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SHEFA GEMS®

SHEFA GEMS LTD.

Annual Report and Accounts

for the year ended 31 December 2019

Contents

Directors, Secretary & Advisors

Directors & Management

Michael Rosenberg, OBE
Chairman of the Board

Tali Shalem
Chief Executive Officer

Yosef Itzack Taub
Director

James AH Campbell
Independent Non-Executive Director

Nathalie Schwarz
Independent Non-Executive Director

David Nachshon
Independent Non-Executive Director

Gershon Fraenkel
Independent Non-Executive Director

Zvi Nemeth
Independent Non-Executive Director

David Ben-David
Chief Financial Officer

Registered Office

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Netanya – 4210602, Israel

Operational Area & Laboratories

Southern Industrial Zone – Akko, Israel

Management Company

One Hundred & One Gold Holdings Ltd
(“101 Gold Holdings Ltd”). Netanya Israel

Financial Adviser

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London, EC2M 7LD

Broker

SI Capital Limited
13 Hanover Square London, W1S 1HN

Auditors and Reporting Accountants

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197775, Israel

Registrar

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St Helier, Jersey, JE11ES

Legal advisers to the Company as to English law

Axiom Stone Solicitors
1 Berkeley Street, Mayfair, London, W1J 8DJ

Legal advisers to the Company as to Israeli law

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Giborey Israel Street 24, Netanya – 42504,
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Depositary

Computershare Investor Services Plc
The Pavilions
Bridgwater Road, Bristol, BS13 8AE

2019 Highlights and Post Period End Events

Kishon Mid-Reach

- Kishon Mid-Reach Zones 1 and 2 upgraded to an Inferred Mineral Resource following Competent Person's Report ("CPR") update – Gem Box suite has an approximate contained revenue of US$41/t
- Technical Economic Evaluation ("TEE") completed, giving strong endorsement of the quality and potential of Kishon Mid-Reach project
- Received an independent gemmological expert opinion and valuation of the precious gemstone suite from Dr Gavrielov Gila
- Received highest grade bulk sampling results to date in the Kishon Mid-Reach Zone 2
- Carmeltazite, found in the Carmel Sapphire™ recognised as a new mineral in nature
- Discovered the first naturally occurring Vanadium metal hydride
- Prospecting Licence (869C9) for Zone 1 renewed for 12 months which led to the formal grant of a Certificate of Discovery
- Exploration results from drilling and bulk sampling in the Kishon Mid-Reach Zone 1 and 2 amounted to approximately 15,000 carats of gemstones
- All exploration and prospecting permits renewed for a further year, covering the Kishon catchment (including Kishon Mid-Reach Zones 1, 2, 3), Mount Carmel and the Zevulun and Yizre'el valleys and their margins

Corporate and Financial

- Appointed Michael Rosenberg OBE as Chairman of the Board, separating the roles of Chairman and Chief Executive Officer
- Avi Taub ("Avi"), Chief Executive Officer of the Company, passed away following a short illness
- Conducted a 10 for one share split of Shefa Gems shares traded on the Standard List of the London Stock Exchange to improve liquidity in the shares
- Raised £1.0 million equity from new shareholders to fund its development activities
- A total of £253,053 in convertible loan notes were converted into shares at 5.0p per share.
- Granted a trademark for the Company's new name, Shefa Gems Ltd® by the UK Intellectual Property Office
- First jewellery collection using Shefa Gems gemstones titled 'Heaven on Earth' completed by renowned jewellery designer, Yossi Harari

Post Period Highlights

- Paradigm Project Management (Pty) Ltd ("PPM"), completed its Technical Economic Evaluation ("TEE") report placing the first mine in Kishon Mid-Reach Zone 1 at the lower end of the cost curve
- Awarded the Certificate of Discovery for the gemstone mine development in the Kishon Mid-Reach, Zones 1 and 2 in March 2020, a significant step towards future commercial mining
- Carmeltazite selected as Mineral of the Year 2018 by the International Mineralogical Association (IMA)
- In April 2020, the Tel Aviv District Court confirmed the provisional sale of the Israeli former parent company and the distribution of its shares in Shefa Gems Ltd to its own shareholders. Further details will be provided once these arrangements have been completed.
- In May 2020, a total of £1,250,179 in convertible loan notes were converted into shares at an average price of 4.9p per share
- Avi's son Yosef (Yossi) Itzhak Taub joined the Board as Director in January 2020 and a new Executive Committee was created
- Vered Toledo was appointed as CEO from January 2020 and then succeeded by Tali Shalem in June 2020
- Mr Zvi Nemeth replaced Hanoch Erlich on board of directors in June 2020

Business Review & Strategic Report

Chairman's Statement and Operational Review

I am delighted to report on the Company's audited results for the year ended 31 December 2019, my first set of full year results as Chairman of Shefa Gems.

My conviction in the potential of the Shefa Gems project is as strong now as it has ever been, largely due to the excellent progress that has been made, particularly over the last 12-18 months. The Company has reached multiple milestones in the development of our Kishon Mid-Reach projects as well as in the advancement of our 'Mine-to-Market' strategy. Of course, the COVID-19 outbreak has impacted us all, but for Shefa it does not change the special nature of our unique precious gem mine opportunity.

Mining strategy execution

There have been many positives in our mining activities over the course of the year. Kishon Mid-Reach, Zones 1 and 2 were upgraded from an Exploration Project to an Inferred Mineral Resource following the Competent Person's Report update.

Our Technical Economic Evaluation was also completed along with an independent gemstone valuation, both giving strong endorsements to the unique quality of our stones and the commercial potential of the Kishon Mid-Reach project.

Furthermore, all our prospecting licenses and exploration permits have been renewed. Most importantly, in March 2020, we were awarded a Certificate of Discovery for the projected mine development in the Kishon Mid Reach, Zones 1 and 2. The uniqueness of Shefa Gems' Carmel Sapphire™ gemstone was recognised as significant to the commercial feasibility of the project. The award of the Certificate of Discovery is a great achievement and marks another key step towards our goal of commercial mining.

Brand building

To strengthen the Company's brand to reflect our 'Mine-to-Market' strategy, we renamed the Company from 'Shefa Yamim 'to 'Shefa Gems'. This change has enabled the Company to focus on building a global brand by leveraging the positive value associated with our rare and unique gemstones. We are very engaged in exploring the best partners to ensure the success of our strategy.

Throughout the year, our gemstones have been growing in reputation internationally. Notably, the mineral Carmeltazite, which is found in our Carmel Sapphire™, received official recognition as a new mineral in nature and was selected by the International Mineralogical Association (IMA) as Mineral of the Year 2018.

So far we have collected a stock of gemstones amounting to approximately 15,000 carats of various stones through our bulk sampling process from our exploration activities in Kishon Mid-Reach Zone 1 and 2. We intend to utilise these as part of our test marketing strategy subject to necessary approvals. As a result, we were able to launch our first jewellery collection using our precious gemstones, which was designed and created by world-renowned jewellery designer Yossi Harari. Marketed worldwide, our 'Heaven on Earth' jewellery collection was well received, bringing recognition and awareness to the Shefa Gems name.

Business Review & Strategic Report

Strengthening of Board

Though there have been many highs, it has also been a challenging year as our late Founder and CEO, Avi Taub, passed away following a short illness. Avi was instrumental to the growth and development of the business and is sorely missed by all in the Company. Post period, Vered Toledo, previously our COO, was appointed as the new CEO of Shefa Gems. Having worked closely with Avi for many years, Vered continued his work, bringing her expertise, vast experience and relentless zeal for the Company. However, after over 21 years with the company she decided in June this year to retire and hand over her responsibilities as CEO to Tali Shalem, the daughter of Avi Taub.

We also welcomed Avi's son, Yossi Taub, to join the Board as a Director. Yossi and Tali have both worked with their father in the development of the company for many years and share Avi's passion and belief in the project.

In June 2020 Hanoch Erlich stepped down as a director and was replaced by Mr Zvi Nemeth.

I was appointed as Chairman to the Board having previously served as an Independent Non-Executive Director. The Company decided to separate the roles of CEO and Chairman, in line with high corporate governance standards.

Looking ahead

In the year ahead, the Company is poised to move into an exciting new phase of its life. We will continue to push forward with our goal of developing Israel's first and only precious gemstones mine, whilst also developing our global 'Mine-to-Market' strategy, selling precious stones from the Holy Land.

As a result of the COVID-19 situation, we have taken action to reduce costs whilst ensuring that all concerned are as safe as possible. We are not yet able to assess the full impact of the outbreak on the schedules for the promotion and obtaining of necessary permits. However, it is our aim to acquire these permits within the next 12 months.

It has been a pleasure to serve as Chairman to the Company during this time of significant change and development and I would like to thank the Board, our management team and staff for their hard work and commitment. I would also like to thank our loyal shareholders for their ongoing support. Naturally, we need to seek long term financing for the business while it remains an exploration company with little opportunity to generate income, and the Board is working hard to ensure that we can access those funds on suitable terms. We continue to look ahead with optimism and confidence.

Operational Review

Updated CPR – Maiden resource for Kishon Mid-Reach project

The Kishon Mid-Reach Zone 1 and Zone 2 have been upgraded to an Inferred Mineral Resource following the completion of the CPR update in December 2019. Significantly, the report concludes that the Company's overall Gem Box suite is estimated to have a contained revenue of US$41/t. This is led by the Carmel Sapphire™, which due to its high intrinsic value and the presence of large stones, is valued at US$35/t. A contained revenue of US$41/t is considerably higher than the project's estimated operating cost budget over the Life of Mine ("LoM") of US$26/t, with the potential to be as low as US$10-15/t, as published in the TEE announced in February 2019. This contained revenue also excludes any margin the Company will gain from its multi-channel, vertically integrated, marketing strategy and premium attracted to gems originating from the Holy Land.

The CPR was prepared by Creo Design (Pty) Ltd in accordance with the "South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves" (SAMREC Code), as amended in 2016. The full CPR is available on the Shefa Gems website.

Business Review & Strategic Report

Technical Economic Evaluation report

As stated previously, in February 2019, an independent TEE report for the potential first mine of the Kishon Mid-Reach project in Zone 1 was completed. The report places the mine in Kishon Mid-Reach Zone 1 at the lower end of the cost curve and provides a base case for the work and capital costs of bringing the Kishon Mid-Reach project into production.

A summary of the key points are as follows:

- The mine will be able to process 1.5 Mt of gravel over an 11-year Life of Mine, the overburden removed would be 1.8 Mt.
- The capital expenditure for the development of the mine using new equipment has been estimated at US$11.30 million or US$7.5 million through contract mining.
- Operating cost budget over the Life of Mine estimated at US$26/t processed or US$27/t processed through contract mining; and
- Potential to halve unit operation cost to US$10-15/t with small investment in machinery to double processing capacity from 50tph to 100tph.

Independent valuation of gemstones

In addition to the updated CPR and the TEE report, Shefa Gems received an independent valuation of its gemstone suite from expert gemmologist, Dr Gavrielov who has over 40 years of experience in the appraisal and purchase of precious stones for use in jewellery. The report included valuations of US$10,000 and US$7,000 per carat for Natural Moissanite™ (crystals rough till 4mm) and Blue Carmel Sapphire™ respectively. The Natural Moissanite™ found by the Company, is the largest in both volume and size ever found globally (single crystals to >4mm). It was also noted that the rarity, location, and limited supply all add significant value to the Gem Box suite of gemstones. The assessment provides a professional opinion regarding the value of the suite of precious stones found in exploration activities carried out by the Company.

Shefa Gems works with internationally respected geologists in the exploration field, who have globally proven success in the discovery, exploration and development of diamond and precious stones mines. This includes Professor Bill Griffin from the ARC Centre of Excellence for Core to Crust Fluid Systems, Macquarie University, Australia, and his research team, in which Shefa Gems collaborated with to publish several scientific articles during the last year.

Shefa Gems's Gemstone	Cut & Polished price per carat (US$)
Natural Moissanite™ (crystals till <4mm and rough only)	10,000
Blue Carmel Sapphire™ (Cabochon cut)	7,000
Black Carmel Sapphire™ (Cabochon cut)	5,000
Hibonite	1000
Sapphire	500
Ruby	500
Spinel	150
Ilmenite	105
Garnet	50
Zircon	100
CPX	45
Mix KIM's (Garnet, ilmenite, spinel, CPX)	30
Rutile	25

Independent valuation of stones in Shefa's Gem Box

Business Review & Strategic Report

New discoveries

Carmeltazite

Carmeltazite, found in Shefa Gems' gemstone, the Carmel Sapphire™, was classified as a newly discovered mineral by the International Mineralogical Association Commission on New Minerals, Nomenclature and Classification in early 2019. It was then selected as Mineral of the Year 2018 by the IMA. The Carmel Sapphire™ is not found anywhere else in the world.

Carmel Sapphire™ Rough

Carmel Sapphire™ Cabochon cut

Discovery of the first naturally occurring Vanadium metal hydride

Shefa Gems discovered the first naturally occurring Vanadium metal hydride. Detailed in a report titled, Discovery of the first natural hydride, released in April 2019 by W.L. Griffin, the discovery is significant because the metal is only stable in extremely oxygen-depleted environments, and this has not previously been found on Earth.

The findings provide important evidence and deepen the understanding of the evolution of the magmatic activity beneath Mt Carmel which eventually led to the formation of the gem mineral association now being commercially developed by Shefa Gems. As the Company continues to build and deepen its knowledge of the region and gem-forming process, this information will benefit future exploration.

Zone 1 – Progressing to trial mining with Certificate of Discovery

The Company has taken a major step towards trial mining in Zone 1 with two notable developments in recent months. The updated CPR, which upgraded Zones 1 and 2 to an Inferred Mineral Resource, as announced in December 2019. On 17 March 2020, Shefa Gems was awarded a Certificate of Discovery for Zones 1 and 2. With these developments, alongside the Company's exploration progress through the year, there has been a notable shift in the Kishon Mid-Reach project from the pure exploration phase to the gemstone mine development phase. This will support Shefa Gems to continue advancing towards commercial mining. Commencement timing depends on the completion and processing of technical, environmental, commercial and other submissions with the relevant authorities.

Zone 2 - Bulk sampling completed and a Certificate of Discovery received

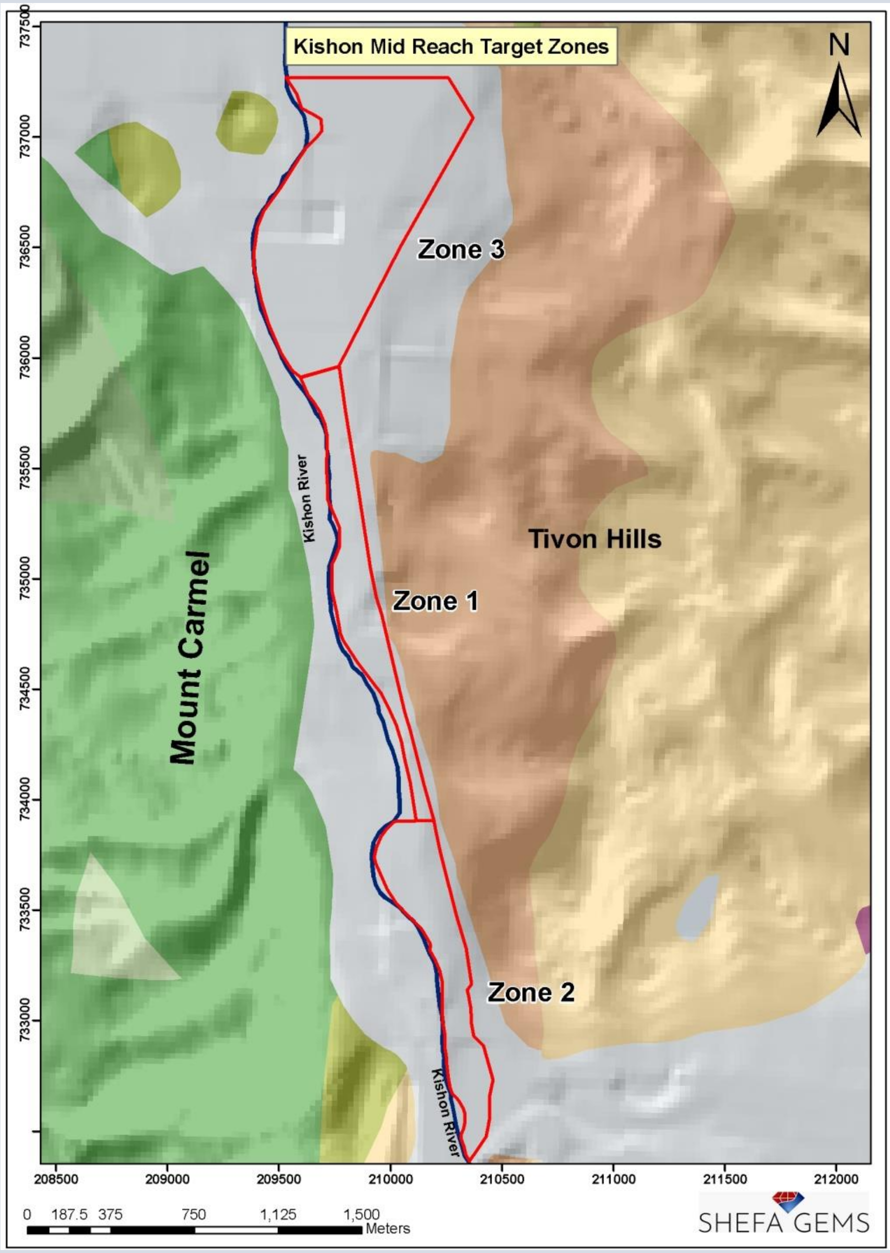
Shefa Gems made excellent progress with the completed excavation of four new bulk samples and one mini bulk sample (weight 37 tonnes) from target gravel horizons in the Kishon Mid-Reach Zone 2. During the period, following the processing and analysis of bulk samples, the Company received its highest-grade sample results to date in Zone 2 of Kishon Mid-Reach.
One sample yielded a record Target Mineral Assemblage ("TMA") grade of 467 carats per hundred tonnes (cpht). For comparison, the aggregate results from the first five bulk samples from the northern part of Kishon Mid Reach Zone 2, as announced on 31 January 2019, was 135 cpht, and the average TMA grade assumed in the Technical and Economic Evaluation of Zone 1 was 153 cpht.

Business Review & Strategic Report

During the period, a total of 49 drilling surveys (390 meters drilled), 30 bulk and mini bulk samples were collected from the Kishon Mid Reach Zone 2 and 6,094 tonnes of gravel were excavated.

As published in the updated CPR, a total of 3,840 tonnes were treated (25 bulk samples) and 6,853.11 carats of TMA found. The operations were conducted on time and within the expected budget. The remaining samples collected, are undergoing treatment and analysis in the Company's operational site in Akko.

On 17 March 2020 the Company received the Certificate of Discovery for both Zones 1 and 2 in the Kishon Mid-Reach, based on the mineralogical results achieved.



Preparing for exploration in Zone 3

Following the excellent progress and encouraging results from exploration campaigns in Zone 1 and Zone 2, Shefa Gems is engaged in expanding its efforts in Kishon Mid-Reach Zone 3. The Company is collecting and analysing data from this area and based on the results, together with the international geological consultant team, the Company will decide whether to prepare further resource delineation drilling campaigns in Zone 3 during 2020.

‘Heaven on Earth’ jewellery collection

Shefa Gems initiated a trial marketing initiative in collaboration with world-renowned jewellery designer and three-time winner of the Couture Design Award, Yossi Harari, to create the **‘Heaven on Earth’ jewellery collection.**

The 31-piece collection was completed in February 2019. It was created from 24 Karat gold, 'gilver' (Harari's own trademarked metal alloy that combines oxidized silver and 24 Karat gold) and Shefa Gems' precious gemstones. The collection included the Carmel Sapphire™, Natural Moissanite™, black spinel, ilmenite, garnet, sapphire, hibonite and ruby. The jewellery was handcrafted using ancient goldsmithing techniques and developed in Yossi Harari's atelier in Istanbul.

The collaboration with Yossi Harari forms part of Shefa Gems’ ‘Mine-to-Market’ development strategy, which includes exploration, mining, and designing and selling jewellery pieces containing its gemstones. It is encouraging that since the launch, Shefa Gems has received wide interest from jewellery manufacturers, retailers, and sales distribution channels, which the Company will look to utilise going forwards.

Business Review & Strategic Report

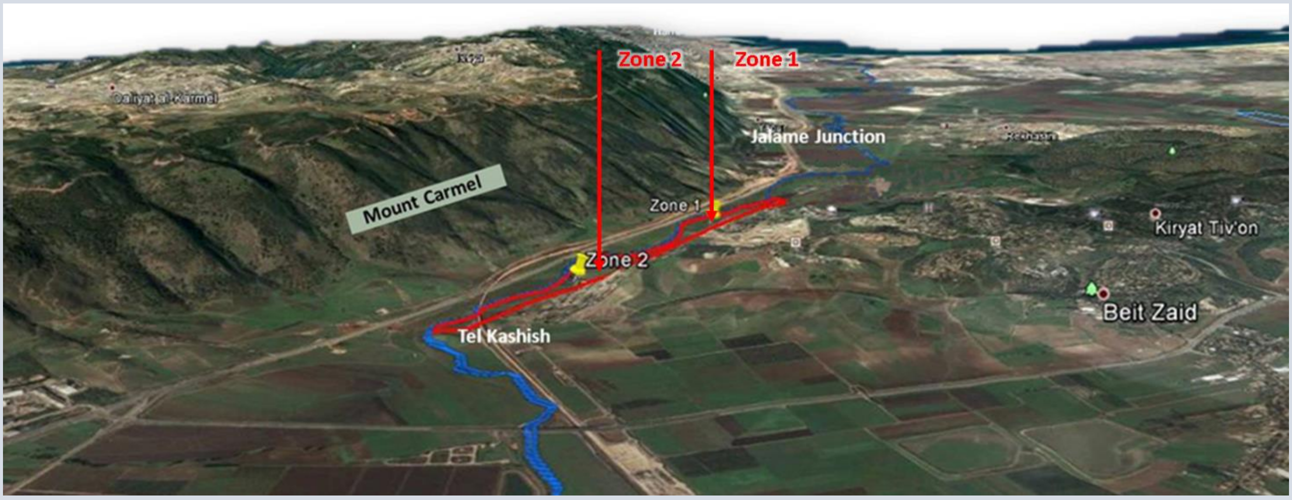
Renewal of Exploration and Prospecting permits and Prospecting Licences

The Ministry of Energy, Natural Resources Administration, Israel renewed a number exploration and prospecting permits of the Company for a period of 12 months. In January 2019, two of the Company's prospecting permits were renewed, covering a total of 440,455 Dunams (44,045 hectares). In July 2019, Exploration Permit 869B11 was renewed. 869B11 covers a total of 173,636 Dunams (17,363 hectares). The Company's first Prospecting Licence, over its alluvial exploration target, the Kishon Mid-Reach Zone 1 Project, was renewed in August 2019. Post period, in February 2020 its prospecting permit Carmel (837A13) has been renewed, covering a total of 314,478 Dunams (31,447 hectares), by the Ministry of Energy, Natural Resources Administration, Israel.

Shefa Gems has three permits and licenses in total. In addition to permits Carmel 837A13, the Company has exploration permits 869B11 covering 173,636 Dunams (17,363 hectares), and prospecting license 869C10 that covers an area of 252 Dunams (25.2 hectares) in the Kishon Mid-Reach Zone 1. The three permits extend over an area of approximately 488,366 Dunams (48,836 hectares) that includes the Kishon River, the volcanic bodies on Mount Carmel, the Zevulun and Yizre'el valleys and their margins - Tivon-Alonim Hills and Nazareth range.

Award of Certificate of Discovery

In March 2020, the Quarries and Mines Branch of the Ministry of National Infrastructures of the State of Israel awarded Shefa Gems a Certificate of Discovery for the development of its gemstone mine in the Kishon Mid-Reach, Zones 1 and 2. The Inspector of Mines recognised the significance of Shefa Gem's unique Carmel Sapphire™ gemstone to the commercial feasibility of the project. The Company must file an initial application for mining rights within one year of grant of the Certificate of Discovery. It is a landmark development for Shefa Gems and the culmination of the Company's successful exploration activities and market analysis. It brings the Company closer to establishing Israel's first and only precious gemstone mine and signals the beginning of the process towards future commercial mining.



Business Review & Strategic Report

Corporate Review

In June 2019, the Company changed its name to Shefa Gems Ltd, and in July 2019, the UK Intellectual Property Office granted a trademark for the name, Shefa Gems Ltd®. The change of name aligns with the Company's 'Mine-to-Market' strategy and its goal to create a global brand for its rare gemstones discovered in the Kishon Mid-Reach area.

In addition, the Company has been seeking to address the lack of liquidity in the shares of Shefa Gems and following recommendations from its advisors, the Board of Directors resolved to a subdivision ("share split") of Shefa Gems' shares traded on the Standard List of the London Stock Exchange. The Company conducted a 10 for one share split.

Board changes

Certain changes have been made to the board to ensure the Company adheres to high corporate governance standards. Michael Rosenberg, OBE, previously an External Director and Independent Non-Executive Director of Shefa Gems, was appointed as Non-Executive Chairman of the Company, effective from 1 May 2019.

It was with great regret and sadness that the Company announced in October, former Chief Executive Officer (CEO), Avi Taub, had passed away following a short illness. Avi's vision and dedication played a huge role in the development of Shefa Gems and he will be sorely missed.

Mr. Avi Taub Z"L

Post period, in January 2020, Shefa Gems appointed Vered Toledo as CEO of the Company.

Vered handed over her responsibility as CEO to Tali Shalem in June 2020. Tali worked closely with her father for over ten years from 2008 to 2018 before founding her own marketing company.

Yosef (Yossi) Itzhak Taub was appointed as Corporate Development Executive Director and the Board of Directors created a new Executive Committee to deal with the day-to-day management of the Company's affairs. The current members are Michael Rosenberg, OBE, (Chairman), James Campbell (Non-Executive Director), Tali Shalem, CEO, Yosef Itzhak Taub (Director) and David Ben David (CFO).

Financial Review

The launch of the 'Heaven on Earth' jewellery collection, and the subsequent interest the Company received, provided a useful test market for the potential value that can be obtained from Shefa Gems' gemstones. The Company is therefore pleased to note that sales of items in the collection were made in the period amounted to TNIS 254 (US$72,000).

Under the agreement between the Company and Yossi Harari, regarding the Company's first jewellery collection, after reimbursing the Company's expenses incurred in direct connection with the collection, the profits resulting from the sale of the jewellery will be divided equally between the Company and Yossi Harari.

In 2019, the Company recorded a comprehensive loss for the period, of 7,929 TNIS (in thousands) (2018: TNIS 6,009 profit) equating to a loss per share of NIS 0.049 (2018: 0.0431 profit). The loss was attributed to general and administrative expenses, and financing expenses due to adjustment of the value of a financial liability at fair value. In addition, a reduction in the value of the Company's assets for exploration and evaluation of precious stones was made.

Business Review & Strategic Report

At the end of the year, the Company's cash and cash equivalents stood at TNIS 6 (2018: TNIS 209). General and administrative expenses in 2019 decreased to TNIS 3,123 (2018: TNIS 3,410)

Placing and Subscription for £1 million

As announced in May 2019, Shefa Gems raised £1.0 million (before expenses) from new shareholders through a subscription and placing of 25,000,000 new ordinary shares of 0.10 NIS each in the Company at an issue price of 4 pence per share in May. The new Shareholders comprised specialist institutional investors and sophisticated High Net Worth investors attracted to the potential returns from advanced exploration and early development stage mining projects.

The COVID-19 Pandemic

The COVID-19 outbreak has impacted everyone, but for Shefa Gems it does not change the opportunity that exists for our unique precious stones mine. Nevertheless, Shefa Gems has taken the prudent decision to reduce costs where possible whilst ensuring that all concerned are as safe as possible.

The Company's current efforts revolve around working with the various authorities to advance the planning and regulation procedures that will enable it to receive a mining license. The Company does not know at this point what the effects of the COVID-19 virus will be on the time schedule for advancing and receiving the necessary permits and approvals for the mining license .

Outlook

Following another excellent year of progress, the Company's primary focus for 2020 is to progress planning towards the development of its mine and continuing to establish its 'Mine-to-Market' strategy. The award of the Certificate of Discovery for Zones 1 and 2 is a landmark development for Shefa Gems. It is a significant step towards the aim of commencing trial mining during 2021 and establishing the first and only precious gemstone mine in Northern Israel and consequently begin producing revenue.

Target 2020 Milestones:

- Continue mine planning procedures with the Israel Lands Authority and other relevant planning and statutory institutions
- Progress with a mining plan that demonstrates the commercial feasibility of the Kishon Mid-Reach Project
- Prioritise the target areas of the volcanic bodies (primary source) which are covered by the exploration and prospecting permits
- Complete the treatment and analysis of the remaining bulk samples in Zone 2, expected to be concluded within six months
- Collect and analyse data from Zone 3 and decide whether to prepare further resource delineation drilling campaigns during 2020
- Develop the 'Mine-to-Market' strategy by leveraging the success of the 'Heaven on Earth' jewellery collection and by building commercial relationships with organisations that can assist in creating unique jewellery with our rare gemstones from the land of Israel to be marketed and sold worldwide

24 June 2020

Chief Financial Officer's Review

Over the last 12 months, the Company recorded a comprehensive loss of TNIS (in thousands) 7,929 (2018: TNIS 6,009 profit), equating to a loss of NIS 0.049 (2018: 0.0431 profit) per share. The loss was attributed to general and administrative expenses, and financing expenses due to adjustment of the value of a financial liability at fair value. In addition, an adjustment in the value of the Company's assets for exploration and evaluation of precious stones was made. At the end of the year, the Company's cash and cash equivalents stood at TNIS 6 (2018: TNIS 209). General and administrative expenses in 2019 decreased to TNIS 3,123 (2018: TNIS 3,410).

Shefa Gems is in a similar position to many exploration companies and is not expected to generate significant revenues at this stage of its development. Therefore, the Company needs to raise further capital from time to time as it progresses towards the commencement of commercial mining.

Based on past experience, the Company believes that it continues to have access to loan capital from certain supportive shareholders who have provided funds previously and who have indicated that they will be in a position to do so again, should the Company require it. Since the year end all outstanding loan note holders elected to convert their loans to shares:

- A total of £82,524 was converted into 2,063,089 shares at price of 4p.
- A total of £1,167,655 was converted into 23,384,214 shares at price of 5p.

On April 27, 2020, the Tel Aviv District Court confirmed the provisional sale of the parent company ("Topco") and the distribution of its shares in Shefa Gems Ltd among the shareholders of Topco. In accordance with the court's decision, Topco shareholders will have a 12-month waiting period to receive their shares in the company (in exchange for giving up some of their shares in Topco). Until the actual shares are received by the shareholders, the Company's shares will be held by a trustee on behalf of the court. Further details will be provided once these arrangements have been completed.

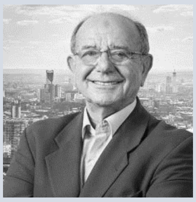
Principal Risks and Uncertainties

The Company is currently at an early stage of development and has yet to commence operations at the Kishon Mid Reach Project. The Company currently has no cash producing properties and therefore no positive cash flow. The Company will continue to have negative operating cash flow until commercial production is reached.

The ability of the Company to continue its activities as a going concern depends to a greater extent on its ability to continue to raise capital and/or debt. Considering the fact that precious stone exploration is unique to the Company in Israel, there is a risk that the Company only has a limited capacity to raise capital and/or debt from private investors and/or from the public.

In addition, as there has been no previous attempt to mine for precious stones in Israel, there is a risk that the budgets planned by the Company in order to pursue its objectives shall not be sufficient and that the Company would require additional funding to complete the exploration plans.

Directors & Management Biographies



Michael Rosenberg, OBE

Chairman of the Board

Michael Rosenberg, Independent Non-Executive Director, spent his early business years with the merchant bank, Samuel Montagu and Co. Ltd and joined the board in 1971 as Director of Corporate Finance. In 1974, he left the bank to co-found a healthcare business which became a global business over the next 10 years. From 1987 to 1999 he was a shareholder, director and later chairman of Raphael Zorn Helmsley Holdings Ltd (now Numis Corporation). During that period, he was instrumental in bringing Israeli companies to the AIM market. He has served on a number of Israeli boards both as an external director and as chairman including: Amiad Filtration Services Ltd, Dori Media Ltd, Pilat Global Media Plc and more recently Starcom plc, where he is Non-Executive Chairman. He is Non-Executive Chairman of Catalyst Media Group plc. . Mr Rosenberg chaired a DTI committee on trade with Hong Kong for several years and also served on the board of the China British Business Council. He was awarded the OBE for services to exports in 1994. He is a published author of children's books and mentor to the Princes Trust, helping young people to start new businesses.

Tali Shalem

Chief Executive Officer

Tali Shalem, Chief Executive Officer, has served as second to Avi Taub (the late CEO) and was involved in all aspects of the business including legal and regulatory procedures, finance and fund raising , PR and IR for 15 years, Includes oversight and promotion of IPO procedures on the London Stock Exchange in 2017. Ms Shalem holds professional qualifications in PR, Business and Administration, and has extensive management experience. Prior to joining Shefa Gems, Mrs Shalem worked for many years at the Taub family jewellery company with experience in all stages of jewellery production, sales, marketing and finance.

Yosef Taub

Director

The son of Shefa Gems' late CEO Mr. Abraham Taub, a certified gemmologist with experience in polished and raw gem sorting, long-standing relationships with numerous equity investors in Israel, worked closely in securing funding for the Company and in the overall management of the business.

James AH Campbell

Independent Non-Executive Director

James AH Campbell, Independent Non-Executive Director, graduated as a geologist from the Royal School of Mines (Imperial College, London University) in 1985 and completed an MBA at Durham University in 1998. He has over 30 years' experience in the diamond industry having spent over 20 years' with De Beers' Global Mining and Exploration Group before becoming Managing Director of African Diamonds plc in 2006. Mr Campbell has extensive board and sector experience and has served on several UK and Canadian boards including African Diamonds plc, West African Diamonds, Stellar Diamonds plc and Rockwell Diamonds Inc. He is currently Managing Director of Botswana Diamonds plc. Mr Campbell is a Fellow of the Institute of Mining, Metallurgy & Materials, a Fellow of the South African Institute of Mining, a Fellow of the South African Institute of Mining, Metallurgy & Materials, a Fellow of the South African Institute of Mining & Metallurgy, Chartered Engineer (UK), Chartered Scientist (UK), a Professional Natural Scientist (RSA) and a Fellow of the Institute of Directors South Africa.

David Ben David

Chief Financial Officer

Certified CPA for 17 years (BA in Economics and Accounting, Bar Ilan University). Auditing & analyzing financial reports for various public companies in Israel. Has an in-depth knowledge of the Capital Market and analyzing financial data. Experienced in internal auditing and risks assessment and management.

Directors & Management Biographies

Nathalie Schwarz

Independent Non-Executive Director

Nathalie Schwartz, Independent Non-Executive Director, a graduate from the University of Manchester and a qualified lawyer, started her career at leading global law firm Clifford Chance focusing on cross-border mergers and acquisitions, corporate restructurings, IPOs and private equity. Ms Schwartz has operated as an Executive Director on the boards of two of the UK's leading public companies in the media and digital technology sector, namely as Group Commercial Director at Channel 4 Television Corporation and as Group Strategy and Development Director at Capital Radio PLC. She also served as a Non-Executive Director on the Board of Matomy Media PLC (digital advertising services), which listed on the London Stock Exchange in 2014 and was a Non-Executive Director on the board of publicly listed companies Amiad Water Systems PLC (water filtration) and Photon Kathaas (Indian film production and distribution). She is currently a non-executive director of UK publicly listed company Wilmington Group PLC (digital data, publishing and training). Ms Schwartz specialises in growing businesses, strategy, operational management, developing new commercial and technological opportunities and mergers and acquisitions.

David Nachshon

Independent Non-Executive Director

Israel David Nachshon, Independent Non-Executive Director, a graduate in Rabbinical Ordination, has extensive ties within the Jewish community worldwide as well as established government relations in Israel. He has been on the board of Shefa Yamim (A.T.M.) Ltd and Shefa Yamim Ltd since 1999, when the company was founded. Mr Nachshon is a Board member of the Jewish community institution in Kiev, Ukraine, Chairman of the Chabad Jewish Mobil Mitzva Centre, Chabad Youth Movement Tzivos Hashem and Chabad Educational Institutions.

Gershon Fraenkel

Independent Non-Executive Director

Gershon Fraenkel, Independent Non-Executive Director, is a British Citizen and founder of WST Charity Ltd, in North West London which focuses on alleviating poverty within the Jewish Community in the area. He has successfully launched many international businesses in the last 25 years, including SEACO Group of Companies and Linkedell Ltd, as result of which he acts as an intermediary and adviser of international transactions to companies in Israel and the UK. Mr Fraenkel is fluent in English, Hebrew and Yiddish.

Zvi Nemeth

Independent Non-Executive Director

Mr Nemeth is a practising certified lawyer and CPA, with particular skills in the natural resources sector in Israel. Mr Nemeth is the owner of a privet law firm that engages in all areas of corporate law, contracts and taxation with expertise in oil, gas, natural resources and real estate taxation. Prior to that he was an associate attorney with S Friedman& Co from 2016 to 2018 and with Agmon, Rosenberg, Hacohen & Co from 2011 to 2016, and in the Israeli Tax Authority from 2001 to 2014.

Mendy Taub

Chief Operating Officer

Mr. Mendy Taub, 31, He is the son of Shefa Gems' late CEO Mr. Abraham 'Avi' Taub. works for Shefa Gems since 2005, has been certified in managing a geographic information system and over the years has managed the company's Database. He manages the company's laboratories and operating area and works closely with the entire professional team.

Directors Report

Principal Activities

Shefa Gems, founded in 1999, is the only coloured precious stone exploration company in northern Israel. The Company's exploration and prospecting permits are located across the Kishon River catchment area of Haifa and Mt Carmel in northern Israel, covering a total area of 614 km^2, some 85km north of Tel Aviv. The Company also maintains an operational centre with a processing facility and laboratory in Akko, a town north of Haifa.

Financial Statements

The Directors present their report together with the audited financial statements for the year ended 31 December 2019. The results of the year are set out in the statement of profit or loss.

Dividends

The Board is not proposing a dividend this year.

Business and Strategic Review

The review of Shefa Gems' business operations, including processing and exploration activity, corporate overview and outlook, are set out in the Strategic Report section on pages [5] to [13] together with this Directors' Report.

Directors

The Directors' who have held office for the year ended 31 December 2019 and are currently serving are as follows:

Michael Rosenberg, OBE – Non-Executive Chairman
James AH Campbell - Independent Non-Executive Director
Nathalie Schwarz - Independent Non-Executive Director
David Nachshon - Independent Non-Executive Director
Hanoch Ehrlich - Independent Non-Executive Director (resigned 1st June 2020)
Gershon Fraenkel - Independent Non-Executive Director
Zvi Nemeth - Independent Non-Executive Director (appointed 1st June 2020)

Corporate Governance Statement

The information that fulfils the requirement of the corporate governance statement in accordance with Rule 7.2 of the Financial Conduct Authority's Disclosure and Transparency Rules can be found in this Directors' Report and in the Corporate Governance information on pages [21] to [25] which is incorporated into the Directors' Report by reference.

Directors' Remuneration and Interests

The Directors remuneration and interests are set out in the Directors Remuneration Report on pages 26 to 29.

Rules about appointment and replacement of Directors; Amendment of Articles

Pursuant to the Company's articles of association and Israeli Companies Law, Directors are elected at the Annual General Meeting by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of Directors. Each director (except for the public external appointed Directors) shall serve until the next Annual General Meeting following the Annual General Meeting at which such director was appointed, or his earlier removal. The holders of a majority of the voting power represented at a General Meeting and voting thereon shall be entitled to remove any director(s) from office, to elect Directors in place of the Directors so removed or to fill any vacancy, however created, in the Board of Directors by way of ordinary resolution. Each non-executive director will serve until the next Annual General Meeting following his or her election and his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal by a vote of the majority voting power of the Company's shareholders at a general meeting of the Company's shareholders or until his or her office expires by operation of law.

Apart from the authority of the General Meeting to remove a director from office, subject to giving such director a reasonable opportunity to present his position to the General Meeting, under the Company's articles, the office of a director shall be vacated ipso facto, upon his death, or if he be found to be of unsound mind, or becomes bankrupt or if he becomes prohibited by law from being a director in a public company, or if the director is a company upon its winding up.

Under the Israeli Companies Law a company may amend its articles by a simple majority of the shareholders at a General Meeting. Any proposed amendments to the articles regarding modification of rights attached to shares of the Company and / or dividing the share capital into various classes of shares requires the approval of the holders of 75% of the issued shares in the Company.

Going Concern

Since the operations of the Company are prospecting and exploration for gold, precious stones and diamond deposits and the Company has not yet commenced commercial mining, as a result, the Company does not as yet have revenues, rather only expenses. Financing of its operations has been performed until now by infusions of capital and/ or by loans received by the parent company, top-co, and transferred in part to the Company in accordance with the agreement between them (see Note 1d) and its continued operation is contingent upon the further similar infusions of capital. In view of past experience, the Company's management believes that it can mobilize the sources for money in order to complete the explorations, but there remains uncertainty in this regard since the mobilizations are dependent on other parties. These factors create significant doubts in regard to continued operation of the Company as a "going concern."

These financial statements do not contain any adjustments for valuation of assets and liabilities or their classification that would likely be necessary in the event that the Company is unable to continue its operations as a "going concern."

Directors’ Remuneration and Interests

Reporting obligations in respect of Companies law

The Company is an Israeli company registered with the Israeli Registrar of Companies in 1999, and accordingly is subject to the laws of the State of Israel in general and the "*Israeli Companies Law*" in particular.

Since December 2017, the Company's shares are traded on the London Stock Exchange – yet the Company is still registered as an Israeli company based in Israel and paying taxes in Israel, and **bears the reporting obligations of Israeli companies in accordance with the Israeli Companies Law**.

The Company's business activity focuses solely on the exploration and prospecting of precious stones in northern Israel; An activity which, by its nature, does not generate revenue - until the stage of opening a profitable commercial mine which is expected to be during 2021.

Over the past 20 years, since the establishment of the Company, its operations have been financed by private investors in consideration for allocation of shares, and in exceptional cases also through loans of interested parties.

Also, as part of the Company's agreements with suppliers, the Company inform them of its financial position and type of activity, and accordingly the suppliers decide whether and to what extent of credit will be given to the Company.

The Company is required to report, with respect to its financial status, to the tax authorities and the Companies Register **- once a year with the submission of the company's annual financial statements.**

The Israeli Companies Law states, that the Company's shareholders, in the annual general meeting, appoint the Company's Board of Directors in order to supervise and keep up-to-date with respect to the Company's active management function, the company's financial and cash flow position and its ability to meet its obligations, and the setting of the credit framework that the Company may take.

The Company's Board of Directors is required to report to the shareholders of the Company with respect to any matter related to the Company's business activity – **once a year at the Annual General Meeting**.

Statement of Directors’ Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors’ Remuneration Report, and the financial statements in accordance with applicable laws and regulations. The Directors are required to prepare financial statements for the Company in accordance with International Financial Reporting Standards as issued by the International accounting standard Board (IFRS). Israeli company law requires the Directors to prepare such financial statements. International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company’s financial position, financial performance, and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board’s ‘Framework for the Preparation and Presentation of Financial Statements’. In virtually all circumstances, a true and fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors' Remuneration and Interests

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make an assessment of the Company's ability to continue as a going concern and disclose where they consider it appropriate; and provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors Report and Directors Remuneration Report which comply with the Listing Rules and the Disclosure and Transparency rules.

Legislation in Israel governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of the Directors confirms to the best of his or her knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
2. the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
3. the annual report and financial statements, taken as a whole, are fair, balanced, and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Accountability and Audit

Barzily & Co has expressed its willingness to continue in office and a resolution to re-appoint the firm will be proposed at the annual general meeting.

The Directors' Report has been brought for review to the board and has been approved in its present form. The Directors' Report is signed on behalf of the Board by:

Michael Rosenberg, Chairman
24 June 2020

Corporate Governance Report

The Company will generally observe the requirements of the UK Corporate Governance Code. As at the date of this Document, the Company is in compliance with the UK Corporate Governance Code, save as set out below:

The UK Corporate Governance Code also recommends the submission of all Directors for re-election at annual intervals. Directors will be required to submit for re-election every three years from Admission.

The Board – leadership and effectiveness

The Board, which currently comprises one Executive and six non-executive Directors, is responsible collectively for the long-term success of the Company. In compliance with Israeli company legislation the Board meets at least four times a year in formal session. Prior to each meeting, the Board is furnished with information in a form and quality appropriate for it to discharge its duties concerning the state of the business and performance.

Meetings

During the period ended 31 December 2019, a total of 7 Board meetings were held. All Directors were in attendance at these meetings, either in person or by conference call.

There is not a formal schedule of matters specifically reserved to the Board for its decision, as set out in A.1.1 of the Governance Code, since the Israeli Companies Law which applies to the Company sets out and defines the responsibilities and duties of and areas of decision for the Board. These include approval of financial statements, dividends, Board appointments and removals, long-term objectives and commercial strategy, changes in capital structure, appointment, removal and compensation of senior management, major investments including mergers and acquisitions, risk management, corporate governance, engagement of professional advisors, political donations and internal control arrangements. The ultimate responsibility for reviewing and approving the annual report and financial statements, and for ensuring that they present a balanced assessment of the Company's position, lies with the Board. These provisions have been fully complied with.

The Board currently comprises seven Directors, six of whom are non-executive Directors, under the chairmanship of Michael Rosenberg The Board's members have a wide breadth of experience in areas relating to the Company's activities and the non-executive Directors in particular bring additional expertise to matters affecting the Company. All the Directors are of a high calibre and standing. The biographies of all the members of the Board are set out on pages 15 to 16. The interest of the Directors in the Company and their shareholdings are set out on page 27. All the non-executive Directors are independent of management and not involved in any business or other relationship that could materially interfere with the exercise of their independent judgment. The Board is of the opinion that each of its members has the skills, knowledge, aptitude and experience to perform the functions required of a director of a listed Company and that the Board is comprised of a good balance of executive and non-executive Directors.

The induction of newly elected Directors into office is the responsibility of the Chairman of the Board. The new Directors receive a memorandum on the responsibilities and liabilities of Directors from the Company's general counsel as well as presentations of all activities of the Company by senior members of management and a guided tour of the Company's premises. All Directors are invited to visit the Company premises and its manufacturing facilities.

Corporate Governance Report

The Directors receive periodically a detailed operating report on the performance of the Company in the relevant period, including a statement of financial position. A fuller report on the trading and half year results of the Company is provided at every Board meeting. Once per year a budget is discussed and approved by the Board for the following year. All Directors are properly briefed on issues arising at Board meetings and any further information requested by a Director is always made available.

The Directors may take independent professional advice at the Company's expense in furtherance of their duties in accordance with section B.5.1. of the Governance Code.

Relations with Shareholders and Significant Shareholders

Communication with shareholders is given high priority. The half-yearly and annual results are intended to give a detailed review of the business and developments. A full Annual Report is made available on the Company's website to all shareholders. The Company's website (www.shefagems.com) contains up to date information on the Company's activities and published financial results. The Company solicits regular dialogue with institutional shareholders (other than during closed periods) to understand shareholders views. The Board also uses the Annual General Meeting to communicate with all shareholders and welcomes their participation. Directors are available to meet with shareholders at appropriate times. The Company is committed to having a constructive engagement with its shareholders.

As of 31 December 2019, to the best of the Company's knowledge, the following persons or entities had a significant holding of over 3% in Shefa Gems ordinary shares:

Parent company Shefa Yamim Limited (TASE: SEFA) owns 39.44% and has been traded on Tel Aviv Stock Exchange since 2012. (MCAP: ILS13.9m ILS, GBP 3.1m).

Eight – O – Eight Global Corp **5.70%**

One Hundred and One Gold Holdings **2.73%**

GEM BH LLC **15.28%**

Committees

The Company has established remuneration, audit and nomination committees, as follows:

Remuneration Committee

The Remuneration Committee provides recommendation on the Company's policy on executive remuneration, determines the levels of remuneration for executive Directors and the chairman and other senior executives. The Remuneration Committee will normally meet not less than twice a year.

The Remuneration Committee is chaired by James Campbell and its other members are Michael Rosenberg, Gershon Fraenkel and Nathalie Schwarz. The Committee did not meet in 2019. The UK Corporate Governance Code recommends that all members of the Remuneration Committee be non-executive Directors, independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment. The Board considers that the Company complies with the requirements of the UK Corporate Governance Code in this respect.

Corporate Governance Report

Under the Israeli Companies Law, the board of Directors of a public company must appoint a remuneration committee. The remuneration committee must be comprised of at least three Directors, including all of the external Directors, who must constitute a majority of the members of the remuneration committee. Each remuneration committee member that is not an external director must be a director whose compensation does not exceed an amount that may be paid to an external director. The remuneration committee is subject to the same Israeli Companies Law restrictions as the audit committee as to who may not be a member of the committee.

The duties of the remuneration committee include the recommendation to the Company's Board of a policy regarding the terms of engagement of office holders, referred to as a compensation policy. That policy must be adopted by the Company's Board, after considering the recommendations of the remuneration committee, and will need to be brought for approval by the Company's shareholders, which approval requires a special approval for compensation. A special approval for compensation requires shareholder approval by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not Controlling Shareholders and do not have a personal interest in such compensation arrangement; or (b) the total number of shares of non-Controlling Shareholders and shareholders who do not have a personal interest in the compensation arrangement and who vote against the arrangement does not exceed 2% of the company's aggregate voting rights. The Company will be required to adopt a compensation policy within nine months following Admission.

The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the Company's objectives, the Company's business plan and its long-term strategy, and creation of appropriate incentives for office holders. It must also consider, among other things, the Company's risk management, size and the nature of its operations.

Audit Committee

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, including reviewing the Company's financial statements and accounting policies, audits and controls (both internal and external), reviewing and monitoring the scope of the annual audit, advising on the appointment of external auditor and reviewing the effectiveness of audit controls.

The Audit Committee originally comprised Michael Rosenberg as chairman and includes James Campbell, Gershon Fraenkel and Nathalie Schwarz, and will meet as and when necessary, and not less than twice per year. Since Michael Rosenberg was appointed as chairman of the company in May 2019, he is no longer permitted to be a member of the audit committee In 2019, the Committee met 2 times to execute its responsibilities. The meetings focused on audit planning, risk management, and approval of the interim and final results. The Board has voluntarily adopted a dealing code for Directors' dealings based on the Institute of Chartered Accountants and Administrators specimen. The Board will be responsible for taking all proper and reasonable steps to ensure compliance with the dealing code by the Directors and to ensure that the Company, the Directors, any PDMRs and their respective PCAs are in compliance with the provisions of the Market Abuse Regulation.

Corporate Governance Report

If at the time at which an external director is appointed all members of the Board who are not Controlling Shareholders or relatives of Controlling Shareholders of the Company are of the same gender, the external director to be appointed must be of the other gender. A director of one company may not be appointed as an external director of another company if a director of the other company is acting as an external director of the first company at such time.

Under the Israeli Companies Law, the Company is required to appoint an audit committee. The Audit Committee must be comprised of at least three Directors, including all of the external Directors and one of whom must serve as chairman of the committee. The Audit Committee may not include the Chairman, a Controlling Shareholder of the Company or a relative of a controlling shareholder, a director employed by or providing services on a regular basis to the company, to a controlling shareholder or to an entity controlled by a controlling shareholder or a director who derives most of his or her income from a controlling shareholder.

In addition, under the Israeli Companies Law, the audit committee must consist of a majority of unaffiliated Directors. In general, an "unaffiliated director" under the Israeli Companies Law is defined as either an external director or as a director who meets the following criteria:

- he or she meets the qualifications for being appointed as an external director, except for (i) the requirement that the director be an Israeli resident (which does not apply to companies such as ours whose securities have been offered outside of Israel or are listed outside of Israel) and (ii) the requirement for accounting and financial expertise or professional qualifications; and
- he or she has not served as a director of the company for a period exceeding nine consecutive years. For this purpose, a break of less than two years in the service shall not be deemed to interrupt the continuation of the service

Nomination Committee

The Nomination Committee is responsible for recommendations to the Board for the appointment of additional Directors or replacement of current Directors, for reviewing the composition and makeup of the Board, and for succession planning, taking into account the skills, knowledge and experience that will be needed on the Board in the future. The committee includes James Campbell and Michael Rosenberg and will meet as and when necessary.

Each committee of the Board that exercises the powers of the Board must include at least one external director, except that the audit committee and the compensation committee must include all external Directors then serving on the board of Directors and an external director must serve as chair thereof.

Conflicts

Throughout 2019 the Company has complied with procedures in place for ensuring that the Board's powers to authorize conflict situations have been operated effectively and this has also been considered at a committee level where appropriate. During 2019 no conflicts arose which would require the Board to exercise authority or discretion in relation to such conflicts.

Corporate Governance Report

Risk Management and Internal Control

Risk management is currently reviewed on an ongoing basis by the Board as a whole.

The Company has an ongoing process for identifying, evaluating, and managing the significant risks faced by the Company that have been in place from 2012 and up to the date of approval of the Annual Report and Financial Statements. Principal controls are managed by the executive Directors and key employees, including regular review by management and the Board of the operations and the financial statements of the Company.

The Board has overall responsibility for ensuring that the Company maintains adequate systems of internal control and for determining the nature and extent of principal risks. The Board confirms that they have carried out during 2019 a robust assessment of such risks accordingly, including those that would impact the Company's business model, future performance, solvency or liquidity, and have considered how they are to be mitigated.

The key features of the financial controls of the Company include a comprehensive system of financial reporting, budgeting and forecasting, and clearly laid down accounting policies and procedures.

The main elements of internal control currently include:

- **Operating Controls:** The identification and mitigation of major business risks on a daily basis is the responsibility of the executive Directors and senior management. Each business function within the Company maintains controls and procedures, as directed by senior management, appropriate to its own business environment while conforming to the Company's standards and guidelines. These include procedures and guidelines to identify, evaluate the likelihood of and mitigate all types of risks on an ongoing basis.

- **Information and Communication:** The Group's operating procedures include a comprehensive system for reporting financial and non-financial information to the Directors. Financial projections, including revenue and profit forecasts, are reported monthly to senior management compared with corresponding results for previous periods. The central process for evaluating and managing nonfinancial risk is monthly meetings of business functions, each involving at least one Director, together with periodic meetings of executive Directors and senior management.

- **Finance Management:** The finance department operates within policies approved by the Directors and the Chief Financial Officer. Expenditures are tightly controlled with stringent approvals required based on amount. Duties such as legal, finance, sales and operations are also strictly segregated to minimise risk.

- **Insurance:** Insurance coverage is provided externally and depends on the scale of the risk in question and the availability of coverage in the external market.

Directors' Remuneration Report

Introduction

This report sets out Shefa Gems executive remuneration policy and details Directors' remuneration and benefits for the financial year under review. The recent amendments to the UK Companies Act 2016 in relation to the preparation and approval of Directors remuneration policies and reports for certain listed companies do not apply to Shefa Yamim as it is not incorporated in England. The remuneration policy and report referred to below are not necessarily intended to comply with the provisions of such laws, although the Board considers that the Company's current remuneration policy would comply with the Governance Code and have taken into account the requirement that the Company's remuneration policies (including any performance-related elements of executive remuneration) must be designed to promote the long-term success of the Company.

In accordance with Israeli Companies Law, the Board recommends and the General Meeting of the Company is asked to approve the remuneration policy of the Company for executives in the Company, after it has been first approved by the Company's Remuneration Committee and Board of Directors.

The Reporting Regulations (International Auditing Reporting Standards) also require the auditors to report to the Company's members in the financial statement within this report and to state whether in their opinion that part of the report has been properly prepared. The report is therefore divided into separate sections for audited and unaudited information. No remuneration consultants were engaged by the Company in 2018.

Audited information

The table of Directors' Annual remuneration is set out below

Emoluments of the Ordinary Directors and Non-executive Directors with comparatives

	Basic annual Salary	Face-to-face meeting	Meeting via conference call	Performance Bonus	Other	2019 Total
James AH Campbell (NED)	£20, 000	£860	£576	-		£26,654
Michael Rosenberg (NED)	£30,666	£860	£576	-		£30,070
Nathalie Schwarz (NED)	£20, 000	£860	£576	-		£27,175
David Nachshon	NIS 26, 000	NIS 615	NIS 370	-		-
Gershon Fraenkel	NIS 26, 000	NIS 615	NIS 370	-		-
Hanoch Erlich	NIS 26, 000	NIS 615	NIS 370	-		-

Directors' Remuneration Report

Emoluments of the Chairman of the Board & CEO - in the frame of the agreement with 101 Gold Holdings Ltd, the management company:

For efficiency and cost savings, the Company is managed at two sites:

Firstly, in the Company's operational site and laboratories in the industrial zone of Akko, where all exploratory activities take place, including the entire operational and field activities inclusive of; research, explorations, field investigations, classification, geologists, gemmologists and geological reports on the exploration activity.

Secondly, during 2019 the Company outsourced all its administrative functions to the management company 101 Gold Holdings Ltd ("101"). 101 provides the Company with all its office facilities in the city Netanya (which is in the centre of Israel) which included the services of the late Avi Taub up to his passing.

In addition to that, 101 through and by its employees also provides the Company with professional secretarial support and ongoing maintenance with supervision and control on the Finance, Administration, Legal, Regulation, Marketing, Investor relations, Insurance, Payroll, Manpower, as well as ongoing support in the handling of renewal of the various licenses according to which the Company operates.

For all services 101 is providing to the Company, 101 receives a monthly payment of NIS 85,000 plus VAT (out of that amount 101 was responsible for paying Mr. Taub's salary).

Major Shareholders and Other Interests

As at 31 December 2019, the following persons had a notifiable interest (being more than three per cent. of the voting rights) in the issued Shares of the Company:

Parent company Shefa Yamim Limited (TASE: SEFA) owns **39.44%** and has been traded on Tel Aviv Stock Exchange since 2012. (MCAP: ILS 13.9m ILS, GBP3.1m).
Eight – O – Eight Global Corp **5.70%**
One Hundred and One Gold Holdings **2.73%**
GEM BH LLC **15.28%**

Interests of the Directors

The interests of the Directors, both beneficial and non-beneficial, in the ordinary shares of the Company at 31 December 2019 were as follows:

Director	No. of Shares	Percentage of Enlarged Issued Share Capital
Abraham (Avi) Taub	-	-
James AH Campbell	327,280	0.19%
Michael Rosenberg	452,280	0.26%
Nathalie Schwarz	-	-
David Nachshon	-	-
Gershon Fraenkel	60,000	0.03%
Hanoch Erlich	-	-

Directors' Remuneration Report

Share Options

Directors have been granted share options exercisable into shares of the Company as follows:

Director	No. of options	Exercise price	Exercise period
Abraham (Avi) Taub	-	-	-
James AH Campbell	100, 000	£0.08	24 months
Michael Rosenberg	225, 000	£0.08	24 months
Nathalie Schwarz	-	-	-
David Nachshon	-	-	-
Gershon Fraenkel	-	-	-
Hanoch Erlich	-	-	-

Subject to specified exceptions, Israeli law generally requires severance pay upon the retirement, death or dismissal of an employee, and requires the Company and its employees to make payments to the National Insurance Institute. Our employees have defined benefit pension plans that comply with the applicable Israeli legal requirements.

The Company's obligation to make pension payments is covered by regular deposits with defined contribution plans. The amounts deposited are not reflected in the statements of financial position in the Company's working capital.

Corporate, Social and Environmental Responsibility

Preserving Nature and the Environment

Shefa Gems protects nature and the environment in which it operates. The Company fully cooperates with all environmental authorities, including the Israel Nature and Parks Authority, the Kishon River Authority and the Kishon River Drainage Authority. Landowners are also engaged prior to any exploration activity in their fields, promoting binding relationships.

Shefa Gems recognises that its operations, more particularly sample excavation and drilling, can have a damaging impact on the environment. Consequently, the Company is committed to minimising environmental harm and rehabilitating disturbed sites to their original form.

In addition, Shefa Gems is mindful of the country's scarce water resources and thus utilises advanced technology to recycle water that is needed for sample treatment. No chemicals and pollutants are used throughout the entire treatment process. All reject materials, such as clay and coarse gravel from the treatment process, are trucked to the original site from which they were removed. These are used to restore disturbed sites.

The Company's environmental responsibility also extends to daily work activities where paper recycling, electricity and water saving, and transport sharing are practiced.

Directors' Remuneration Report

Human Capital

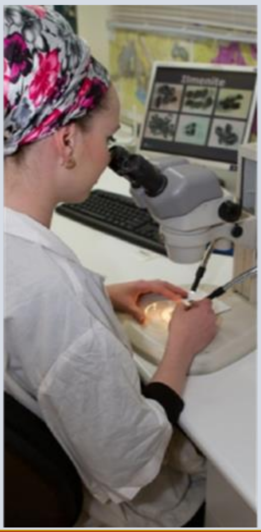
The core of Shefa Gems' human resources is local personnel that have diverse expertise and educational backgrounds. In addition to this, Shefa Gems hires the services of world leading professionals that are experts in the fields of mineral exploration and precious minerals. Besides providing technical input and guidance, they ensure that programmes are designed and implemented according to international standards dictated by the SAMREC Code.

This also facilitates regular auditing of Shefa Gems' results.

Training of personnel is an important part of Shefa Gems' human resource development. All employees undergo internal and external training provided by professional consultants.

The training extends to all operational areas including fieldwork, sample processing and laboratory work (microscopy and mineral identification). Consequently, skills continue to be improved in concert with the latest technological and scientific trends.






SHEFA GEMS LTD.
(Formerly Shefa Yamim A.T.M. LTD.)

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019

SHEFA GEMS LTD.
(Formerly Shefa Yamim A.T.M. LTD.)

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019

INDEX

Barzily&Co.
Certified Public Accountants
ברזלי ושות', רואי חשבון

Jerusalem, April 30, 2020

REPORT OF INDEPENDENT AUDITORS
To the Shareholders of
SHEFA GEMS LTD.
(Formerly Shefa Yamim A.T.M. LTD.)

We have audited the accompanying statements of financial position of Shefa Gems Ltd. (Formerly Shefa Yamim A.T.M. LTD.) (hereinafter - "the Company") as of December 31, 2019 and 2018, and the related statements of comprehensive income (loss) , changes in equity and cash flows for each of the three years in the period ended December 31, 2019. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018 and the results of its operations, the changes in its equity and cash flows for each of the three years in the period ended December 31, 2019, in conformity with international financial reporting standards (IFRS).

Without qualifying our opinion, we draw attention to Note 1c of these financial statements -
Since the operations of the Company are prospecting and exploration for gold, precious stones and diamond deposits and the Company has not yet commenced commercial mining, as a result, the Company does not as yet have significant revenues. Financing of its operations has been performed until now by infusions of capital and/ or by loans received by the parent company, and transferred in part to the Company in accordance with the agreement between them (see Note 1d) and its continued operation is contingent upon the further similar infusions of capital. In view of past experience, the Company's management believes that it can mobilize the sources for money in order to complete the explorations, but there remains uncertainty in this regard since the mobilizations are dependent on other parties. These factors create significant doubts in regard to continued operation of the Company as a "going concern".

These financial statements do not contain any adjustments for valuation of assets and liabilities or their classification that would likely be necessary in the event that the Company is unable to continue its operations as a "going concern".

Barzily & Co.
Certified Public Accountants
A Member of MSI Worldwide

SHEFA GEMS LTD. (Formerly Shefa Yamim A.T.M. LTD.)
STATEMENTS OF FINANCIAL POSITION

NIS in thousands

	Note	December 31, 2019	December 31, 2018
ASSETS			
Non-Current Assets:			
Fixed assets, net	6	1,494	1,736
Assets in regard to usage rights	15	1,751	- . -
Loans to top-co	7	1,116	2,494
Interested party		77	77
Assets for exploration and evaluation of precious stones	8	60,628	59,128
Total non-current assets		65,066	63,435
Current Assets:			
Cash in foreign currency		6	209
Short-term deposit in bank	4	14	- . -
Clients		51	- . -
Receivables	5	145	779
Total current assets		216	988
Total Assets		65,282	64,423
EQUITY AND LIABILITIES			
Equity	17	56,422	59,544
Non-current Liabilities:			
Long-term loans from interested party and others	14	- . -	560
Financial lease	15	1,492	- . -
Liability for severance pay	3h	164	138
Options convertible to shares	16	1,120	564
Total Non-current Liabilities		2,776	1,262
Current Liabilities:			
Short-term credit from bank and others	9	762	456
Trade payables	10	1,071	1,368
Interested parties	11	211	114
Other accounts payable	12	1,114	907
Liabilities at fair value	13	1,792	- . -
Loans convertible to shares	13	1,134	772
Total current liabilities		6,084	3,617
Total Equity and Liabilities		65,282	64,423

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

April 30, 2020		
Date of Approval of the Financial Statements	Michael Rosenberg Chairman of the Board of Directors	David Ben David CFO

SHEFA GEMS LTD. (Formerly Shefa Yamim A.T.M. LTD.)
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
NIS in thousands (except for income (loss) per share)

		For the Year Ended December 31,		
	Note	**2019**	**2018**	**2017**
Costs and expenses -				
General and administrative expenses	18	(3,123)	(3,410)	(541)
Amortization of assets for exploration	8	(2,409)	- . -	- . -
Operating loss		(5,532)	(3,410)	(541)
Other expenses, net	19	(1,023)	- . -	- . -
Loss prior to financing		(6,555)	(3,410)	(541)
Financial expenses		(1,534)	(218)	(15,954)
Financial income		160	9,637	237
Financial income (expenses), net	20	(1,374)	9,419	(15,717)
Profit (Loss) for the year and comprehensive profit (loss) for the year		(7,929)	6,009	(16,258)
Basic and diluted income (loss) per share (in NIS)	24	(0.049)	* 0.0431	* (0.170)

* Subsequent to the split, an adjustment of the income (loss) per share was performed. See note 17c.

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

SHEFA GEMS LTD. (Formerly Shefa Yamim A.T.M. LTD.)
STATEMENT OF CHANGES IN EQUITY
NIS in thousands

	Share Capital	Additional Paid-in Capital, net	Receivables in Regard to Shares	Capital Reserve for Share- Based Payments	Capital Reserve from Transactions with Interested Party	Accumulated Deficit	Total Equity Attributed to Shareholders
Balance as of January 1, 2017	9,387	78,626	- . -	5,291	6,312	(50,796)	48,820
			- . -				
Comprehensive Loss for the year	- . -	- . -	- . -	- . -	- . -	(16,258)	(16,258)
Issuance of shares	**4,518	** 14,339	- . -	- . -	- . -	- . -	18,857
Share based payment	- . -	- . -	- . -	292	- . -	- . -	292
Receipts for issue of shares during 2012 *	- . -	777	- . -	- . -	- . -	- . -	777
Balance as of December 31, 2017	13,905	93,742	- . -	5,583	6,312	(67,054)	52,488
			- . -				
Comprehensive Income for the year	- . -	- . -	- . -	- . -	- . -	6,009	6,009
Issuance of shares	319	595	- . -	- . -	- . -	- . -	914
Share based payment	- . -	- . -	- . -	133	- . -	- . -	133
Balance as of December 31, 2018	14,224	94,337	- . -	5,716	6,312	(61,045)	59,544
			- . -				
Comprehensive Loss for the year	- . -	- . -	- . -	- . -	- . -	(7,929)	(7,929)
Issuance of shares	3,006	1,960	(205)	- . -	- . -	- . -	4,761
Share based payment	- . -	- . -	- . -	46	- . -	- . -	46
Balance as of December 31, 2019	17,230	96,297	(205)	5,762	6,312	(68,974)	56,422

* See Note 1d, 17f.

** Net of issuance expenses and fees in the amount of approximately NIS 4,470 thousand. See Note 17b.

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

SHEFA GEMS LTD. (Formerly Shefa Yamim A.T.M. LTD.)
STATEMENTS OF CASH FLOWS
NIS in thousands

	For the Year Ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Profit (Loss) for the year	(7,929)	6,009	(16,258)
Appendix A - Adjustments required to reconcile profit (loss) for the year to net cash provided by (used in) operating activities	5,209	(9,931)	17,114
Net cash provided by (used in) operating activities	(2,720)	(3,922)	856
Cash flows from investing activities:			
Purchase of fixed assets	(395)	(391)	(531)
Consideration from sale of fixed assets	- . -	55	- . -
Deposits	(14)	173	- . -
Investment in exploration and evaluation assets	(2,161)	(3,541)	(4,375)
Loan repaid (rendered) to the top-co	253	(84)	(1,177)
Interest received	- . -	- . -	188
Net cash used in investing activities	(2,317)	(3,788)	(5,895)
Cash flows from financing activities:			
Consideration received for issuance of share capital and options (including additional capital), net	3,575	908	137
Increase in deferred issuance expenses	- . -	- . -	(4,707)
Receipt (Repayment) of credits from banks and others, net	103	(2)	(205)
Receipt (Repayment) of loans from interested parties, net	(674)	(111)	446
Repayment of fund in regard to leasing	(299)	- . -	- . -
Liabilities to shareholders	- . -	685	- . -
Receipt of loans convertible to shares	2,636	- . -	16,611
Repayment of long-term loans	- . -	(25)	(40)
Interest paid	(334)	(106)	(458)
Net cash provided by financing activities	5,007	1,349	11,784
Linkage differences in regard to cash and cash equivalents	(173)	81	(257)
Increase (Decrease) in cash and cash equivalents	(203)	(6,280)	6,488
Cash and cash equivalents at the beginning of the year	209	6,489	1
Cash and cash equivalents at the end of the year	6	209	6,489

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

SHEFA GEMS LTD. (Formerly Shefa Yamim A.T.M. LTD.)
STATEMENTS OF CASH FLOWS
NIS in thousands

APPENDIX A

Adjustments required to show the cash flows from current operations:	For the Year Ended December 31, 2019	2018	2017
Expenses (Income) not involving cash flows:			
Depreciation *	49	54	60
Share based payment	11	25	46
Capital mobilization fees	414	- . -	- . -
Amortization of assets for exploration and evaluation of precious stones	2,409	- . -	- . -
Amortization of a loan to an interested party	1,116	- . -	- . -
Finance expenses (income), net	1,374	(9,419)	15,717
	5,373	(9,340)	15,823
Changes in asset and liability items:			
Increase in clients	(51)	- . -	- . -
Decrease (Increase) in receivables	376	(.169)	(64)
Increase (Decrease) in trade payables	(374)	121	1,403
Increase (Decrease) in liability to an interested party	(296)	(242)	- . -
Increase (Decrease) in other accounts payable	181	(301)	(48)
	(164)	(591)	1,291
	5,209	(9,931)	17,114

* Net of depreciation encumbered on the assets for exploration and evaluation of precious stones.

APPENDIX B

Significant non-cash flow operations:	For the Year Ended December 31, 2019	2018	2017
Accounts payable in regard to assets for exploration and evaluation of precious stones	765	428	1,550
Fixed assets in regard to assets for exploration and evaluation of precious stones	464	- . -	- . -
Usage rights assets in regard to assets for exploration and evaluation of precious stones	364	- . -	- . -
Loan for acquisition of fixed assets	- . -	124	240
Loans assigned to capital	1,166	- . -	20,518
Loan from interested parties that is assigned to capital	3-	- . -	1,659
Balance from a supplier assigned to capital	60	223	1,152
Payables in regard to deferred issuance expenses	- . -	- . -	742
Assignment of a receivable balance from the chairman of the board of directors to the top-co	- . -	- . -	640

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

NOTE 1:- GENERAL

1. a. **The reported entity -**

SHEFA GEMS LTD. (Formerly: Shefa Yamim A.T.M. LTD. and hereinafter – “the Company”) is an Israeli company engaged in exploration for diamonds, precious stones and gold in Northern Israel.

The Company is a subsidiary of Shefa Yamim Ltd. (hereinafter – "the top-co"). As of December 31, 2019 share of top-co in the Company’s shares was 39.47%.

Until December 2017 the top-co owned 75% of the Company's share capital. As a result of the Company's issuance of shares on the London Stock Exchange (Standard List) on December 18, 2017 (see Note 17b) the top-co's ownership was reduced to 50.63%. The top-co is a public company whose shares are traded on the Tel Aviv Stock Exchange.

b. The Company engages in prospecting and exploration for diamonds, precious stones and gold ("precious stones") in Northern Israel, along the length of the Nahal Kishon riverbed in the Zevulun Valley, in Emek Yizrael, on designated slopes of Mount Carmel, Ramot Menashe and Migdal Ha-Emeq areas based on prospecting and exploration permits received from the Inspector of Mines in the Office of National Infrastructure, Energy and Water Resources of the Government of Israel, in accordance with the Mines Ordinance.

Proximate to date of approval of the financial statements, the Company continues to conduct prospecting and explorations in accordance with current valid permits granted for an inclusive area of approximately 488 thousand dunam. For detail of the permits, see Note 8- exploration assets.

In accordance with the Mining Ordinance, subsequent to exposure of the mine and quarry of precious minerals, the Company will be required to pay royalties to the Israeli Government, as outlined in the Mining Ordinance, at the rate of at least 5% of the value of the mined minerals or their value while still unmined.

c. Since the operations of the Company are prospecting and exploration for gold, precious stones and diamond deposits and the Company has not yet commenced commercial mining, therefore, the Company does not as yet have any significant revenues. Financing of its operations has been performed until now by infusions of capital and/ or by loans and convertible loans received by the Company from third parties and from the top-co and transferred in parts to the Company in accordance with the agreement between them (see Note 1d) and its continued operation is contingent upon further similar infusions of capital. In view of past experience, the Company's management believes that it can mobilize the sources for money in order to complete the explorations, but there remains uncertainty in this regard since the mobilizations are dependent on other parties. These factors create significant doubts in regard to continued operation of the Company as a "going concern".

These financial statements do not contain any adjustments for valuation of assets and liabilities or their classification that would likely be necessary in the event that the Company is unable to continue its operations as a "going concern."

NOTE 1:- GENERAL (cont.)

d. On February 22, 2012 the Tel Aviv-Yafo District Court approved the top-co request for an arrangement with creditors in accordance with Sections 350 and 303 of the Corporate Ordinance – 1999.

In the framework of the arrangement with creditors, the top-co allocated 23,817,790,260 new shares without par value that constitute, subsequent to their allocation, 99% of the issued and outstanding top-co fully diluted share capital. 9% of this allocation was allocated to Pareto Mergers and Acquisitions Ltd. (hereinafter: "Pareto") and 90% (fully diluted) was allocated to shareholders of the Company.

As consideration for the allocation of new shares, shareholders of the Company and Pareto invested an amount of NIS 1,250 thousand in the top-co (NIS 1,125 thousand from the Company's shareholders and NIS 125 thousand from Pareto).
These amounts were transferred to a fund established by trustees on behalf of the creditors and shareholders wherein all assets and liabilities of the top-co company have been assigned in the framework of the creditors arrangement.

The Company is entitled to payment of NIS 280 million for this shares allocation (hereinafter: "the debt"). Amount of the debt is linked to the Consumer Price Index and bears interest of 4% per annum. The debt will be paid exclusively from future top-co mobilizations of capital, with the Company entitled to 85% of any future mobilized capital (net after expenses) until repayment of the entire debt.

Until December 31, 2018, the Company received NIS 23,912 thousand (including NIS 2,637 thousand in regard to interest) from mobilizations of capital. See Note 17.

In the event that future mobilizations of capital will not complete repayment of the debt, this does not constitute grounds for nullification of the agreement or a change in its terms and the Company will have no recourse to collect from top-co in any other manner.
In view of the uncertainties in regard to future mobilizations of capital by top-co, the Company recorded the proceeds from the abovementioned issue in accordance with actual mobilizations of top-co.

NOTE 1:- GENERAL (cont.)

e. On December 18, 2017 the Company completed its IPO on the STANDARD LIST Stock Market in London. In connection with the IPO the Company issued 45,174,560 new Ordinary shares. As a result of this issuance, top-co holds shares that constitute 50.63% of the outstanding share capital of the Company. See also Note 17.

f. Definitions -

In these financial statements:

International Financial Reporting Standards (IFRS) – Standards and interpretations adopted by the International Accounting Standards Board (IASB) that include international financial reporting standards (IFRS) and international accounting standards (IAS), and interpretations of these Standards as determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations determined by the Standards Interpretation Committee (SIC), respectively.

"The Company" – SHEFA GEMS LTD.

"Top-co Company" – Shefa Yamim Ltd. – the parent company.

"Related Party" – As defined in IAS 24 and by the International Accounting Standards Board (IASB).

"Interested Party" – as defined in the Securities Act – 1968, and its Amendments.

"101" – One Hundred One – Gold Holdings Ltd. – An interested party (hereinafter: "101").

"808" – Eight O Eight Global Corp. – An interested party (hereinafter: "808").

"Index" – The Consumer Price Index published by the Central Bureau of Statistics.

"Dollar" or $ - The U.S. dollar.

NOTE 2:- BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

a. Declaration in regard to Implementation of International Financial Reporting Standards (IFRS)

The Company's financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS") and related clarifications published by the International Accounting Standards Board ("IASB").

The significant accounting principles detailed below were consistently implemented for all reporting periods presented in these financial statements except for changes in the accounting policies that derive from application of standards, amendments to standards and clarifications that became effective at the date of the financial statements.

The financial statements were approved by the board of directors on April 30, 2020.

b. Functional Currency and Presentation Currency

The financial statements are presented in New Israel Shekels (NIS) that is the functional currency of the Company, and are rounded to the nearest thousand. The Shekel is the representative currency of the main economic environment wherein the Company operates.

NIS in thousands

NOTE 2:- BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

c. Basis for preparation of financial statements

These financial statements are prepared on the basis of historical cost. The statement of comprehensive income was included according to characteristics of operations.

Value of non-cash assets and detail of share capital measured on the basis of historical cost, were adjusted to changes in the Consumer Price Index until December 31, 2003 since until that date the Israeli economy was considered to be hyper-inflationary.

d. The operating turnover cycle

The ordinary operating turnover cycle for the Company is one year. The assets and liabilities attributed to this operation and that are intended to be realized during this operating period are shown in the framework of current assets and current liabilities.

e. Foreign currency and linkage basis

Transactions stated in foreign currency are translated into the functional currency of the Company at dates of transactions, using the representative exchange rate. Financial assets and liabilities designated in foreign currency at reported date have been included in the financial statements according to the prevailing representative exchange rates as published by the Bank of Israel at the balance sheet date. Non-monetary items designated in foreign currency and measured at fair value are translated into the functional currency at the exchange rate prevailing when the fair value was determined. Non-monetary items measured at cost are translated into the effective exchange rate at transaction date for the non-monetary item.

Detail in regard to the Consumer Price Index and the exchange rate of the U.S. dollar and the British pound:

	December 31,		
	2019	**2018**	**2017**
CPI in points (applicable) *	125.06	124.31	123.33
CPI in points (known) *	125.06	124.68	123.21
Exchange Rate of U.S. $ in NIS	3.456	3.748	3.467
Exchange Rate of British £ in NIS	4.56	4.793	4.682

* Base Index 2002 = 100.

	Year Ended December 31,		
	2019	**2018**	**2017**
Change in CPI (applicable)	0.6%	0.80%	0.40%
Change in CPI (known)	0.3%	1.20%	0.30%
Change in rate of exchange- U.S. $	(7.8%)	8.10%	(9.83%)
Change in rate of exchange- Brit. £	(4.9%)	2.38%	(0.91%)

NOTE 2:- BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS (cont.)

f. Critical accounting decisions

Implementation of accounting policies adopted by the Company requires Company management, in certain instances, to implement broad accounting decisions (as opposed to accounting decisions that related to determination of estimates and valuations as detailed in Section g. below). These broad decisions relate mainly to adoption of the accounting principle most suitable to the circumstances, or rendering of an acceptable interpretation under circumstances where the accounting regulation does not render a full or clear response for the specific circumstances. A critical accounting decision is such that the results may have a significant effect on the financial situation and results of operations of the Company as reflected in the financial statements and with other basic assumptions could lead to an accounting result significantly different than the one presented therein. By its nature, an accounting decision as such is partially subjective. Concurrently, by implementing a critical accounting decision, Company management bases its conclusion on understanding of the accounting principles for implementation of its operations and, where relevant, the Company consults with external experts in the relevant field.

g. Essential estimates and uncertainties

Upon preparation of the financial statements, Company management is required to utilize estimates or valuations in regard to transactions or matters that their final effect on the financial statements cannot be accurately determined at the time. The main basis for determination of the quantitative value of these estimates is assumptions adopted by Company management, taking into account the circumstances for the estimate, as well as the best of knowledge available at the time. It is natural, since these estimates and valuations are a result of decisions during uncertainty, that during significant moments, changes in the basic assumptions derived from changes that are not absolutely dependent on Company management, as well as additional information at a future date that was unavailable to the Company management at the time when the estimate was formulated, will result in changes in the quantitative value of the estimate. Thus, this will also influence the financial position of the Company and the results of its operations.

Therefore, though these estimates and valuations were concluded using the best of knowledge available to management, based on past experience and taking into account the singular circumstances, and, where relevant, reliance on external consultants, the final quantitative effect of transactions or circumstances requiring estimate can only be clarified when these transactions or circumstances reach their conclusions. Therefore, the actual results, upon final clarification of the results for an event that requires determination of estimates and valuations, may differ, sometimes significantly, from estimates and valuations that were determined initially and are updated over the period of the related events.

NOTE 2:- BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS (cont.)

g. Essential estimates and uncertainties (cont.)

The estimates and valuations that form the basis are examined currently and are updated as a result of information gained by management or of an event that occurred subsequent to the last date when the estimate was determined, and were not available at the previous period when the estimate was determined or examined. Changes in accounting estimates are charged to the period when the change occurs in the estimate, or also to subsequent periods following the change, when it is apparent that the implications of the change will have an effect on the present and future periods.

Following are areas where the valuation for the financial statements requires estimation and valuation that, in the opinion of management, will have a very significant effect:
1) fair value of prospecting assets;
2) fair value of financial instruments;
3) fair value of Options.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES

a. Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments that are immediately realizable. This includes short-term bank deposits for immediate withdrawal and deposits with maturities of three months or less that are not limited in any way and no charges are placed thereon.
Deposits that are limited or that their maturity dates are in excess of three months but not in excess of one year are classified as deposits in the current assets section of the statements of financial position.

b. Fixed assets

Fixed assets are stated at cost net of accumulated depreciation and any losses in value that may have occurred.
The cost includes acquisition cost of the fixed assets as well as all costs that can be attributed directly to bringing the asset to its location and its current situation that are necessary for operations, using the methodology intended by management.
Vehicles purchased under financial lease agreements are presented at cost computed by estimated capitalization of the leasing costs in accordance with the leasing agreement.
Depreciation included in the statement of comprehensive income is calculated using the straight-line method based on the estimated useful lives of the assets, at the following annual rates:

	%
Office furniture and equipment	6-15
Laboratory machinery and equipment	10-15
Leasehold improvements – Establishment of a laboratory	10
Vehicles	15
Computers	33

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

b. Fixed assets (cont.)

Depreciation expenses for vehicles and laboratory equipment used during explorations are charged to cost of assets for prospecting and valuation of precious stones. Profit or loss arising from sale or decrement of a fixed asset item is determined as the difference between receipts from its sale and its book value at decrement date, and is included in operations.

c. Assets for prospecting and valuation of precious stones

1. The Company has adopted the "Successful Efforts Method" in regard to the accounting treatment of expenses incurred in prospecting, mining and extraction of precious stones. In accordance with this Method:

   a) Expenses for participation in geologic tests and scans that occur prior to the prospecting and valuation stage and prior to receiving a permit are charged immediately to the statements of comprehensive income when incurred.

   b) Investments in explorations for precious stones during the exploration and valuation stages, relating to areas that are as yet unproven whether they will indeed yield precious stones or are unprofitable, are shown in the statements of financial position at cost, as exploration and valuation assets that are stated as tangible or intangible assets in accordance with the essence of the asset. These investments include, inter alia, costs incurred for performance of geological research, drilling costs, operations relating to evaluation of technical ability for commercial existence of resources to be yielded as well as general and administrative costs of a headquarters (mainly to a related company) related to direct costs for prospecting and valuation of assets.

   c) Investments in prospecting for precious stones that have an existing technical plan and the resource has a commercial existence will be restated and included as "investments in precious stone assets." Prior to their restatement, these items will be examined for decrease in value. In the event that a loss has been created, this will be recognized and included in the statements of comprehensive income. Investments in precious stone assets are amortized in the statements of comprehensive income on the basis of amounts extracted in relation to total proven reserves for the precious stone assets, as valuated by an external assessor with expertise in this area.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

c. Assets for prospecting and evaluation of precious stones (cont.)

1. (cont.):

   d) Prospecting and evaluation assets will be examined for decrease in value when events and occurrences would lead one to believe that their book value exceeds their attributed realization value. Such events and occurrences include, inter alia: expiration of prospecting rights in a specified area or predictions that these rights will expire in the near future and renewal is not foreseen; prospecting for precious stones in a specific area have not resulted in proven commercial quantities of reserves of precious stones. In the event that there are signs of an impairment in value, as abovementioned, the realization value for the asset is estimated in accordance with IAS 36 (see Section 3e).

2. "Investments in Precious Stone Assets" in the statements of financial information will include, also, accumulated costs for development of infrastructures for the necessary bases in order to yield resources. These costs are capitalized and can include headquarters costs that are directly attributable to establishment of the assets and other direct overhead costs. They are shown in the statements of financial information at cost and are amortized in the statements of comprehensive income on the basis of quantity yielded in proportion to total proven reserves as evaluated by an external expert assessor, as stated in 1c abovementioned.

3. Investments in precious stone assets that have an existing technical plan are examined at each reporting period for any signs of impairment. In the event that such signs exist, the realization value is computed in accordance with IAS 36 (see Sect. 3e).

4. The Company will recognize the liability and, correspondingly, the asset in regard to Company obligation to disassemble, clear and rehabilitate the site where the asset was established. The liability is initially measured at its present value and the expenses derived from its increase are depreciated over a period of time in the statement of comprehensive income. The asset is initially measured at its present value and is depreciated over a period of time in the statement of comprehensive income in accordance with the useful life of the removed asset. Changes in timing and in the amount of the economic resources that are necessary for the removal of the liability as well as the change in the capitalization rate are added to or deducted from the asset during the current period corresponding to a change in the liability.

   Changes in the obligation to disassemble and clear items and rehabilitation of the site where they were established, except for changes deriving from timing, are added to or deducted from the asset cost during the period when incurred. The amount deducted from the asset cost will not exceed the book value of the asset and the balance, if any, is immediately recognized in the statements of comprehensive income.

   The Company examines its projected obligations to rehabilitate and renew excavation sites and includes a provision, when necessary, in accordance with the current value of projected costs.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

d. Issue of a package of securities

When securities are issued as a package, the consideration received is allotted (prior to issue expenses) to securities issued as a package in conjunction with the following order of allocation: financial derivatives and other financial items that are presented at fair value periodically. Subsequently, the fair value of the financial liabilities is determined, with the allotted consideration for capital instruments determined as the remaining value. Issue costs are allotted to each component in accordance with the ratio of amounts determined for each component of the package.

e. Impairment in value of assets

At the close of every reporting period, the Company examines the book value of its tangible assets to determine any signs of loss from impairment in value of these assets. In the event that there are signs of impairment, the Company examines the realization value of the designated asset in order to determine the loss from impairment, if any.

The realization value is the higher of fair value of the asset net of sale costs as compared with its useful life that is determined by the present value of projected cash flows to be realized from this asset using a rate prior to taxes that reflects the present book value of the time span for the money and the specific risks for the asset that the estimated future cash flows were not adjusted for in this regard.

In the event that the book value of the asset is greater than its realization value, a devaluation of the asset has occurred in the amount of the difference between its book value and its realization value. This amount is recognized immediately in the statements of comprehensive income.

Prior devaluation of an asset is nullified, partially or completely, only when changes in the determinants of realization value of the asset have occurred. In the event of such an occurrence, the book value of the asset is increased to the estimated current fair value, but not in excess of the asset book value that would have existed had there not been devaluation and subsequent to deduction of any relevant depreciation. Such nullification is recognized immediately in the statements of comprehensive income.

f. Financial instruments

1. **Non-derivative financial instruments**

Non-derivative financial instruments comprise various accounts receivable, deposit, and cash and cash equivalents.

Non-derivative financial instruments are recognized initially on the trade date at which the Company becomes a party to the contractual provisions allowing the Company to receive the financial instrument. Investments in these instruments are initially presented at their fair value with the addition of transaction costs.

The Company classifies its financial assets as loans and receivables. This classification is determined in accordance with the purpose for holding the financial asset, when initial recognition of the financial asset occurs.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

f. Financial instruments (cont.)

2. **Losses from impairment in value and write-off of non-derivative financial instruments**

Financial instruments not classified at fair value through profit and loss are examined at each reporting period as to whether there are signs of impairment in value. Impairment occurs when there is objective evidence that as a result of a specific incident or occurrences, occurring subsequent to initial recognition date of the financial asset, a negative effect exists on the projected cash flows for the investment in this asset.

In regard to financial assets that are included at amortized cost (mainly loans and receivables), the amount of impairment in value is the difference between the book value of the financial asset and the present value of the estimated future cash flows projected to derive from the asset, discounted at the original effective interest rate for the asset. This amount is charged to the statement of comprehensive income.

In the event that during a parallel period to that when a loss was recorded for impairment in value for a financial asset included at amortized cost there are indications that the amount of the loss from impairment in value is less and is objectively related to an event occurring subsequent to recognition of the impairment, then the prior impairment loss will be written off, in part or completely, to profit and loss. The amount written off is limited so that the book value of the investment in the financial asset at the time of write-off of the loss from impairment in value does not exceed the amortized cost of the asset at the cancellation date had there not been a prior recognition of impairment in value.

3. **Non-derivative financial liabilities**

The Company initially recognizes debt securities issued on the date that they originated. All other financial liabilities (including financial liabilities designated at fair value through profit and loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are reduced when the obligation of the Company, as specified in the agreement, expires or when it is discharged or written off.

Financial obligations are initially recognized in accordance with their fair value with the addition of attributable transaction costs. Subsequent measurement of financial liabilities is mainly on the basis of amortized cost using the effective interest method.

The Company has the following non-derivative financial liabilities: loans and credit from banks and others, and trade and other payables.

Financial assets and liabilities are offset and the net amounts are presented in the statement of financial position when the Company currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

For the policy implemented from January 2018 see note 3n.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

g. Provisions

Provisions are recognized when the Company has a current obligation (legal or derived) as a result of a past occurrence that can be reliably measured, that will in all probability result in the Company being required to provide additional benefits in order to settle this obligation. The amount recognized as a provision reflects the best estimate by management of the amount that will be required to settle the obligation currently at financial statements date, while taking into account the risks and uncertainties related to obligations. When provisions are determined by capitalization of projected cash flows in order to settle the obligation, the provision is the current value of the projected cash flows. Changes in projected time periods are charged to comprehensive income or loss. When the entire sum or a portion thereof necessary for current settlement of the liability will likely be repaid by a third party, the Company recognizes an asset for the return, up to the amount of the recognized provision, only when there is virtual certainty that the amount will be received and it can be reliably estimated.

h. Liability in regard to employee benefits

The Company has several benefit plans for its employees:

1. Short-term employee benefits -
   Short-term employee benefits include salaries, vacation days, recreation and employer deposits to the National Insurance Institute that are recognized as expenses when rendered. A liability for a cash bonus or a plan for participation in Company earnings is recognized when the Company has a legal or derived responsibility for payment of the amount for services rendered in the past by the employee and the amount can be reliably measured.

2. Benefits upon retirement -
   These plans generally are funded by deposits to insurance companies and pension funds and are classified as restricted deposit plans or as restricted benefit plans.

   Some Company employees have restricted deposit plans, in accordance with Section 14 of the Severance Pay Law, whereby the Company pays fixed amounts without bearing any legal or derived responsibility to pay additional amounts thereto even if the fund did not accumulate enough amounts to pay the entire benefit amount to the employee that relates to the services he rendered during the current and prior periods. Deposits to the restricted plan are classified for benefits or for compensation, and are recognized as an expense upon deposit to the plan concurrent with receiving services from the employee and no additional provision is required in the financial statements.

Concurrently, the Company operates a restricted benefit plan for severance pay as required by the Severance Pay Law. In accordance with the Severance Pay Law, employees are entitled to compensation upon retirement or upon termination of their employment.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

h. Liability in regard to employee benefits (cont.)

The financial statements include a provision in the amount of the difference that the Company would be required to pay in the event that the employees would be entitled to severance pay at statements of financial position date. No actuarial computations of possible obligation and actual value of deposits with the restricted benefit plan were made since, in the opinion of Company management, such computation would not have a material effect on the Company's financial statements.

i. Financial income and expenses

Financial income includes interest in regard to invested amounts, revenues from exchange rate differences that are recognized in the statements of comprehensive income and revenues from adjustments of fair value of liabilities. Interest income is recognized upon accumulation, using the effective interest method.

Financial expenses include interest on loans received, finance expenses in regard to fair value of liabilities and changes in the time estimates of provisions.
Gains and losses from exchange rate differences are reported net. Costs of credit are recognized as an expense during the period of their inception, in accordance with the effective interest methodology.

j. Deferred Taxes

The Company creates deferred taxes in regard to temporary differences of value for tax purposes of assets and liabilities and their values in the financial statements. These deferred tax balances (asset or liability) are computed according to the projected tax rates occurring upon realization, based on tax rates and regulations in force or legislated fully at the date of the statements of financial position. Deferred tax liabilities are recognized, generally, for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
A deferred tax asset is recognized on the books for carryforward losses, tax benefits and temporary differences that are deductible to the extent that it is probable that future taxable profit will be available against which the temporary differences can be offset. Deferred tax assets are reviewed at every reporting date and, in the event that the related tax benefits will not be utilized, they are deducted.
In the absence of certainty regarding taxable income in the future, there was no recording of a tax deferred asset in regard to carryforward losses on the Company books of account.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

k. Statement of Cash Flows

The statement of cash flows from current operations is presented using the indirect method, whereby interest amounts paid and received by the Company are included in the cash flows in the framework of finance operations.

l. Gain (Loss) per Share

The Company computes the basic revenue or loss per share in regard to gain or loss that is attributed to the Company shareholders by dividing the income or loss, attributable to ordinary shareholders of the Company, by the weighted average of ordinary shares that exist in the turnover during the reported period. The Company does not have any securities that are convertible to shares that would have a potential effect on the diluted income per share.

m. Share Based Compensation

In share based compensation, transactions with employees (including officers and others who provide similar services) that are cleared by top-co. capital instruments, the costed benefit of capital instruments granted is based on their fair value at grant date. The costed fair value upon granting of Options is measured on the basis of the Black-Sholes model. The abovementioned benefit is attributed to expenses in the profit and loss against a straight-line growth in share capital, over the vesting period of the capital instrument that was granted, so that every sub-granting is considered as a separate graded vesting. In transactions involving share based compensation with renderers of services, the Company measures the expense in accordance with the value of the services received. In share based compensation transactions cleared by cash payment, the Company measures the services acquired and the liability that was created, in accordance with the fair value of the liability. Until the liability is cleared, the Company remeasures the fair value of the liability at every reported period and upon clearance, so that any changes in the fair value are recognized in the statement of comprehensive income for the period.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

n. Financial Instruments

On January 1, 2018 the Company initially implemented International Reporting Standard No. 9 – "Financial Instruments" (hereinafter – "The Standard"). The Company chose to retroactively implement the Standard's regulations without restatement of comparative figures. The related accounting principles implemented commencing January 1, 2018 in regard to financial instruments were as follows:

Financial Assets

Financial assets are measured at fair value on their initial recognition date. In addition, the transaction costs that are directly attributable to acquisition of the financial asset are included, except where the financial asset is measured at fair value through profit and loss, so that the transaction costs are charged to profit and loss.

The Standard determines that financial assets shall be handled as follows:

- Debit instruments will be classified and measured subsequent to initial recognition under one of the following alternatives: depreciated cost, fair value through profit and loss or fair value through other comprehensive income. Determination of the measurement model will take into account the business model of the entity in regard to management of financial assets and in accordance with the characteristics of the projected cash flows that derive from those financial assets.
- A debit instrument that was measured by depreciated cost or by fair value through other comprehensive income may be designated for fair value through profit and loss, but only if the designation will nullify lack of consistency in recognition and measurement that would be created if the asset was measured by depreciated cost or by fair value through other comprehensive income.
- As a rule, the financial instruments will be measured at fair value through profit and loss.
- Upon initial recognition, one may designate financial instruments at fair value through other comprehensive income. Those instruments that will be designated in that manner, will not be subject any longer to the test of impairment, and profit or loss in their regard will not be transferred to profit or loss, including upon realization.
- Embedded derivatives will not be separated from the existing contract found at the beginning of the Amendment. Alternatively, mixed contracts will be measured generally at depreciated cost or at fair value, in accordance with the testers of the business model and the projected cash flows.
- Debt instruments will be reclassified only when the entity changes its business model to management of financial assets.
- Investments in capital instruments that do not have a quoted price on a functioning market, including the derivatives of these instruments, will be measured at fair value. The alternative measurement according to cost under certain circumstances is hereby nullified. However, the Standard declares that under certain circumstances the cost should be a proper measure of the fair value.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

n. Financial Instruments (cont.)

Financial Liabilities

The Standard determines also the following procedures in regard to financial liabilities:

- The change in fair value of financial liabilities that is intended, upon initial recognition, to be fair value through profit or loss, which is attributed to changes in the credit risk of the liability, will be directly charged to other comprehensive income unless such attribution will create or increase lack of consistency - an accounting mismatch.
- When a financial liability is paid or cleared, the amounts charged to other comprehensive income will not be classified to profit or loss.
- All the derivatives, whether they are assets or liabilities, will be measured at fair value through profit or loss, including a derived financial instrument that constitutes a liability related to an unquoted capital instrument that we are unable to measure its fair value in a reliable manner.

Impairments

The new model for impairment is based on projected credit losses and will be implemented for the debit instruments that are measured at depreciated cost or at fair value through other comprehensive income, receivables in regard to leasing, contract assets that are recognized according to IFRS 15 and written obligations for rendering loans and financial guarantee contracts.

The provision for impairment will be in regard to reasonable projected losses within the following twelve months (the coming year), or reasonable failure to repay during the entire lifetime of the financial instrument. Examination for the entire lifetime of the instrument is necessary in the event that the credit risk for the asset rose significantly since the date of initial recognition. An alternative approach will be enforced if the financial asset was created or acquired when it was already credit impaired.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

o. Initial Implementation of New Standards

IFRS 16 "Leases"

In January 2016 the IASB published IFRS 16 in regard to leasing (hereinafter: "The New Standard"). The New Standard replaces IFRS 17 (hereinafter – "The Old Standard") and Interpretations 4 and 15 of the Interpretations Committee.

In accordance with the New Standard, a lease is defined as a contract, or part of a contract, that transfers the right to use the asset for a defined period of time in return for a consideration.

Following are the accounting principles implemented up to December 31, 2018:

Criteria for classification of leases as finance or operating are based on the essence of agreements that are examined at time of engagement in accordance with regulations determined in IAS 17.

Leasing agreements that reflect all the risks and benefits costed in ownership of the leased asset are classified as financial leasings.

Other leases were classified as operating leases and the lease payments are recognized as expenses in the comprehensive statement currently in a straight line over the lease period.

Lease payments in the framework of financial leasings were allocated between financial expenses and amortization of the remaining liability.

Accounting principles implemented commencing January 1, 2019 in regard to leases are as follows:

Main effects of the New Standard:

- The New Standard requires all lessees to recognize an asset against a liability in the statement of financial position (except for certain circumstances) so that the treatment will be similar to a financial lease, in accordance with the previous nullified IAS 17 – "leases." Lessees will recognize interest expense and depreciation expense separately.
- Variable lease payments that are not dependent on the Consumer Price Index (CPI) or on interest, but are based on performance or usage (e.g., a percentage of the redemption) will be recognized as an expense by the lessees or as income by the lessor upon occurrence.
- In the event of a change in variable lease payments that are linked to the CPI, the lessee must recalculate the liability in regard to leasing with the effect of the change being attributed to the asset – right of usage.
- The new Standard includes two exceptions wherein the lessees are permitted to handle the leases in accordance with the accounting treatment for operating leases; in the event that the leasing is for assets that have small monetary value or in the event that the leasing is for a period up to one year.
- The accounting treatment for the lessor remains without significant change as compared with the existing Standard, that is, classification as financial or operating leasing.

NIS in thousands

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

o. Initial Implementation of New Standards (cont.)

The New Standard will be implemented initially in these financial statements. The Company chose retroactive partial implementation. Balance of assets for usage rights is at the level of the liability in regard to leasing.

In accordance with this approach, retroactive restatement of comparative figures is not required. Balance of the liability at initial implementation date is computed while utilizing the incremental interest rate for the Company that existed upon initial implementation.

Effect of the New Standard implementation is in regard to existing leasing contracts wherein the Company is the lessee. As abovementioned, in accordance with the Standard, except for unusual circumstances, the Company recognizes for every leasing contract wherein it is a lessee a liability against the balance of an asset for the usage right. This differs from the principles implemented in the old Standard, whereby the actual amounts of all the benefits costed up in the leasing were not shown as ownership of the leased asset, and lease payments were recognized as an expense in profit and loss in a straight line throughout the leasing period.

Effect of initial implementation of the Standard consists mainly of recording an asset for the usage right against a leasing liability in the amount of approximately NIS 2.1 million. See Note 15, Financial Lease.

NOTE 4:- SHORT-TERM DEPOSIT IN BANK

As of December 31, 2019 the Company has a short-term deposit in NIS, bearing annual interest at Prime-1.73%.

NOTE 5:- RECEIVABLES

	December 31,	
	2019	**2018**
Advances to suppliers and others	20	277
Prepaid expenses	125	244
Interested parties	-	258
	145	779

NIS in thousands

NOTE 6:- FIXED ASSETS, NET

	Machines and Laboratory Equipment	Vehicles	Office Furniture and Equipment	Computers	Leasehold Improvements - Laboratory	Total
Cost:						
As of January 1, 2018	3,531	375	338	361	436	5,041
Additions	270	- . -	- . -	6	- . -	276
Decrements	- . -	(306)	- . -	- . -	- . -	(306)
As of December 31, 2018	3,801	69	338	367	436	5,011
Additions	299	- . -	- . -	6	- . -	305
As of December 31, 2019	4,100	69	338	373	436	5,316
Accumulated Depreciation:						
As of January 1, 2018	1,780	167	310	347	307	2,911
Depreciation for the year	435	31	9	8	37	520
Decrements	- . -	(156)	- . -	- . -	- . -	(156)
As of December 31, 2018	2,215	42	319	355	344	3,275
Depreciation for the year	487	8	7	7	38	547
As of December 31, 2019	2,702	50	326	362	382	3,822
Depreciated Cost:						
As of December 31, 2019	1,398	19	12	11	54	1,494
As of December 31, 2018	1,586	27	19	12	92	1,736

NOTE 7:- LOANS TO TOP-CO

Terms of repayment for the loans are as yet undetermined. During the reported year, the Company amortized 50% of the loan since the Company Estimated that the top-co would not be able to repay the debt in its entirety.
composition:

Opening Balance January 1, 2019	2,494
Repayment	(262)
Amortization of loan to doubtful accounts	(1,116)
Closing balance December 31, 2019	1,116

NOTE 8:- ASSETS FOR EXPLORATION AND EVALUATION OF PRECIOUS STONES

The Company is the first and only company in Israel that is engaged in exploration (prospecting and exploration) related to precious stones (diamonds, gemstones and gold) since 1999, in the northern area of Israel.
The exploration operation performed by the Company is, actually, exploration and examination of the primary deposit in targeted entities and performance of work plans that are managed by a professional work team, expert and competent in the technical aspects necessary for implementation of exploration operations that include, inter alia: mapping, sampling, geophysical, geochemical and geological surveys, visual and mineral examination in the laboratory (established in the operating area of the Company in Akko) of the various findings using the most advanced methods known worldwide in order to assess the economic potential of the findings at each site that is part of the permit areas in order to raise expectations and reduce the risk level, and to identify the exact location where it will be possible to open a "mineralogical resource" and a commercial mine.

The Company's operating area is along the southern Akko industrial zone (Barbour Center) that stretches over an area of approximately 6,000 sq. m. The Company’s operations are concentrated parallelly at the Primary Sources for mineral deposits at the Carmel mountain range and Ramot Menashe stretching over the lower Galilee territory and at the Secondary sources of alluvial erosion areas.
The module allows a three-dimensional panoramic view of the findings at the sites and of the transport for the materials from their source to the accumulation areas.
Exploration of the volcanic sources on the Carmel mountain range (that constitute a Primary Source) shows that some of the sources have a constitution similar to kimberlite (a rock that is a source of diamonds), based on indicators of kimberlite sources. Moreover, a positive identification of a micro-diamond by the team of geologists from De Beers in a sample found and handled by them from one of the volcanic entities of the Carmel (Rakefet) shows that these sources, at least in part, contain diamonds.

The exploration procedures are in accordance with international specifications, as is customary in this field and, for this purpose, the Company is assisted with a wealth of progressive methods engaged in worldwide by other exploratory companies.

The exploratory Company operations are accompanied by International geological team who are experts in their fields (hereinafter: "Company advisors from abroad") who have proven expertise in the fields of earth sciences, geology, geochemistry and geophysics, especially within the field of dynamic special explorations wherein the Company operates – prospecting for diamonds and precious stones.

NOTE 8:- ASSETS FOR EXPLORATION AND EVALUATION OF PRECIOUS STONES (cont.)

The Company has founded the TMA Suite (Target Mineral Assemblage) based on two leading mineral suites. These minerals, all or partially, were found initially by the Company at their primary sources of volcanoes on the Carmel mountain range, Ramot Menashe and at the secondary sources, the alluvial drainage basin areas of the Kishon area.

On March 17, 2020 the Company was granted Discovery Certificate D12869 - to further the mining plans in the Mid-Reach area of the Kishon areas 1 and 2. See Note 26b.

The Company's collection of jewelry, Heaven on Earth, was created by the Company in conjunction with the famous jewelry designer, Yossi Harari.

On September 3, 2018 the Company reported to the London Stock Exchange in regard to an agreement signed between the Company and a famous jewelry designer Yossi Harari. The agreement was signed in the framework of a Mine to Market strategy that recommends the precious stones will be set in jewels that will be sold on worldwide markets. The agreement provides that Shefa will have 31 pieces of jewelry designed for it, made from 24 karat gold, and all types of jewels found by the Company during its explorations in the Kishon Mid Reach will be set in these pieces of jewelry. The collection was initially shown in May 2019 in the shop of Stanley Korshak, located in Dallas, Texas, U.S.A. To date, 9 pieces have been sold from the Heaven on Earth collection. The Company covered all production costs for the collection. The remaining unsold items from the collection are still in the Dallas store.

NOTE 8:- ASSETS FOR EXPLORATION AND EVALUATION OF PRECIOUS STONES (cont.)

The Company presently holds the following Permits:

1. Exclusive Exploration Permit 869B11 that encompasses a range of 173,636 dunam and is valid until May 6, 2020. In addition, the Company holds Carmel Prospecting Permit 838A13, extending over an inclusive area of 314,478 dunam, that is valid until December 20, 2020.
2. In addition, the Company holds, commencing with June 6, 2019 and valid until June 5, 2020, Prospecting License 869C10 for an area of 252 dunam in an area known as Zone 1 in the Kishon Mid Reach.
   This license allows the Company to commence regulatory and planning procedures and to perform a schedule of mining ideas that will include application of the following aspects: mapping of infrastructures on and below the earth's surface, avenues of approach, division of the area into mining slots, mining stages, mining pace, quantities of projected minerals per every area slot, market economic value, area management and rehabilitation, necessary adjustments and permits, necessary equipment, work tools and stations, etc.
3. We note that commencing March 17, 2020 the Company possesses a Certificate of Discovery in regard to zone 1 and 2 in the Kishon Mid Reach. This Certificate of Discovery was rendered in order to allow the Company to progress with the official regulation procedures for planning the mining (hereinafter – "the procedures").

Gemological Valuation of the gemstones included in the Company's TMA Suite:

On March 19, 2019 the Company published a valuation of the gemstones included in the TMA Suite. This valuation was performed by Dr. Gila Gavrielov, a gemologist. The valuation is for one carat of polished gemstone not including the categories of Natural Moissanite and KIM's.

The quantity of gemstones in the Company safes from explorations performed in the Kishon Mid Reach zone 1 and 2 as of December 31, 2019 is 15,573 carat. Balance of remaining carats subsequent to polishing is expected to be 6,229 carat, and polishing costs are expected to be approximately 100 – 200 thousand dollars.
Value of the polished stones is estimated at $ 4,787 thousand.
At this stage The company can't allocate the exploration cost to the inventory. these costs are included in Assets for exploration and evaluation of precious stones.

NIS in thousands

NOTE 8:- ASSETS FOR EXPLORATION AND EVALUATION OF PRECIOUS STONES (cont.)

Valuation of Gemstones (Raw) Stored in Company Safes, for Financing

Type of Gemstone	Total Carat Zone* 1 and 2	Total of Raw Gemstones Stored	Total Carat *** balance After Polishing	Price List According to Carat Polished **CPR	Total Prices of Polished Gemstones
Spinel	7,807.28	**7,668.47**	**3,067.39**	**$ 4.0**	**$ 12,270**
Garnet	3,516.32	**3,365.59**	**1,346.24**	**$ 38.0**	**$ 51,157**
Carmel Sapphire -	2,729.71	**2,391.70**	**956.68**	**$ 4,582.0**	**$ 4,383,508**
Ilmenite	1,705.52	**1,451.93**	**580.77**	**$ 290.0**	**$ 168,424**
Sapphire	669.25	**647.05**	**258.82**	**$ 585.0**	**$ 151,410**
Hibonite	31.83	**30.43**	**12.17**	**$ 1,368.0**	**$ 16,651**
Moissanite	15.37	**10.09**	**4.04**	**$ 794.0**	**$ 3,205**
Ruby	9.18	**7.85**	**3.14**	**$ 281.0**	**$ 882**
General Total	16,484	**15,573**	**6,229**		**$ 4,787,506**

* Middle Section of Kishon Riverbed Areas 1 and 2.
** Competent Person's Report published by the Company on December 9, 2019.
*** Subsequent to amortization of 60% of polishing – cost of polishing all the raw gemstones is between $ 150,000 - $ 200,000.

b. Composition:

	December 31, 2019	December 31, 2018
Purchase of exploration rights, fees and planning	5,142	4,848
Geologic research and laboratory maintenance **	22,059	19,945
Drilling for exploratory purposes	5,655	5,450
Headquarters operations expenses directly attributable to the asset (mainly to a related company) **	24,641	23,841
Other expenses	5,540	5,044
Amortization of exploration assets *	(2,409)	-
	60,628	59,128

* During the reported year, the exploration areas were minimized. The Company amortized the exploration assets in the amount of expenses attributed in prior years to these areas.
** Includes share based compensation in 2019 in the amount of approximately NIS 1,111 thousand and approximately NIS 1,076 thousand in 2018.

NIS in thousands

NOTE 9:- SHORT - TERM CREDITS FROM BANK AND OTHERS

a. Composition:

	December 31, 2019	December 31, 2018
Short-term bank credit	211	203
Overdrafts	96	-
Short-term loan from shareholder	131	129
Current maturities of long-term loan	-	124
Current maturities of leases	324	-
	762	456

b. As of December 31, 2019 and 2018, the Company has a fixed bank credit framework of approximately NIS 250 thousand and NIS 200 thousand, respectively.

NOTE 10:- TRADE PAYABLES

	December 31, 2019	December 31, 2018
Checks payable	340	287
Open balances	731	1,081
	1,071	1,368

NOTE 11:- INTERESTED PARTIES

	December 31, 2019	December 31, 2018
Current maturities of long-term loan	-	114
Current debt	211	-
	211	114

Agreements with interested parties see Note 23.

NOTE 12:- OTHER ACCOUNTS PAYABLE

	December 31, 2019	December 31, 2018
Salaries and related items	617	277
Accrued expenses	497	292
Liability in regard to severance pay	-	338
	1,114	907

NIS in thousands

NOTE 13:- LOANS CONVERTIBLE TO SHARES

a. During November 2018 until June 2019, the Company received convertible loans from investors in the amount of approximately £ 251 thousand. According to the agreements, the Company, obligated to allocate to the lenders a number of shares at the price of 5 pence until December 31, 2019 and in addition to allocate one Option per share at the realization price of 10 pence for a 24 month period.

Concurrently, the Company received from an investor a loan convertible to shares in the amount of approximately £ 78 thousand. According to the agreement, the Company obligated to allocate to the lender shares at the price of 4 pence until December 31, 2019 and in addition to allocate one Option per share at the realization price of 8 pence for a 24 month period.
On December 31, 2019 the Company signed an agreement with the lenders. Accordingly, the shares allocation date will be extended until June 2020.
Upon receiving the loans, the Company recorded an entry in the amount of approximately NIS 627 thousand (£ 133 thousand) as a loan at fair value and an amount of NIS 924 thousand (£ 196 thousand) was recorded as a loan at amortized cost.
During October 2019 the Company received additional convertible loans in the amount of NIS 742 thousand (£ 164 thousand). In accordance with the loan agreement, the Company obligated to allocate to the lenders, in the event that they choose, until March 31, 2021 an amount of shares at the price of 5 pence per share and to allocate one Option per share at the realization price of 10 pence for a 24 month period.
In addition, the Company obligated to double the yield on the allocated shares at the end of the 24 months from allocation date. If the yield will not be doubled then the Company will grant additional shares until the promised yield is attained.

Upon receiving the loans, the Company recorded an entry in the amount of approximately NIS 728 thousand (£ 161 thousand) as a loan at fair value and an amount of NIS 14 thousand (£ 3) as a loan at amortized cost.
All the loans bear 5% interest per annum.
During November 2018 until June 2019, the Company received convertible loans from investors in the amount of approximately £ 253 thousand. The Company obligated to allocate to the lenders, until June 30, 2019, shares at 5 pence per share as well as one Option per share at an exercise price of 10 pence for a 24 month period.
On June 30, 2019 the loans were converted to shares and Options in the amounts of NIS 1,017 thousand and NIS 149 thousand, respectively. See Note 17e.

b.

Activity:	**Loans at Amortized Cost**	**Loans at Fair Value**
Opening Balance January 1, 2019	772	-
Additional convertible loans	1,550	1,122
Classification from amortized cost to fair value	(232)	232
Loans convertible to shares and options	(1,166)	-
Financing in regard to loans	210	438
Closing balance at Dec. 31, 2019	1,134	1,792

NIS in thousands

NOTE 14:- LONG-TERM LOANS FROM INTERESTED PARTY AND OTHERS

Composition:	**December 31,**	
	2019	**2018**
Loan from interested party (1)	-	674
Loan from supplier (2)	-	124
	-	798
Net of current maturities	-	(238)
	-	560

(1) **Loan from an interested party -**
A loan in NIS bearing annual interest of Prime + 3.6%. During 2019 the loan was repaid in an early repayment.

(2) **Loan from a supplier -**
A loan for purchase of a tractor (Shovel), that was received during December 2017 and was payable in 24 equal monthly installments. The loan was in NIS and bore annual interest of 5%. The loan was fully repaid in December 2019.

NOTE 15:- FINANCIAL LEASE

The Company has several leasing agreements that include leasings of a building and vehicles, that are utilized for current operations. Building lease agreements are for a period of 3 to 7 years while vehicle lease agreements are for a period not in excess of three years. The building lease includes extension options.

The Company's policy is to extend the initial lease period for the building over a period that is not less than 3 years. The Company examines the probability of exercise or non-exercise of the option in view of the business requirements and the lease agreement.

In addition, the vehicle lease agreements are for a period up to three years without option periods for extensions during the leasing. Regarding lease agreements of the building See note 23.

a. Composition:

1. Assets in regard to usage:	**Building**	**Vehicles**	**Total**
Opening balance Jan.1, 2019	-	-	-
Effect of initially implement of IFRS	1,829	286	2,115
Depreciation	(261)	(103)	(364)
Closing balance Dec. 31. 2019	1,568	183	1,751

	December 31,	
2. Liability:	**2019**	**2018**
Liability	1,816	-
Net of current maturities	(324)	-
	1,492	-

b. Amount of the liability was computed by capitalization of the leasehold payments for the payments period at an annual interest rate of 8%. The amounts are linked to the Consumer Price Index.

NIS in thousands

NOTE 16:- OPTIONS CONVERTIBLE TO SHARES

a. On December 18, 2017, the Company completed its Initial Public Offering (IPO) on the London Stock Exchange in the framework of which convertible loans (see Note 13) were converted to 39,734,610 shares and an amount of 65,893,310 non-marketable Options. In accordance with the valuation of an independent external assessor, the Options have a fair value of approximately NIS 370 thousand as of December 31, 2019 and they have a value as of December 31, 2018 of approximately NIS 495 thousand. During July 2019 a six month extension was granted for every Options series. As of December 17, 2019 an amount of 24,804,020 Options expired that had been rendered for an exercise period of 18 months (subsequent to the extension rendered as abovementioned).

On October 31, 2018 the Company issued 3,006,250 shares and allotted 3,006,250 non-marketable Options in their regard. In accordance with the valuation of an independent external assessor, it was determined that the fair value of the Options for shares that had been rendered, as of December 31, 2019 was in the amount of approximately NIS 3 thousand and as of October 31, 2018 the fair value was approximately NIS 69 thousand.

On May 13, 2019 the Company issued 25 million shares and Options to various investors in consideration for £ 1 million. The shares were allocated at a price of 4 pence per share, and to each share was allocated one Option at the exercise price of 8 pence for 24 months (see Note 17d). In accordance with the valuation of an external assessor, the Options had a fair value at allocation date in the amount of approximately NIS 566 thousand. As of December 31, 2019, the valuation is approximately NIS 655 thousand.

On June 30, 2019 the Company issued 5,061,055 shares and Options to various investors in consideration for convertible loans in the amount of NIS 1,166 thousand, allocated at a price of 5 pence per share. To each share was allocated one Option at an exercise price of 10 pence for 24 months. In accordance with the valuation of an independent external assessor, as of December 31, 2019 the fair value of the Options per shares that were rendered is in the amount of approximately NIS 92 thousand.

b. Parameters used in the fair value valuation:

	December 31, 2019	December 31, 2018
Projected fluctuations (in percentages)	67 - 79	41 - 53
Life of the Option (in years)	0.5 - 1.5	0.5 - 2
Rate of non-risk interest (in percentages)	0.58 - 0.69	0.72 - 0.825
Market price (in £)	0.043	0.575

NOTE 16:- OPTIONS CONVERTIBLE TO SHARES (cont.)

c. Composition of existing Options

	Number of Options		Value of Options (NIS in Thousands)	
	2019	2018	2019	2018
Options allocated Dec. 18, 2017 *	41,089,290	65,893,310	370	495
Options allocated Oct. 31, 2018	3,006,250	3,006,250	3	69
Options allocated May 13, 2019	25,000,000	-	655	-
Options allocated June 30, 2019	5,061,055	-	92	-
	74,156,595	68,899,560	1,120	564

* On Dec. 17, 2019 an amount of approximately 24,804,020 Options expired.

d. Fair value hierarchy -
Measurement of fair value of financial instruments is performed using a fair value hierarchy that reflects the data that was used in performance of a measurement of fair value. The hierarchy of fair value is based on the following three levels:

Level 1 - Quoted prices (unadjusted) on the active markets for identical assets or liabilities.

Level 2 - Data that are not price quotes included in Level 1 abovementioned, that may be seen directly (that is, price quotes) or indirectly (that is, derivatives of price quotes).

Level 3 - Data in regard to an asset or liability that are not based on market information that may be seen (unseen data).

As of December 31, 2019 and 2018, the liability in regard to allocation agreements and the liability in regard to the Options were measured using a valuation technique based on Level 2 while basing itself on visual market data.

NOTE 17:- SHARE CAPITAL

a. Composition:

	December 31, 2019 Number of Ordinary Shares		December 31, 2018 Number of Ordinary Shares	
	Authorized	Issued and Outstanding	Authorized	Issued and Outstanding
Ordinary shares of NIS 0.1 par value	1,000,000,000	172,306,565	1,000,000,000	142,245,510

b. On December 18, 2017 the Company completed its IPO on the London Stock Exchange in the framework of which 45,174,560 Ordinary Company shares were registered for trade as follows:

397,346,100 shares were allocated as a result of loan conversions to shares.

32,085,060 shares were allocated to an interested party in the framework of a debt conversion.

20,223,000 shares were allocated in consideration for payment of debts to issuance advisors.

2,090,900 shares were allocated to subscribers on the issuance date.

NOTE 17:- SHARE CAPITAL (cont.)

429,431,700 shares were allocated at a 15% discount from the basic issuance price - £ 1.10.

The inclusive amount attributed to capital in accordance with the basic price per share is NIS 18,857 thousand (net of issuance expenses and fees in the amount of approximately NIS 4,470 thousand).

During 2018 the Company issued 3,194,950 shares to various investors.
The number of shares were adjusted in accordance with the split. See c below.

c. On April 9, 2019 the Company performed stock split of 1:10 so that each shareholder received 9 additional shares for every share that he held beforehand.

d. On May 13, 2019 the Company issued 25,000,000 additional shares and Options to various investors for a consideration of £ 1 million. The shares were allocated at the price of 4 pence per share, and each share received an allocation of one Option at the exercise price of 8 pence for 24 months.

e. On June 30, 2019 the Company issued 5,061,055 shares and Options to various investors as a consideration for convertible loans in the amount of £ 1,116 thousand. The shares were allocated at the price of 5 pence per share, with an Option added at the exercise price of 10 pence for 24 months.

f. On April 4, 2012 the Company allocated to the top-co, Shefa Yamim Ltd., 7,040,700 shares that constituted, subsequent to issuance, 75% of the Company share capital. In accordance with the agreement (see Note 1d), the amount received in consideration of the issuance from the agreement date until the balance sheet date is NIS 21,275 thousand.

g. The shares render to their owners the right to vote and to participate in meetings of the shareholders, the right to receive revenues and to participate in surplus assets upon dissolution of the Company.

h. In regard to agreements with interested parties – see Note 23a.

i. Allocation of Options for shares of top-co:
On August 26, 2015 the general meeting of the top-co approved the decision of the board of directors that was rendered on July 16, 2015 in regard to granting 2,160,000 Options convertible to shares of the top-co to officers, directors and Company employees. During September 2017 the Options were allocated. As of the balance sheet date, all the Options expired.

NIS in thousands

NOTE 18:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year Ended December 31,		
	2019	**2018**	**2017**
Management fees and participation in expenses to an interested party (see Notes 22a, 23a1) *	670	763	389
Other	173	197	129
Depreciation	49	54	60
Office maintenance and office expenses	58	23	53
Salaries to directors	612	367	- . -
Advertising and marketing	402	669	16
Travel abroad	130	356	12
Professional consultation	707	735	- . -
Fees	255	246	- . -
Office services to an interested party (see Notes 22a, 23a2)	67	- . -	32
Participation in expenses of the top-co (includes credit in regard to prior years)	- . -	- . -	(150)
	3,123	3,410	541
* Includes share based compensation	11	25	46

NOTE 19:- OTHER EXPENSES, NET

	Year Ended December 31,		
	2019	**2018**	**2017**
Revenues from sale of jewelry	254	- . -	- . -
Expenses for jewelry production	(161)	- . -	- . -
	93	- . -	- . -
Doubtful accounts expense – loan to top-co	(1,116)	- . -	- . -
	(1,023)	- . -	- . -

NIS in thousands

NOTE 20:- FINANCING EXPENSES (INCOME), NET

	Year Ended December 31,		
	2019	**2018**	**2017**
Finance expenses -			
Adjustment of the value of a financial liability according to fair value	438	- . -	12,867
Issuance and fees expenses in regard to Options	419	- . -	1,884
Exchange rate differentials	235	- . -	702
Interest on convertible loans	210	- . -	347
Finance expense in regard to leasing	159	- . -	- . -
Interest on loans from shareholders	16	3	- . -
Other expenses	57	177	111
Interest to a company that is an interested party	- . -	38	43
	1,534	218	15,954
Finance income -			
Interest income from the top-co	- . -	(69)	(237)
Adjustment of financial liability in regard to Options according to fair value	(160)	(9,487)	- . -
Exchange rate differentials	- . -	(81)	- . -
	(160)	(9,637)	(237)
	1,374	(9,419)	15,717

NOTE 21:- TAXES ON INCOME

a. Data in regard to the tax environment wherein the Company operates:

Tax rates

Corporate tax rate in Israel for 2019 and 2018 was 23%. In 2017 it was 24%.

b. The Company received final assessments from the Income Tax Authorities through 2014.

c. The Company has a carryforward loss for tax purposes as of December 31, 2019 in the amount of approximately NIS 79 million. The tax benefit in this regard will be included in the financial statements at the time when realization is expected.

NIS in thousands

NOTE 22:- TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. **Transactions with interested parties:**

	Year Ended December 31,		
	2019	**2018**	**2017**
Charged to statements of comprehensive income (loss):			
Management fees and participation expenses paid to "101"	670	763	389
Fees for office services paid to "808"	67	- . -	32
Finance expenses paid to "101"	- . -	38	43
Interest income received from the top-co	- . -	69	237
Finance expenses to interested parties	- . -	- . -	249
Finance expenses to shareholders	8	3	- . -
Charged to the statement of financial position:			
Capitalized management fees and participation in expenses to "101"	799	841	630

b. **Balances of interested and related parties:**

	December 31,	
	2019	**2018**
In the framework of current assets:		
Receivables	- . -	258
In the framework of long-term assets:		
Interested parties	77	77
Loan to the top-co	1,116	2,494
In the framework of short-term liabilities:		
Interested parties	211	114
In the framework of non-current liabilities:		
Loan from interested parties	- . -	560

c. **Commitments:**

See Note 23a.

NOTE 23:- COMMITMENTS, GUARANTEES AND LIENS

a. Commitments with interested parties:

1. Commitment regarding "101":

Since 1999, when the Company was established, it has been managed by 101 Gold Holdings (hereinafter – "101"), an interested company, that holds at balance sheet date 2.73% of the Company shares and 3.90% fully diluted, in the framework of management agreements.

In view of the issuance of Company shares in London, the Company had to separate the general administration and the financial management between the Company and top-co. Therefore, on December 6, 2017 a new management agreement was signed between "101" and the Company only (without the management of top-co), for a new period of thirty-six months commencing January 1, 2018 until December 31, 2020. On December 1, 2020 a new agreement was signed, see note 26c.

In accordance with the new agreement, "101" will provide for the Company management services that will include a Chairman, a CEO, secretarial services for management as well as office space that is owned by "101. These services will be rendered for a consideration of NIS 85 thousand per month with the addition of Value Added Tax (VAT) in accordance with the prevailing law (not including refund of expenses for maintaining a vehicle and a telephone for the CEO and refund of expenses for travel abroad in order to locate potential investors. Concurrently, the Company obligated to cover insurance for "101" employees who engage in rendering the abovementioned services to the Company. The amount of management fees will be linked to the Consumer Price Index once a year.

2. Commitments regarding "808":

On January 1, 2005 the Company signed an agreement with "808", an interested party in the Company, whereby "808" will assist in finding potential investors. In addition, "808" will provide collection services regarding the investment money of investors that were found by "808"for a consideration of 2% of the total gross investment by each such investor in the Company.

In addition, "808" will provide office services to the Company representatives in the United States for a fixed monthly retainer in the amount of $ 770. The Company and "808" agreed that the agreement will be valid until December 31, 2015. Each party has the right to bring the agreement to an early termination upon written notification six months in advance. The agreement was extended until December 31, 2020 under the same terms.

NOTE 23:- COMMITMENTS, GUARANTEES AND LIENS (cont.)

3. Commitment regarding Kibbutz Yagur (relate to the Distal area according to the company Geological model):

On August 13, 2000 the Company signed a Memorandum with Kibbutz Yagur (hereinafter – "The Kibbutz"). In accordance with the Memorandum, the Company has the right to dig and drill on land that the Kibbutz is leasing from the Israel Lands Authority, in accordance with the utilization permission that will be rendered by the Kibbutz and in the framework of the operations permitted to be performed by the Company, as per the Permits issued to it. In the event that mineral deposits will be found, then the Company will be permitted to dig and operate a mine in the area, in consideration for annual usage fees in the amount of U.S. $ 2,000 + VAT (hereinafter – "the service fees"). The service fees will be paid to the Kibbutz until the end of the permitted usage period rendered by the Kibbutz or until the period contracted by the parties in a leasing or purchase agreement, as detailed below. The Memorandum does not have a time limit.

In addition, it was determined that in the event that minerals are found for extraction and the Company will receive a mining right or leasing of a mining right from the Inspector, then the Kibbutz will render the required land for the Company's mining purposes. In consideration for rendering the land, the Kibbutz will be entitled to one of two alternative compensations, as per its choice, and the Kibbutz will hereby notify the Company of its choice within 60 days of the Company receiving from the Inspector a leasing of a mining right or a mining right.

In accordance with the first alternative, the Company will sub-lease the land from the Kibbutz in the framework of a long-term lease for the period of the lease agreement that exits between the Kibbutz and the Israel Lands Authority, but not longer than a period of 25 years. In consideration for this arrangement, the Company will pay the leasing fees that the Kibbutz would pay to the Israel Lands Authority with the addition of usage fees that are 3% of the sales turnover from the mines that will be prospected by the Company and the produce therefrom will be marketed, but will not be less than U.S. $ 500 annually in regard to every dunam leased by the Company, as abovementioned. In accordance with the second alternative, subject to issuance of the Company shares on the stock market, the Company will purchase the land leasing rights of the Kibbutz in consideration for allocation of shares to the Kibbutz at a price that is 18% below their value on the stock market at the allocation date.

The number of shares allocated to the Kibbutz, as abovementioned, will be determined in accordance with the value of the transferred land rights, while in this framework the minerals found by the Company on this land and/or the mining rights of the Company on the land being transferred will not be taken into account, as determined in the agreement and in the negotiations between the parties. In the event that there is no agreement in regard to value, then in accordance with the arbitration mechanism determined in the Memorandum.

In addition, the agreement includes obligations of the Company for payment of compensation and damages in the event of any harm caused by the Company as a result of its prospecting the land.

NOTE 23:- COMMITMENTS, GUARANTEES AND LIENS (cont.)

3. Commitment regarding Kibbutz Yagur (cont.):

Alternatively, the Company will lease from the Kibbutz the abovementioned adjacent areas, at a price to be determined by the assessment mechanism as detailed in the Memorandum, as per the determination of the Kibbutz. Concurrently, the Company obligated to render insurance in regard to the risks involved with the work to be performed on the land.

4. Rental agreement – S.L.M. A.H. Ltd.

On November 9, 2011 the Company signed a rental agreement with S.L.M.A.H. Ltd. (hereinafter – "the Lessor"), whereby the Company rented from the Lessor a building that is approximately 970 sq, m, in the southern industrial zone of Akko, The rental agreement is for the period from January 2, 2011 until December 31, 2013. The Company has four sequential options for additional rental periods of 36 months, in accordance with the agreement. Monthly rent is in the amount of NIS 20,500 with the addition of VAT and linked to the Consumer Price Index, in accordance with the base Index for 2010. Rental fees, commencing with the second option, will rise by 5% per annum.

On June 16, 2013 the Company signed an addition to the rental agreement, whereby he Company will rent a lot that is 850 sq. m. and is adjacent to the operating area. This will serve as a storehouse for earth samples. The monthly rental fees are in the amount of NIS 2,500 + Vat and are linked to the Consumer Price Index, in accordance with the base Index for 2010. See also note 15.

5. Chairman of the Board of Directors

On April 28, 2019 the Company signed an agreement with Mr. Michael Rosenberg, chairman of the Board of Directors, whereby the Company obligates to render over a two year period an amount of 1 million convertible Options at a price of nine pence. This agreement has not as yet been approved by the Board of Directors and, therefore, a liability was not recorded in this regard.

b. Guarantees and Liens:

1. The Company gave to a third party a guarantee through a bank in the amount of approximately NIS 7 thousand.

c. Information in Regard to Exploration and Prospecting Permits:

The Company received exploration and prospecting permits from the mining Inspector at the Government of Israel National Infrastructures Ministry. These exploration permits grant exclusive rights to perform geological explorations in specific areas of northern Israel. Prospecting and discovery of minerals in Israel is subject to the statutes detailed in the Mining Ordinance and Mining Amendments added thereto as well as the Mining Regulations subsequently appended.

Since commencement of the Company's operations in January 1999, the Company has acquired all necessary permits and licenses and maintains its schedule of operations determined in accordance with these licenses by the Mining Inspector in the National Infrastructures Ministry.

NOTE 23:- COMMITMENTS, GUARANTEES AND LIENS (cont.)

c. Information in Regard to Exploration and Prospecting Permits (cont.):

Prospecting permit:
A prospecting permit grants to its holder the right to enter any area included in the permit, in order to verify the presence or absence of minerals in the area and to dig up to two meters and tunnel up to a depth of ten meters. A prospecting permit holder is not allowed to drill or perform any other actions that have the intent or directly result in removal of minerals, unless other special terms were designated by the Inspector. The prospecting permit is also limited in regard to the exploration area and to the minerals that may be prospected. The permit does not grant exclusive rights to its holder in regard to area and to minerals that are permitted to be prospected. The prospecting permit is for an initial twelve month period and may then be renewed for an unlimited amount of months, subject to terms and conditions to be determined. Concurrently, the prospecting permit is not transferable.

Exploration permit:
An exploration permit grants exclusive rights to its holder for exploring in the area designated in the permit. An exploration permit may cover an area up to 500 sq. km. and is valid for a two-year period. The holder of an exploration permit is required to employ expert geologists and other trained individuals who are approved by the Inspector and have been hired to explore in accordance with the general guidelines published periodically by the Inspector. In addition, these individuals explore the rocks, minerals, quarries, ground and water supply in the area in accordance with the Inspector's opinion and they furnish reports, maps or other information as requested.
The Inspector has the right to nullify an exploration permit, completely or partially, without any compensation to the holder of the permit, in the event that the Inspector determines that the holder of the exploration permit is not conducting a survey of the area with proper expertise, as required by the Ordinance and instructions of the Inspector.

NOTE 23:- COMMITMENTS, GUARANTEES AND LIENS (cont.)

c. Information in Regard to Exploration and Prospecting Permits (cont.):

Prospecting License:
Subject to the limitations designated in the Ordinance and in the event that the prospecting that is conducted in accordance with the prospecting permit is completed satisfactorily, the holder of a prospecting permit may request a "prospecting license" for certain areas that he chooses from those areas designated in the prospecting permit. The Inspector may choose to grant a prospecting license to an individual, subject, inter alia, to the fact that this person holds an exploration permit or a prospecting permit for the area that he requested and that this individual presented sufficient proofs that the minerals for which he wants to explore do exist in the requested license area.

In the event that the prospecting is for non-precious quarries, the prospecting license area will not exceed 1% of the prospecting permit area granted to the holder. In the event that the prospecting is for precious stones, then the prospecting license area will not exceed 0.5% of the prospecting permit area. (Precious stones are defined in the Ordinance as including gems, as well as diamonds, precious metals and metal ores.) In the event that the requestor does not hold a prospecting permit, then the area requested will not exceed 50 hectares (0.5 sq. km) for exploration of non-precious minerals; and will not exceed 20 hectares (0.2 sq. km.) if the individual wishes to explore for precious minerals in the determined area.
A prospecting license is granted for a period of from one up to five years. However, in the event that the license is granted for a period of less than one year, then the Inspector may decide to renew the license for a period of up to five years.

A prospecting license grants to its holder the exclusive right to explore the designated area and for this purpose, he is permitted, inter alia, to dig, drill or perform other work required to determine whether the area contains "sufficient quantities" of minerals for which the license was granted (that would enable continued operations on a commercial level) and to establish and maintain machinery and equipment and pave roads necessary for performance of the exploration.

The holder of a prospecting license is required to operate efficiently and with proper expertise. Failure to conform to these requirements can result in nullification of the license. Transfer to a third party of the license or any other right granted therein is subject to obtainment of written consent from the Inspector.

NOTE 24:- EARNINGS (LOSS) PER SHARE

	Year Ended December 31,		
	2019	**2018**	**2017**
Comprehensive earnings (loss) for the year (NIS in thousands)	(7,929)	6,009	(16,258)
Weighted number of Ordinary shares	160,769,606	*142,245,510	*95,484,957
Basic and diluted earnings (loss) per share (in NIS)	(0.049)	*0.0431	*(0.170)

* Updated in accordance with the split.

NOTE 25:- FINANCIAL INSTRUMENTS

a. Financial risk management

1) General

The Company is exposed to the following main risks arising from use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This Note will render information in regard to Company exposure for each of the risks abovementioned, as well as Company goals, policies and procedures regarding gauging and management of these risks. Additional quantitative disclosure is included throughout these financial statements.

2) Framework for risk management

Company policy for risk management was formulated in order to identify and analyze the risks confronting the Company, to determine sufficient limitations to the risks, control while supervising the risks and compliance with limitations. The policies and methods for risk management are surveyed currently in order to reflect changes in the market conditions and the Company operations. The Company utilizes training and management procedures in order to develop a control environment that is efficient, wherein all employees understand their roles and responsibilities.

3) Credit risk

Credit risks arise from cash and cash equivalents, deposits in banks and receivable balances that are as yet unpaid. Company balances of cash and cash equivalents are deposited in a bank. The Company considers credit risks for unpaid receivable balances to be insignificant.

4) Liquidity risk

Liquidity risk is the danger that the Company will not be able to pay its obligations related to its financial liabilities that are cleared by cash payments or payment of another financial asset. The Company's approach to management of its liquidity risks is to assure, as much as possible, the necessary liquidity to meet its obligations on time, under ordinary terms and when pressured, without encountering undesired losses or damage to its reputation.

NOTE 25:- FINANCIAL INSTRUMENTS (cont.)

a. Financial risk management (cont.)

Hitherto, Company financing has been supplied by issuance of share capital, receiving of loans and use of credit from interested parties (management fees have been paid in accordance with the Company's abilities).

5) Market risks

Market risks include the risk that changes in market prices, such as the exchange rates of foreign currencies, the Consumer Price Index, interest rates, and prices of capital instruments will have an effect on the value of Company holdings of financial instruments. The intent of market risk management is to manage and supervise exposure to market risks in the framework of accepted parameters, while maximizing yields.

The Company is exposed to the following risks:
Exchange rate risks:
Part of the Company's liabilities and mobilizations of capital is measured in dollars and pounds sterling. Therefore, the Company is exposed to changes in the exchange rates of the U.S. dollar and the British pound sterling. The Company has not utilized any protective measures against this exposure.

Risks of falling market prices for diamonds, gold and precious stones:
The Company is exposed to changes in market prices for diamonds, gold and precious stones. Despite the fact that the Company is still in the pre-production stage for the minerals, significant changes in the future market prices can and may have an effect on the preparation to repay investments in exploration and mining.

b. Interest rate risks

Exposures to interest rate risks and average weighted interest rates for financial assets and liabilities are detailed as follows:

	NIS				Foreign Currency		
	Linked to the CPI	Fixed Interest	Variable Interest	Non-Interest	Fixed Interest	Non-Interest	Total
	NIS in thousands						
31.12.2019							
Financial Assets:							
Cash and cash equivalents						6	6
Short-term bank deposit		14					14
Receivables				20			20
Interested party				77			77
Top-co				1,116			1,116
Financial Liabilities:							
Short-term credit from banks and others		95	211		131		437
Interested parties				211			211
Trade and other accounts payable				535		646	1,181
Liabilities at fair value						1,792	1,792
Loans convertible to shares					1,134		1,134
Financial leasing		1,816					1,816

NOTE 25:- FINANCIAL INSTRUMENTS (cont.)

b. Interest rate risks (cont.)

	NIS				Foreign Currency		
	Linked to the CPI	Fixed Interest	Variable Interest	Non-Interest	Fixed Interest	Non-Interest	Total
	NIS in thousands						
31.12.2018							
Financial Assets:							
Cash and cash equivalents						209	209
Receivables				535			535
Interested party				77			77
Top-co	2,494						2,494
Financial Liabilities:							
Short-term credit from banks and others			203		129		332
Shareholders' loans					772		772
Trade and other accounts payable				317		1,051	1,368
Long-term loans from bank and others		124	674				798

c. Analysis of sensitivity

1) As of December 31, 2019 and 2018, the Company has net liabilities with variable interest rates in the amounts of NIS ___ thousand and NIS 877 thousand, respectively.
   An increase in the market annual interest rate of 50% for the year ended December 31, 2019 is likely to increase interest expense in the amount of approximately NIS 7 thousand; to decrease net profit and shareholders' equity in the amounts of approximately NIS 7 thousand. A decrease in the market interest rate of 50% would decrease the interest and increase net profit and shareholders' equity by identical amounts. This analysis was performed assuming that there will not be any changes in other factors.

2) A stronger New Israel Shekel (NIS) against the U.S. dollar would increase (decrease) the shareholders' equity and net income or loss as follows. This analysis was performed assuming that all other variables, especially interest rates, will remain fixed.

Date	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
December 31, 2019	(185)	185
December 31, 2018	(87)	87

NIS in thousands

NOTE 25:- FINANCIAL INSTRUMENTS (cont.)

d. Fair value

Book value of financial assets and liabilities, including cash and cash equivalents, other receivables, deposits, bank short-term credits, loans and overdrafts, trade payable and other payables is proximate to or equivalent to their fair value.

e. Liquidity risk

The Company has liabilities bearing interest at variable rates and is, therefore, exposed to changes in the market interest rate. See Section c.1 above.

f. Changes in the liabilities resulting from financing operations

	Bank and Other Credits	Loans from Interested Parties	Options Converted to Shares	Shareholders' Loans	Financial Leasing	Loan From a Supplier	Receipts on Account of Shares	Other	Total Flow from Finan-cing
Balance 31.12.2017	(314)	(765)	(9,834)		(91)	(240)	(21,275)	- . -	- . -
Consideration from issue of shares and Options (including additional paid-in capital), net			(214)				(694)	- . -	(908)
Repayment of loans from banks and others	2							- . -	2
Receipt of shareholders' loans, net				(772)				87	(685)
Repayment of long-term loans		111			25				136
Interest paid								106	106
Cash from financing	2	111	(214)	(772)	25	-	(694)	193	(1,349)
Increase in receivables		(16)							
Assignment of a receivable balance In regard to fin. leasing					66				
Revaluation of fin. liabilities			9,484						
Financing. expense to interested party		(4)							
Financing expense to others	(20)								
Payment to a supplier for fixed assets						116			
Balance as of 31.12.2018	(332)	(674)	(564)	(772)	- . -	(124)	(21,969)		

NIS in thousands

NOTE 25:- FINANCIAL INSTRUMENTS (cont.)

f. Changes in the liabilities resulting from financing operations (cont.)

	Bank and Other Credits	Loans from Interested Parties	Options Converted to Shares	Loans at Fair Value and Shareholders' Loans	Financial Leasing	Loan From a Supplier	Receipts on Account of Shares	Other	Total Flow from Finan-cing
Balance 1.1.2019	(332)	(674)	(564)	(772)	- . -	(124)	(21,969)		
Consideration from issue of shares and Options (including additional paid-in capital), net			(566)				(3,009)		(3,575)
Loans from banks and others	(103)								(103)
Receipt of shareholders' loans, net				(1,100)					(2,636)
Repayment of long-term loans		674		(1,536)	299				973
Interest paid								334	334
Cash from financing activities	(103)	-	(566)	(2,636)	299	-	(3,009)	334	(5,007)
Issue expenses attributable to P&L							(723)		
Issue expenses attributable to convertible shares				(14) (22)			36		
Loans converted to Options and shares			(149)	1,166			(1,017)		
Classification of amortized cost to fair value				232 (232)					
Financial leasing in accordance with IFRS 16	(2)				(2,115)				
Finance expense to interested party									
Finance expense for convertible shares				(210)					
Debit balance converted to shares							(60)		
Supplier in regard to fixed assets						124			
Balance as of 31.12.2019	(437)	-	(1,121)	2,926	(1,816)	-	(26,742)	334	

NOTE 26:- EVENTS SUBSEQUENT TO BALANCE SHEET DATE

a. Report of a new mineral named Carmeltazite

The International Mineralogical Association ("IMA") Commission on New Minerals, Nomenclature and Classification has chosen Shefa Gems' Carmeltazite as its Mineral of the Year for 2018 (https://www.shefagems.com/ima-mineral-of-the-year-2018).

NOTE 26:- EVENTS SUBSEQUENT TO BALANCE SHEET DATE (cont.)

a. Report of a new mineral named Carmeltazite (cont.)

Carmeltazite is a complex oxide ($ZrAl_2Ti_4O_{11}$) which forms black inclusions in blue corundum crystals from Cretaceous pyroclastic rocks and associated alluvial deposits at Kishon Mid-Reach in northern Israel. Its name alludes to its discovery at Mt. Carmel and the three principal metals in its formula (Titanium, Aluminium and Zirconium). Carmeltazite was discovered as part of an academic collaboration involving distinguished geologists from Macquarie University, the University of Western Australia, the Università degli Studi in Italy and Shefa Gems.

Carmeltazite is an integral part of our unique and rare gemstone Carmel Sapphire™ that register by the company on January 7, 2019 as new mineral, Carmeltazite.

Since the Carmeltazite description was published in Minerals (Griffin et al., 2018), Carmeltazite has gained significant publicity online as "the world's newest gemstone" (EraGem, 2019), and even as an "extraterrestrial mineral harder than diamonds" (Flatley, 2019). Although in fact it is perfectly terrestrial in origin, Carmeltazite contains Ti^{3+}, which is rare in the geological environment, and has a peculiar crystal structure, which is reminiscent of the close-packed arrangement of spinel.

The new mineral was discovered as a result of the Company's explorations, was tested and registered by the IMA Commission on New Minerals, Nomenclature and Classification as mineral number 2018-103.

b. Receipt of a Discovery Certificate

Commencing with March 17, 2020 the Company holds a Certificate of Discovery in regard to zone 1 and 2 of the Kishon Mid Reach area. The Certificate of Discovery was rendered in order to enable the Company to progress with the official procedures for planning a mine (hereinafter – "the Plan").

In the event that the Company will not succeed in receiving approval for the Plan during the allotted time of the Certificate of Discovery, then the Certificate will be null and void, without any further action on the part of the Inspector, and the Company will not benefit from any accompanying rights derived from that Certificate.

The Company will approach the Israel Lands Authority (ILA) with a request that the ILA grant it a planning license. We clarify that the planning period does not extend beyond three years If the Authority, subsequent to consulting with the Inspector, wishes to extend the license, it may do so for a period not in excess of two additional years. The planning license will include, inter alia, specific terms relevant to the circumstances and will be null and void in the event that the Company fails to comply with them.

A request to receive mining rights, as stated in Section 40 (2) of the Mining Ordinance, will be submitted not later than one year after receiving the Discovery Certificate. In the event that the request is not submitted within the allotted time span, then the rights accrued from this Certificate will be null and void. The request for mining rights will be judged by the Inspector subsequent to approval of the Plan.

NOTE 26:- EVENTS SUBSEQUENT TO BALANCE SHEET DATE (cont.)

c. Agreement with 101

On January 1, 2020 a new agreement was signed with 101. This agreement supersedes any and all prior agreements between the companies. The agreement is for three months with an option for an additional three months. After the option period, the terms will be reexamined in accordance with the Company's needs.
In accordance with the new agreement, the Company will receive office services from 101 for a consideration of approximately NIS 60 thousand per month with the addition of VAT, as required by law. The agreement does not include any refund of expenses for travel abroad in order to mobilize funds from investors.

d. The Covid-19 Coronavirus Pandemic
During January 2020 the Covid-19 Coronavirus was released in China and has since spread worldwide, including in Israel, leaving chaos and uncertainty wherever it has touched civilization. The scope pf economic activity has been sharply reduced, including in Israel, and there exists a suspicion that there will be a global recession as a result. As part of the coping mechanism and efforts to restrain the virus from spreading, steps are being implemented, including in Israel, that are drastically limiting mobility and social gatherings.
Preparations of the Company for further expansions in the global economic environment as well as possible implications for these developments on Group operations are not under Company control, are uncertain and are based on information presently available to the Company, that is based, inter alia, on information in Israel and worldwide as well as on guidelines of the relevant Authorities that could possibly change at any moment. As long as the global crisis continues for a lengthy period of time, this is likely to result in significant deterioration of the operating results for the Company, including its financial ability to cope with the situation.

Effect of the Coronavirus on the Company:
On March 17, 2020 the Company received a Discovery Certificate from the Ministry of Energy in Israel.
The Company’s recent efforts revolve around working with the various Authorities in order to advance the planning and regulation procedures that will enable it to receive a Mining Permit. The Company does not know, at this point, what the effects of the Coronavirus will be on the time schedule for advancing and receiving the necessary Permits in order to obtain the Mining Permit and assumes that there will be minor delays in the scheduling, that are not within the Company’s control.

Concurrently, the Company estimates that there will be difficulties with mobilization of capital in accordance with the current world economic situation.

The ability and timing of the Company to raise additional capital will inevitably be impacted by these unprecedented external factors.