds Registrable Securities that are not registered for resale on a delayed or continuous basis, the Company, upon request of a Holder, shall promptly use its commercially reasonable efforts to cause the resale of such Registrable Securities to be covered by either, at the Company's option, the Initial Registration Statement or a subsequent Registration Statement and cause the same to become effective as soon as practicable after such filing and such Registration Statement shall be subject to the terms hereof.
- (i) The Company will pay all expenses associated with each Registration Statement, including filing and printing fees, the fees and expenses of the Company's counsel and accounting fees and expenses, costs associated with clearing the Registrable Securities for sale under applicable state securities laws and listing fees, but excluding discounts, commissions, fees of underwriters, selling brokers, dealer managers or similar securities industry professionals with respect to the Registrable Securities being sold.
- (j) The Company agrees to indemnify and hold harmless the Holder, and each of its officers, employees, affiliates, directors, partners, members, managers, equityholders, attorneys, advisors and agents, and each person or entity, if any, who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act")) the Holder (each, a "Holder Indemnified Party"), to the fullest extent permitted by applicable law, from and against any expenses, losses, judgments, actions, claims, proceedings (whether commenced or threatened), damages, liabilities or costs (including, without limitation, reasonable attorneys' fees) (collectively, "Losses"), as incurred, arising out of or based upon any Misstatement contained in any Registration Statement under which the sale of such Registrable Securities was registered under the Securities Act, any preliminary Prospectus, final Prospectus or summary Prospectus contained in such Registration Statement, any amendment or supplement to such Registration Statement, preliminary Prospectus, final Prospectus or summary Prospectus, or any free writing prospectus relating to such Registration Statement, or any violation by the Company of the Securities Act or any rule or regulation promulgated thereunder applicable to the Company or any state securities (or Blue Sky) law, rule or regulation and relating to action or inaction required of the Company in connection with any such registration; and the Company shall promptly reimburse the Holder Indemnified Party for any reasonable, customary and documented out-of-pocket legal and any other expenses reasonably incurred, as incurred, by such Holder Indemnified Party in connection with investigating and defending any such Losses, except to the extent the Holder is liable to indemnify the Company for such Losses pursuant to Section 5(k) below; provided, however, that the indemnity agreement contained in this Section 5(j) shall not apply to amounts paid in settlement of any claim or proceeding if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, and the Company will not be liable in any such case to the extent that any such losses, judgments, claims, damages, liabilities or out-of-pocket expenses arises out of or is based upon any Misstatement made in such Registration Statement in reliance upon and in conformity with information furnished to the Company, in writing, by the applicable Holder Indemnified Party expressly for use therein.
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- (k) The Holder will, in the event that any registration of any Registrable Securities held by the Holder is being effected under the Securities Act pursuant to this Agreement and the Company has required the Holder to provide such an undertaking on the same terms, indemnify and hold harmless the Company, each of its directors and officers and each underwriter (if any), and each other person, if any, who controls such underwriter within the meaning of the Securities Act, against any Losses, insofar as such Losses arise out of or are based upon any Misstatement contained in any Registration Statement under which the sale of such Registrable Securities was registered under the Securities Act, any preliminary Prospectus, final Prospectus or summary Prospectus contained in the Registration Statement, or any amendment or supplement thereto, if the Misstatement was made (or not made, in the case of an omission) in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of such Holder expressly for use therein, and shall reimburse the Company and its directors and officers for any reasonable, customary and documented out-of-pocket legal or other expenses incurred by any of them in connection with investigation or defending any such Loss.

6. Transferability; Compliance with Securities Laws.

- (a) This Warrant may not be transferred or assigned in whole or in part without compliance with all applicable United States, state, and foreign securities laws by the transferor and transferee (including the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if requested by the Company). Subject to such restrictions, prior to the Expiration Date, this Warrant and all rights hereunder are transferable by the Holder hereof, in whole or in part, at the office or agency of the Company referred to in Section 1(b) above. Any such transfer shall be made in person or by the Holder's duly authorized attorney, upon surrender of this Warrant together with the Form of Transfer attached hereto properly endorsed.
- (b) The Holder of this Warrant, by acceptance hereof, acknowledges that this Warrant and the Shares issuable upon exercise hereof are being acquired solely for the Holder's own account and not as a nominee for any other party, and for investment, and that the Holder will not offer, sell, or otherwise dispose of this Warrant or any Shares to be issued upon exercise hereof except under circumstances that will not result in a violation of the Securities Act or any state or foreign securities laws. Upon exercise of this Warrant, the Holder shall, if reasonably requested by the Company and if required by applicable law or regulation, confirm in writing, in a form satisfactory to the Company, that the Shares so purchased are being acquired solely for Holder's own account and not as a nominee for any other party, for investment, and not with a view toward distribution or resale.
- (c) The Shares have not been registered under the Securities Act, and this Warrant may not be exercised except by (1) the original purchaser of this Warrant from the Company or (2) an "accredited investor" as defined in Rule 501(a) under the Securities Act. Each certificate representing Shares issued on exercise of this Warrant or other securities issued in respect of such Shares upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall be stamped or otherwise imprinted with a legend substantially in the following form (in addition to any other legend required under applicable securities laws):

THE SHARES OF COMMON STOCK EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS COVERING ANY SUCH TRANSACTION OR UNLESS THE COMPANY SHALL HAVE RECEIVED AN OPINION OF ITS COUNSEL THAT REGISTRATION OF SUCH SHARES UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

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7. Removal of Restrictive Legends. Neither this Warrant nor any certificates evidencing the Shares or any other equity securities issuable or deliverable under or in connection with this Warrant shall contain any legend restricting the transfer thereof in any of the following circumstances: (i) while a registration statement covering the sale or resale of the Shares is effective under the Securities Act; (ii) following any sale of this Warrant, any of the Shares or any other equity securities issued or delivered to the Holder under or in connection herewith pursuant to Rule 144; (iii) if this Warrant, the Shares or any other equity securities are eligible for sale under Rule 144(b)(1); or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the staff of the Commission) (collectively, the “Unrestricted Conditions”). If the Unrestricted Conditions are met at the time of the issuance of the Shares, the Company shall cause its counsel, at its expense, to issue a legal opinion to the Transfer Agent, if required by such Transfer Agent to effect the issuance of the Shares or any other shares of equity securities issuable or deliverable under or in connection with this Warrant, as applicable, without a restrictive legend or removal of the legend hereunder. If the Unrestricted Conditions are met at the time of issuance of the Shares, then the Shares shall be issued free of all legends.
8. Payment of Taxes. The Company will from time to time promptly pay all taxes and charges that may be imposed in respect of the issuance or delivery of shares upon the exercise of Warrants, but the Company shall not be obligated to pay any transfer taxes in respect of the Warrants or such shares.
9. Representations and Warranties. The Company represents and warrants to, and agrees with, the Holder as follows:
- (a) Due Organization. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the state of its formation and has all requisite corporate power and authority to carry on its business as now conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its business or properties.
  - (b) Authorization; Binding Obligation. This Warrant has been duly executed by the Company and constitutes its legal, valid and binding obligation, enforceable against it in accordance with the terms of this Warrant. Except as may be limited by applicable bankruptcy, insolvency, reorganization or similar laws relating to or affecting the enforcement of creditors’ rights, all corporate action has been taken on the part of the Company, its officers, directors, and stockholders necessary for the authorization, execution and delivery of this Warrant. The Company has taken all corporate action required to make all the obligations of the Company reflected in the provisions of this Warrant the valid and enforceable obligations they purport to be. The issuance of this Warrant and the Shares issuable upon exercise of this Warrant will not be subject to preemptive rights of any stockholders of the Company. No consent, waiver, approval, authorization, exemption, registration, license or declaration is required to be made or obtained by the Company, other than those which have been made or obtained, in connection with (i) the execution or enforceability of this Warrant or (ii) the consummation of any of the transactions contemplated hereby, including the issuance of the Shares upon exercise of this Warrant.
  - (c) Compliance with Other Instruments. The authorization, execution and delivery of the Warrant will not constitute or result in a default or violation of any law or regulation applicable to the Company or any term or provision of the Company’s Certificate of Incorporation or bylaws, or any material agreement or instrument by which it is bound or to which its properties or assets are subject.
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- (d) Valid Issuance. This Warrant, and all the Shares which may be issued upon the exercise of this Warrant, and all securities, if any, issuable upon conversion of the Shares, shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances (including preemptive or similar rights) except for restrictions on transfer provided for (i) in this Warrant, (ii) under applicable federal and state securities laws, or (iii) in the Company's Certificate of Incorporation. Based in part upon the representations and warranties of the Holder in this Warrant, this Warrant and all the Shares issuable upon exercise of this Warrant will be issued in compliance with all applicable federal and state securities laws. The Company covenants that it shall at all times cause to be reserved and kept available out of its authorized and unissued capital stock such number of the Shares and other securities for which this Warrant may be exercisable or for which the Shares may be convertible as will be sufficient to permit the exercise in full of this Warrant.
- (e) Capitalization. The Company's summary capitalization table attached hereto as **Schedule 1** is true and complete, in all material respects, as of the Issuance Date. Except as described on **Schedule 1**, there are no outstanding warrants, options, convertible securities or other rights, agreements or arrangements of any character (other than equity grants promised to service providers in offer letters or similar agreements in the ordinary course of business, all of which grants will be made from the existing pool that is reflected in the fully diluted capitalization of the Company shown on **Schedule 1**) under which the Company and any of its subsidiaries is or may be obligated to issue any equity securities of any kind, and neither the Company nor any of its subsidiaries is currently in negotiations for the issuance of any equity securities of any kind.
- (f) No Violation; Registration. The Company shall take all such actions as may be necessary to ensure that all the Shares are issued without violation by the Company of any applicable law or governmental regulation or any requirements of any trading market or securities exchange upon which shares of the Company's common stock or other securities constituting the Shares may be listed at the time of such exercise (except for official notice of issuance which shall be immediately delivered by the Company upon each such issuance). If the Unrestricted Conditions are satisfied at the time of exercise of this Warrant, the Company shall cause the Shares, immediately upon such exercise, to be listed on any such trading market or securities exchange upon which shares of common stock or other securities constituting the Shares are listed at the time of such exercise.
10. No Rights as a Stockholder; No Liability. Except as specifically set forth herein, this Warrant, by itself, does not entitle the registered holder thereof to any of the rights of a stockholder of the Company, including, without limitation, the right to receive dividends, or other distributions, exercise any preemptive rights to vote or to consent or to receive notice as stockholders in respect of the meetings of stockholders or the election of directors of the Company or any other matter. No provision hereof, in the absence of any affirmative action by the Holder to exercise this Warrant to purchase the Shares, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of any Shares or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.
11. No Impairment.
- (a) Notwithstanding anything herein to the contrary, nothing contained in this Warrant shall affect, limit or impair the rights and remedies of the Holder or its affiliates (x) in their capacity as a lender, creditor, or similar, as applicable, to the Company or any of its subsidiaries or affiliates, or (y) pursuant to any other agreements or instruments entered into by the Holder (or its affiliates) and the Company or any of its subsidiaries or affiliates. Without limiting the generality of the foregoing, neither the Administrative Agent (as defined in the Loan Agreement) nor any of its affiliates, in exercising their rights as lenders will have any duty to consider (i) its (or its affiliates') status as a direct or indirect shareholder of the Company and its subsidiaries, (ii) its (or its affiliates') direct or indirect ownership of the Shares of the Company or any of its subsidiaries, or (iii) any duty it (or its affiliates) may have to any other direct or indirect shareholders of the Company and its subsidiaries, except as may be required under the applicable loan documents.
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(b) The Company shall not, by amendment of its Certificate of Incorporation or bylaws, through any shareholders, voting or similar agreement, or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but shall at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the Holder in order to protect the exercise rights of the Holder against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without limiting the generality of the foregoing, the Company (x) will not increase the par value of any the Shares above the then-applicable Warrant Price, (y) will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Shares upon the exercise of this Warrant, and (z) will use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof, as may be, necessary to enable the Company to perform its obligations under this Warrant.

12. Effect of Headings. The section headings herein are for convenience only and are not part of this Warrant and shall not affect the interpretation thereof.
  13. Modification and Waiver. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.
  14. Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder or the Company shall be delivered through email, or shall be sent by certified or registered mail, postage prepaid, to the Holder at its address as shown on the books of the Company or to the Company at the address indicated therefor in the first paragraph of this Warrant.
  15. Governing Law. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of New York.
  16. Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of the Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies provided herein. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.
  17. Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of the Holder. The provisions of this Warrant are intended to be for the benefit of the Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of the Shares.
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IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer.

Dated: May 13, 2024

DRAGONFLY ENERGY HOLDINGS CORP.

By: \_\_\_\_\_  
Name: Denis Phares  
Title: Chief Executive Officer

[Signature Page to Penny Warrant (\_\_\_\_)]

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Accepted and Acknowledged by:

By:

By:

Name:

Title:

[Signature Page to Penny Warrant (\_\_\_\_)]

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**SCHEDULE 1**

**Fully Diluted Capitalization of the Company as of the Issuance Date**

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**NOTICE OF EXERCISE**

To Be Executed by the Registered Holder in Order to Exercise Warrants

The undersigned Registered Holder irrevocably elects to exercise \_\_\_\_\_ Warrants represented by this Warrant Certificate, and to purchase the Shares issuable upon the exercise of such Warrants, and requests that Certificates for such shares shall be issued in the name of

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(PLEASE TYPE OR PRINT NAME AND ADDRESS)

\_\_\_\_\_

(SOCIAL SECURITY OR TAX IDENTIFICATION NUMBER)

and be delivered to \_\_\_\_\_

(PLEASE PRINT OR TYPE NAME AND ADDRESS)

and, if such number of Warrants shall not be all the Warrants evidenced by this Warrant Certificate, that a new Warrant Certificate for the balance of such Warrants be registered in the name of, and delivered to, the Registered Holder at the address stated below:

Dated: \_\_\_\_\_

\_\_\_\_\_  
(SIGNATURE)

\_\_\_\_\_  
(ADDRESS)

\_\_\_\_\_  
(TAX IDENTIFICATION NUMBER)

\_\_\_\_\_  
(EMAIL ADDRESS)

\_\_\_\_\_

## NOTICE OF EXERCISE

To Be Executed by the Registered Holder in Order to Exercise Warrants

The undersigned Registered Holder irrevocably elects to exercise \_\_\_\_\_ Warrants represented by this Warrant Certificate, and to purchase the Shares issuable upon the exercise of such Warrants, **using the Cashless Exercise method, resulting in the issuance of \_\_\_\_\_ Shares to the undersigned.**

**The undersigned has calculated the number of Shares to be issued to it in accordance with the following formula set forth in Section 1(d) of the Warrant:**

$$X = Y[(A - B)/A]$$

X = the number of Shares to be issued to the Holder

Y = the number of Shares with respect to which this Warrant is being exercised

A = the Fair Market Value of one Share

B = the Warrant Price

Where the Fair Market Value of one Share is \$[\_\_\_\_], being the [average closing price or last sale price of the Shares reported for the five (5) business days prior to the applicable date of determination][last sale price of the Shares for the business day immediately prior to the applicable date of determination]

The undersigned requests that Certificates for such shares shall be issued in the name of

\_\_\_\_\_

and be delivered to

\_\_\_\_\_  
(PLEASE PRINT OR TYPE NAME AND ADDRESS)

and, if such number of Warrants shall not be all the Warrants evidenced by this Warrant Certificate, that a new Warrant Certificate for the balance of such Warrants be registered in the name of, and delivered to, the Registered Holder at the address stated below.

Dated: \_\_\_\_\_

[ \_\_\_\_\_ ]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\_\_\_\_\_  
(ADDRESS AND EMAIL)

\_\_\_\_\_  
(TAX IDENTIFICATION NUMBER)

\_\_\_\_\_

**FORM OF TRANSFER**

To Be Executed by the Registered Holder in Order to Transfer Warrants

For Value Received, \_\_\_\_\_ hereby sell, assign, and transfer unto

\_\_\_\_\_  
(PLEASE TYPE OR PRINT NAME AND ADDRESS)

\_\_\_\_\_  
(SOCIAL SECURITY OR TAX IDENTIFICATION NUMBER)

and be delivered to \_\_\_\_\_

(PLEASE PRINT OR TYPE NAME AND ADDRESS)

\_\_\_\_\_ of the Warrants represented by this Warrant Certificate, and hereby irrevocably constitute and appoint  
\_\_\_\_\_ Attorney to transfer this Warrant Certificate on the books of the Company, with full power of substitution in the  
premises.

Dated: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

THE SIGNATURE TO THE ASSIGNMENT OF THE SUBSCRIPTION FORM MUST CORRESPOND TO THE NAME WRITTEN UPON THE FACE  
OF THIS WARRANT CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE  
WHATSOEVER, AND MUST BE GUARANTEED BY A COMMERCIAL BANK OR TRUST COMPANY OR A MEMBER FIRM OF THE NYSE  
AMERICAN, NASDAQ, NEW YORK STOCK EXCHANGE, PACIFIC STOCK EXCHANGE, OR CHICAGO STOCK EXCHANGE.

**LIMITED WAIVER**

This **LIMITED WAIVER** (this “Waiver”) is made as of May 13, 2024, by and among DRAGONFLY ENERGY CORP. (“Borrower”), DRAGONFLY ENERGY HOLDINGS CORP. (F/K/A CHARDAN NEXTECH ACQUISITION 2 CORP) (“Holdings”), the Lenders signatory hereto (the “Required Lenders”), and ALTER DOMUS (US) LLC, as agent on behalf of the Lenders under the Loan Agreement (as hereinafter defined) (in such capacity, the “Agent”).

WHEREAS, Borrower, Holdings, the Required Lenders and the Agent are parties to that certain Term Loan, Guarantee and Security Agreement, dated as of October 7, 2022 (as amended, modified, extended, restated, replaced, and/or supplemented from time to time, the “Loan Agreement”);

WHEREAS, pursuant to Section 4.2(a) of the Loan Agreement, the Credit Parties were required to measure the Senior Leverage Ratio as of the last day of the Fiscal Quarter ending March 31, 2024 (the “Senior Leverage Ratio Test”);

WHEREAS, pursuant to Section 4.2(c) of the Loan Agreement, the Credit Parties were required to measure the Fixed Charge Coverage Ratio for the trailing four (4) Fiscal Quarter period ending on March 31, 2024 if Liquidity is less than \$15,000,000 as of the last day of the Fiscal Quarter ending March 31, 2024 (the “Fixed Charge Coverage Ratio Test” and together with the Senior Leverage Ratio Test, the “Tests”); and

WHEREAS, the Credit Parties have requested that the Agent and the Required Lenders waive the Tests for the Fiscal Quarter ending March 31, 2024 and, subject to the satisfaction of the conditions set forth below, each of the Agent and the Required Lenders are willing to waive the Tests for the Fiscal Quarter ending March 31, 2024 on the terms set forth herein.

NOW THEREFORE, the Credit Parties, the Required Lenders and the Agent each hereby agrees as follows:

1. Defined Terms. All terms used but not otherwise defined herein have the meanings assigned to them in the Loan Agreement.
  2. Limited Waiver. Subject to the satisfaction of the conditions to effectiveness set forth in Section 3 hereof, each of the Agent and the Required Lenders hereby waives the Tests for the Fiscal Quarter ending March 31, 2024; provided that such waiver is applicable only to the Tests for the Fiscal Quarter ending March 31, 2024 and to no other current or prospective financial covenants under the Loan Agreement.
  3. Conditions to Effectiveness. This Waiver shall become effective as of the date first written above (the “Effective Date”) upon the satisfaction of the below:
    - (a) counterparts of this Waiver shall have been executed and delivered by the Credit Parties, the Agent and the Required Lenders;
    - (b) Holdings shall have issued to the Lenders, on or about the date of this Waiver, penny warrants exercisable to purchase 2,550,000 shares of Holdings’ common stock, which penny warrants shall be in form and substance satisfactory to the Lenders;
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(c) the Borrower shall have paid the legal fees and expenses of Chapman and Cutler LLP, counsel for the Required Lenders, incurred in connection with the preparation, negotiation, execution and delivery of this Waiver and other services rendered in connection with the Loan Agreement prior to the date hereof; and

(d) to the extent invoiced prior to execution of this Waiver, the Borrower shall have paid the legal fees and expenses of Holland & Knight LLP, counsel for the Agent, incurred in connection with the preparation, negotiation, execution and delivery of this Waiver and other services rendered in connection with the Loan Agreement prior to the date hereof.

4. Representations and Warranties.

(a) The Credit Parties represent and warrant that after giving effect to this Waiver, the representations and warranties contained in the Loan Agreement are true and correct in all material respects on and as of the date hereof as if such representations and warranties had been made on and as of the date hereof (except to the extent that any such representations and warranties specifically relate to an earlier date).

(b) The Credit Parties represent and warrant that after giving effect to this Waiver, no Default or Event of Default will have occurred and be continuing on and as of the Effective Date.

5. Covenants. The Credit Parties shall deliver to the Lenders (or their counsel) by no later than May 20, 2024, original, wet ink signed pages (signed by Holdings) to the warrants referred to in Section 3(b) above. It shall be an immediate Event of Default under the Loan Agreement if the Lenders (or their counsel) have not received such signed pages by May 20, 2024.

6. Loan Document. This Waiver is designated a Loan Document by the Agent.

7. Full Force and Effect. Except as expressly set forth herein, nothing contained herein shall be deemed to constitute a waiver of compliance with any term or condition contained in the Loan Agreement or any of the other Loan Documents. Except as expressly amended hereby, the Loan Agreement shall continue unmodified and in full force and effect in accordance with the provisions thereof on the date hereof. This Waiver shall be limited precisely as drafted and shall not imply an obligation on the Agent or any Lender to consent to any matter on any future occasion. As used in the Loan Agreement, the terms "Agreement," "this Agreement," "this Loan Agreement," "herein," "hereafter," "hereto," "hereof" and words of similar import shall mean, unless the context otherwise requires, the Loan Agreement as modified by this Waiver.

8. **CHOICE OF LAW. THIS WAIVER SHALL IN ALL RESPECTS BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK WHICH ARE APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH STATE WITHOUT REGARD TO ANY PRINCIPLES OF CONFLICTS OF LAW THAT WOULD RESULT IN THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.**

9. Counterparts. This Waiver may be executed in one or more counterparts, each of which shall constitute an original, but all of which when taken together shall constitute but one instrument. Counterparts may be delivered via facsimile, electronic mail (including pdf) or other transmission method and any counterpart so delivered shall be deemed to be as effective as an original signature page delivered manually.

10. Headings. The headings of this Waiver are for the purposes of reference only and shall not affect the construction of this Waiver.

11. Successors and Assigns. The provisions of this Waiver shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that none of the Credit Parties may assign or transfer any of its rights or obligations under this Waiver without the prior written consent of the Agent.

12. Severability. The illegality or unenforceability of any provision of this Waiver or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Amendment or any instrument or agreement required hereunder.

13. Release of Claims. In consideration of the Required Lenders' and the Agent's agreements contained in this Waiver, the Borrower and Guarantor hereby irrevocably release and forever discharge the Lenders and the Agent and their affiliates, subsidiaries, successors, assigns, directors, officers, employees, agents, consultants and attorneys (each, a "Released Person") of and from any and all claims, suits, actions, investigations, proceedings or demands, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law of any kind or character, known or unknown, which such Borrower and Guarantor ever had or now has against Agent, any Lender or any other Released Person which relates, directly or indirectly, to any acts or omissions of Agent, any Lender or any other Released Person relating to the Loan Agreement or any other Loan Document on or prior to the date hereof.

14. Reaffirmation. Each of the Credit Parties as debtor, grantor, pledgor, guarantor, assignor, or in other any other similar capacity in which such Credit Party grants liens or security interests in its property or otherwise acts as accommodation party or guarantor, as the case may be, hereby (i) ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, under each of the Loan Documents to which it is a party (after giving effect hereto) and (ii) to the extent such Credit Party granted liens on or security interests in any of its property pursuant to any such Loan Document as security for or otherwise guaranteed the Borrower's Obligations under or with respect to the Loan Documents, ratifies and reaffirms such guarantee and grant of security interests and liens and confirms and agrees that such security interests and liens hereafter secure all of the Obligations as amended hereby. Each of the Credit Parties hereby consents to this Waiver and acknowledges that each of the Loan Documents remains in full force and effect and is hereby ratified and reaffirmed. The execution of this Waiver shall not operate as a waiver of any right, power or remedy of the Agent or Lenders, constitute a waiver of any provision of any of the Loan Documents or serve to effect a novation of the Obligations.

*[Signature pages follow]*

IN WITNESS WHEREOF, the parties hereto have caused this Limited Waiver to be duly executed by their duly authorized officers, all as of the date and year first above written.

**BORROWER:**

**DRAGONFLY ENERGY CORP.**

By: /s/ Denis Phares  
Name: Denis Phares  
Title: Chief Executive Officer

**HOLDINGS:**

**DRAGONFLY ENERGY HOLDINGS CORP. (F/K/A CHARDAN NEXTECH ACQUISITION 2 CORP.)**

By: /s/ Denis Phares  
Name: Denis Phares  
Title: Chief Executive Officer

**AGENT:**

**ALTER DOMUS (US) LLC**

By: /s/ Pinju Chiu  
Name: Pinju Chiu  
Title: Associate Counsel

SIGNATURE PAGE TO LIMITED WAIVER

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**LENDERS:**

**ENERGY IMPACT CREDIT FUND I LP**

By: Energy Impact Credit Fund I GP LLC, its general partner

By: /s/ Harry Giovanni  
Name: Harry Giovanni  
Title: Managing Partner

**ENERGY IMPACT CREDIT FUND II LP**

By: Energy Impact Credit Fund II GP LLC, its general partner

By: /s/ Harry Giovanni  
Name: Harry Giovanni  
Title: Managing Partner

**BP HOLDINGS XVII LP**

By: BPC AS Cayman LLC, its General Partner

By: BPC AS LLC, its Manager

By: /s/ Michael Haynes

Name: Michael Haynes

Title: Portfolio Manager

SIGNATURE PAGE TO LIMITED WAIVER

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**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Denis Phares, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2024 of Dragonfly Energy Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2024

/s/ Denis Phares

Denis Phares  
Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Denis Phares, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2024 of Dragonfly Energy Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2024

/s/ Denis Phares

Denis Phares  
Interim Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

This Certification is being filed pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. This Certification is included solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose. In connection with the accompanying Quarterly Report on Form 10-Q of Dragonfly Energy Holdings Corp. (the “**Company**”) for the quarter ended March 31, 2024 (the “**Quarterly Report**”), Denis Phares, as Chief Executive Officer and Interim Chief Financial Officer, certifies in his capacity as such officer of the Company, that to his knowledge:

- 1) The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 14, 2024

By: /s/ Denis Phares

Denis Phares  
Chief Executive Officer and Interim Chief Financial Officer  
(Principal Executive Officer and Principal Financial Officer)

This certification shall not be deemed “filed” for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act.

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