TAKING GLOBAL TRAINING PERSONALLY

SIMIGON

2010 ANNUAL REPORT

About SimiGon

SimiGon (AIM: SIM) is a leading developer and supplier of distributed simulation solutions for defence and civilian applications. SimiGon is the creator of SIMbox, a leading PC-based platform for creating, managing and deploying simulation-based content across multiple domains. Through its off-the-shelf training solutions for demanding high-skill occupations, SimiGon provides diverse organizations with faster and more cost-effective training. SimiGon's growing client base includes blue-chip training and simulation systems providers as well as over 20 air forces and commercial airlines worldwide. Founded in 1998, SimiGon maintains offices in Israel and the United States.

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TAKING DISTRIBUTED SIMULATION PERSONALLY

When it comes to distributed simulation solutions, SimiGon technology is the way to go. Leading the industry shift away from inflexible, stationary and expensive training systems, offering personal, portable and cost-effective training solutions optimized for the PC or laptop. Our off-the-shelf platform and products – for air, land, sea and industrial applications – are highly flexible, adaptable and robust. This "personal" approach enables multiple high-skill users to train simultaneously on multiple platforms, saving defence and civilian organizations significant time and money. We offer state-of-the-art simulation solutions for non-training applications, bringing the best of personal simulation to wider audiences.

Financial Highlights

- Revenues were $5.21 million for the year ended December 31, 2010 as compared to $6.06 million for the year ended December 31, 2009.
- Net loss of $0.68 million for the year ended December 31, 2010 as compared to net profit of $0.07 million for the year ended December 31, 2009.
- The Company recorded a positive cash flow for the year ended December 31, 2010, despite a net loss of $0.68 million for the year ended December 31, 2010.
- Cash and cash equivalents and short term bank deposits of $2.62 million. Total net current assets were $4.31 million, including short term bank loans of $0.56 million.
- Basic and diluted loss per share for the year ended December 31, 2010 was $0.017 as compared to Basic and diluted earnings per share of $0.002 for year ended December 31, 2009.
- Total cost of revenues and operating expenses for the year ended December 31, 2010 were $5.75 million, a decrease of 4% as compared to $5.99 million for the year ended December 31, 2009.

TAKING DISTRIBUTED SIMULATION PERSONALLY

Operational Highlights

- A major partnership agreement with a leading Asian supplier of simulation systems was signed by SimiGon. The Company is providing its SIMbox technology platform that will be used by the partner to develop new training and simulation solutions.
- The Company successfully expanded its collaboration with a leading European defence company by providing SIMbox as the infrastructure for a Homeland Security Lab to be used by the partner for its numerous customers.
- SimiGon continues to work closely with Lockheed Martin (“LM”) on the F-35 Lightning II Joint Strike Fighter ("JSF") training program, with the Company’s SIMbox Learning Management System serving as the baseline of JSF pilot training systems. This project is anticipated to continue to positively impact SimiGon’s future revenues.
- SimiGon continues its role as the Simulation Based Training provider for a strategic European aircraft manufacturer. SIMbox is used as the baseline training solution for the client’s Academic Training Centres in several programs.
- The UK Military Flying Training System (“UK MFTS”), an LM program that utilizes SimiGon’s training and simulation technology platform, SIMbox, is being deployed successfully to meet project milestones.
- The Company’s training and simulation platform, SIMbox, was selected for a lucrative Unmanned Aerial Vehicle training program and, having been integrated with the system’s actual Ground Control System, is now used to deliver a complete Live, Virtual and Constructive training solution.
- SimiGon successfully delivered a new Electronic Warfare training system to the Israeli Air Force (IAF) in - 2010.
- The Company’s Research and Development activities have focused on further advancements of the SIMbox technology infrastructure. As the only company providing a fully integrated, enterprise training system supporting Web-based simulation through Full Mission Simulator capabilities, SimiGon’s new technologies and capabilities is expected to increase its market share and attract future customers and program wins.
- SimiGon signed an agreement with a strategic airline client to provide the AirTrack In Flight Entertainment (“IFE”) system. A major milestone for the Company in the IFE arena, SimiGon will provide a complete software and hardware solution.
- SimiGon’s is also carrying out strategic work with the United States Air Force Europe, where the Company is providing cost-effective training tools for Joint Terminal Attack Controller training.

LEVERAGING GROWING MARKETS FOR PERSONAL TRAINING & SIMULATION

A number of key trends are driving the adoption of personal, flexible solutions in the fast growing training and simulation markets.

Key Trends

System complexity: Advanced platforms such as aircraft, ground vehicles, maritime systems, and control rooms are increasingly complex, requiring better training tools. Traditional user manuals based on a "learning by reading" methodology are no longer sufficient, particularly for younger operators.

Customer sophistication: Organizations are more educated and demanding, and typically know what type of training solution they want – and demand it from their training providers. Large suppliers can no longer "force" inflexible, expensive solutions onto their customers.

Off-the-shelf solutions: Military and commercial customers commonly seek Commercial-Off-The-Shelf (COTS) components and products that provide clear time-to-market and cost benefits.

Cost of training: Instructors, trainees and platforms have limited availability and associated rising costs, especially in complex environments. This increases the need to maximize preparations and increase the effectiveness of Instructor-led and live training exercises and operations. Leveraging technology to provide continuous individual and collective training using a low-cost platform ensures mission readiness.

Growing Markets

In light of these trends and the current state of the global economy, there is an industry shift away from expensive, stationary training systems towards more robust, cost-effective PC or laptop-based COTS training solutions. Moreover, "learning by doing" is becoming widely recognized as the most effective way to train users, especially those in demanding high-skill occupations in both military and civilian markets.

Despite the economic turmoil, the personal training & simulation market is thriving.

The global e-learning and simulation market: As many as 40% of organizations are using a learning management system (LMS), with the highest growth in usage among mid-market buyers. The greater Modelling & Simulation market at more than $20 billion per year. The global eLearning market is projected to reach $107.3 billion by the year 2015, with its growth driven by reduced costs, simplified training and a dispersed workforce.

The Defence industry is a principle growth driver of the simulation market. While the US defence budget is under intense pressure, the US Department of Defence continues to be the undisputed leader in seeking training and simulation solutions for military preparedness and readiness for symmetric and asymmetric warfare and is forecast to increase usage of simulation based training for these purposes. On-going conflicts push the industry to provide cutting-edge training solutions. In the military pilot training market, Forecast International projects 1,600 new fixed wing military training aircraft over the next ten years and the market for fighter aircraft will be worth nearly $194.5 billion as approximately 3,150 fighters will be manufactured. The US is currently the leader in Commercial and Military Flight Simulations while the Asia-Pacific region is the fastest growing market.

The Civilian aviation market continues to be a driver in the simulation market with more than 11, 850 large commercial jets forecast to be produced over the next ten years, valued at $1.4 trillion. With the global economy is affecting Western governments spending, training and simulation technologies are expected to play a larger role to offset a decrease in live training exercises. There is also significant business potential in areas such as commercial flight training, air traffic control, maritime operations, nuclear and electric power plants operator training, crane operations, driving and medical care. These growingly complex domains require advanced, holistic training solutions, such as Simulation Based Training and Learning Management Systems, enabling operators to achieve and maintain high levels of operational skill.

GETTING PERSONAL
WITH DISTRIBUTED SIMULATION SOLUTIONS

SimiGon's comprehensive portfolio of off-the-shelf solutions – including a state-of-the-art simulation platform and range of compelling products – "closes the knowledge gap" for professional users. At the same time, SimiGon's flexible solutions are easily integrated either by customer organizations or third-party systems integrators for both military and civilian applications.

SIMbox

SimiGon is the creator of SIMbox, a leading PC-based platform for creating, managing and deploying simulation based content across multiple domains including training, mission debriefing, homeland security and entertainment. SIMbox is a flexible, off-the-shelf 3D simulation engine comprised of a wide array of software modules that empowers users to create an unlimited range of new products and content. Built from the ground up as a robust and flexible platform, SIMbox has been deployed successfully by large training and simulation systems providers, leading military contractors, and over 20 air forces and commercial airlines worldwide. SIMbox is comprised of three main environments:

- SIMbox Toolkit development environment: SIMbox Toolkit is an easy-to-use development suite, empowering non-programmers to create, reuse and control simulation-based applications.
- SIMbox Server management environment: SIMbox Server which serves as the Learning Management System (LMS), contains various software modules used for configuration management of developed content, control over content distribution, data gathering from end users, and data analysis and report generation.
- SIMbox Runtime delivery environment: SIMbox Runtime provides hi-fidelity 3D distributed simulations that place the user in a virtual or constructive environment with numerous viewpoints for both military and civilian applications.

KnowBook Family

KnowBook is a family of PC-based COTS training applications used by leading organisations for training professional users. KnowBook provides a common platform for learning, training, planning and debriefing. The key members of the KnowBook family are:

- **AirBook™**: the family's flagship application that enables aircrew and organisations to remain completely updated with the rapidly changing demands of the military and civilian aviation world.

GroundBook™, MarineBook™ and CarBook™: the newest members of the KnowBook family designed for ground, maritime and driving training scenarios.

AirTrack

AirTrack represents the next generation of passenger in-flight entertainment (IFE) solutions. Successfully installed and operational on airlines worldwide, AirTrack is a cost-effective, rapidly deployable solution for airlines seeking to upgrade their IFE systems. Based on advanced SIMbox technology, the system's capabilities include hi-fidelity 360º 3D simulation views, moving maps, external plane views, dynamic media, and real-time flight data and news. AirTrack is provided with an easy-to-use, PC-based software configuration tool that enables airlines to independently and rapidly customize and upload in-flight content based on specific needs.

Debriefing Systems

SimiGon offers advanced post-mission debriefing applications that provide critical feedback and improve operational readiness. Utilizing a standard Windows graphical user interface (GUI), the PC-based systems can be deployed at any location and are extremely simple to operate. SimiGon's debriefing systems include **D-Brief PC**™ and **MDDS Pro**™. Operated from a server connected to multiple client workstations, the systems analyse flight data stored on the aircraft's PMC or RMM cartridge. D-Brief PC is used to support real-time air combat debriefing. MDDS Pro is a digital debriefing solution incorporating video with 3D simulation.

Air Traffic Control

SimiGon's successfully deployed Air Traffic Control training solution includes instructor operator stations, virtual pilots, voice recognition and the ability for instructors to modify training sessions in real time. The systems are used by ATC instructors to train new controllers in guiding aircraft through take-off and landing procedures as well as for recurrent and operational training. The Company aims to leverage its success in this market to compete for additional military and civilian ATC training contracts.

Chairman & CEO Reviews

Chairman's Statement

SimiGon Ltd. (the company together with its subsidiary "SimiGon" or the "Group") announces its full year results for 2010. Despite the expected revenue growth that has been delayed, the Board is confident that SimiGon's investors will see an improvement in the Company's operating performance this year and over the coming years. The difficulties we endured last year were largely due to uncertainty regarding the industry's budget. However, SimiGon maintains its well-built position on strategic programs that it has been focusing on, convinced that these programs will come to fulfilment. SimiGon's advanced PC-based training and simulation systems for various large scale military aviation training programmes, together with the market understanding that training and simulation saves money, reflect a positive revenue outlook as it is well positioned for long term growth. Despite major challenges, I believe that the Company will continue to make progress developing its next generation of products, while carrying on its expense control, and will retain its focus to win significant, strategic programs to achieve revenue growth.

Alistair Rae
Chairman

Chief Executive's Review

Overview

The results for the year ended 31 December 2010 reflected the industry's budget uncertainty. Despite these challenging economic conditions, we are still in an excellent position regarding the strategic programs we have been focusing on and are confident that these programs will continue to come to fruition. SimiGon's leadership has taken various actions to reduce risks and improve our positioning in the marketplace with a clear focus on long terms success. These actions proved to be the right actions with a balanced cash flow in 2010. Furthermore, we have been encouraged by the progress in the first quarter of 2011 in terms of revenue and orders, and expect a much improved first half compared to the first half of 2010. This optimism is based on the understanding of that training and simulation saves governments' money and, perhaps more importantly, our continuing success in existing programs and proven ability to attract new partners with their own exciting long term growth potential. Programs such as the F-35 Lightning II Joint Strike Fighter, as well as the UK's Military Flying Training System will continue to positively impact SimiGon's revenue. Our focus on developing new technologies and products for the future is progressing. The Company's market position as a leading training and simulation supplier in the world's largest military aviation training programmes, our partnership-oriented business model, sound technology and the unique product mix offered by our partners provide excellent growth opportunities for SimiGon.

SimiGon's leading position in the market of PC-based training and simulation solutions, being the preferred supplier of training and simulation technologies for the world's largest military flight training programmes. The SIMbox technology platform serves as a baseline training solution for all types of training, including air, land and sea 3D environments. SimiGon's flexible business model revolving around development partnerships and direct sales of the SIMbox high technology solution position it to rapidly expand market share in new and existing markets globally.

Selected by Lockheed Martin as a Learning Management System for the F-35 Lightning II Joint Strike Fighter training program, SIMbox has exceptional commercial potential and is already being used to train JSF pilots. SimiGon is also providing Lockheed Martin with its training and simulation system for the UK's Military Flying Training System, where all UK military pilots are trained with the advanced SIMbox solution. These programs propel SimiGon's development efforts, demonstrating the viability of SimiGon's training and simulation technology.

SimiGon constantly surveys the potential to penetrate additional commercial markets, offering other industries learning and training simulations using its advanced technological infrastructure. The Company's success with leading defence and aerospace organizations and high profile training programs continue to draw new partners and customers seeking to license SimiGon's technology, expanding the Company's reach worldwide.

Financial Performance

Revenues for the year ended December 31, 2010 were $5.21 million as compared to $6.06 million for the year ended December 31, 2009. Gross profit for the year ended December 31, 2010 was $4.40 million as compared to $5.08 million for the year ended December 31, 2009. Despite a net loss for the year ended December 31, 2010, the Company recorded a positive cash flow for the year ended December 31, 2010.

In terms of regional breakdown, 67.39% of SimiGon's revenues for the year ended December 31, 2010 were generated from North America, as compared to 52.85% for the year ended December 31, 2009. Total revenues of 26.65% for the year ended December 31, 2010 were generated from Europe and the Middle East as compared to 44.46% for the year ended December 31, 2009.

Total revenues of 5.96% for the year ended December 31, 2010 were generated from the Far East, as compared to 2.69% for the year ended December 31, 2009.

Research and development expenses for the year ended December 31, 2010 decreased by 3.83% to $1.76 million, as compared to $1.83 million for the year ended December 31, 2009.

Sales and marketing expenses for the year ended December 31, 2010 increased by 6.21% to $1.71 million, as compared to $1.61 million for the year ended December 31, 2009. The Sales and marketing expenses for the year ended December 31, 2010 include share based compensation totalling $0.22 million, as compared to $0.07 million for the year ended December 31, 2009.

General and administration expenses for the year ended December 31, 2010 decreased by 5.73% to $1.48 million, as compared to $1.57 million for the year ended December 31, 2009. The decrease was mainly due to lower salary expenses, and provisions.

As a result, the total operating expenses for the year ended December 31, 2010 decreased by 1.2% to $4.95 million, as compared to $5.01 million for the year ended December 31, 2009. The operating loss for the year ended December 31, 2010 was $0.55 million, as compared to operating profit of $0.07 million for the year ended December 31, 2009. Net loss for the year ended December 31, 2010 amounted to $0.68 million, as compared to total profit of $0.07 million for the year ended December 31, 2009. That resulted net basic and diluted loss per share of $0.017 for the year ended December 31, 2010, as compared to net basic and diluted earnings per share of $0.002 for the year ended December 31, 2009.

The Company recorded a positive cash flow for the year ended December 31, 2010 and as at 31 December 2010, SimiGon had cash, cash equivalents and deposits in the amount of $2.62 million, and current maturities of short term bank loan of $0.56 million.

SHARING PERSONAL MESSAGES FROM CORPORATE LEADERSHIP (CONT.)

Product Development

SimiGon is committed to technology innovation and developing new capabilities and products to ensure market relevance and build market share. In 2010, SimiGon research and development efforts focused on the following areas;

SIMbox simulation engine introduced a new Voice Over IP (VOIP) Infrastructure, to support distributed simulation training as we as Instructor Operating Station to utilize radio communication. This system provides superior quality using a proprietary optimized compression engine.

SIMbox Graphic Engine introduces the ability to support in cockpit light effects, full coverage 3D volumetric clouds system, Real Time Shader System which supports modern Graphic Processing Unit and creates a rich advanced 3D systems to enable realistic high resolution simulation the end user.

SIMbox Complete comprehensive training solution has been extended with customizable feedback form creation suite, to provide a complete 360° feedback for the entire training community within the organization.

SIMbox Server Web Application was enhanced to provide trainees and instructor an interface to their training schedule to enable high connectivity and accessibility for a wide spectrum of devices.

SIMbox Server System has been modified to provide a boost in performance to large scale organization with enterprise systems. This enables far flung organizations to collaborate, monitor and track group and individual performance, leading to faster effective training.

SIMbox Toolkit has been extended and now includes a complete set of tools to provide shorter delivery time making the development phase of simulation console platforms cost effective in a way never presented before.

SimiGon R&D continues to be an early adapter of relevant cutting edge software technologies for infrastructure development.

Outlook

The Directors and I have a positive outlook due to the Company's success in delivering advanced PC-based training and simulation systems to various large scale military aviation training programmes such as the F-35 Lightning II Joint Strike Fighter and the UK Military Flying Training System. Building on the track record of its existing contracts, SimiGon expects to close additional high profile projects that will continue generate revenue for the Company. The Company continues to make substantial advancements in product development and will maintain its strict budgetary discipline to ensure positive cash flow.

Amos Vizer
President & CEO

DISPLAYING PERSONAL COMMITMENT TO ORGANIZATIONAL SUCCESS

Board & Management

Board of Directors

Alistair Rae, Non-Executive Chairman
Alistair is currently chief executive of LTG Technologies Plc, an AIM traded company, having been a non-executive director from 2002 to 2005. He was the group finance director of Jarvis Plc from 2004 to 2005, guiding the company through a period of reconstruction. Prior to this he was a director in the corporate finance department of HSBC Investment Bank from 1996 to 2002, and before that he worked in corporate finance at Cazenove for ten years in the UK and the Far East. Alistair qualified as a chartered accountant with KPMG.

Eitan Cohen, Non-Executive Director
Eitan Cohen is a Co-Founder and Chief Executive Officer of ASIC Depot OOD an EDA and Semiconductor design centre. Eitan previously held positions as CEO and Country manager for Semiconductor and EDA companies, in which he led to the award of multi-million dollar deals with tier-one companies and managed business development activities with potential partners worldwide.

Amos Vizer, President & CEO
Prior to founding SimiGon, Amos founded Logi-Cali, a software development house specializing in data storage applications. He previously served as marketing and business development manager of ISYS Operational Management Systems, an international IT company. Amos also previously worked for the missiles division of RAFAEL Armament Development Authority Ltd. Additionally, he served ten years in the Israeli Air Force (IAF) as an F-4 Phantom Fighter navigator, a flight school course commander, and a Popeye missile weapons officer. With extensive training in advanced software development, Amos holds a BA in business administration.

Nevat Simon, Independent Non-Executive Director
Nevat has practiced as a certified public accountant in his own accounting firm since 1991, providing both accounting and other financial services to the firm's clients. He has previously served on the board of Sprint Investments Ltd. and Multimetrics Ltd., both publicly listed companies on the Tel Aviv Stock Exchange, and on the board of a number of private companies. Nevat has a BA in accounting and marketing from the Business College of Management in Tel Aviv and has been a member of the Certified Public Accountant Council in the Justice Department of the State of Israel since 1991.

Efraim Manea, CFO
Mr Manea joined the Company as its finance controller in June 2008, managing its financial aspects including financial reporting, corporation accounting and tax preparation, budget and forecasting and risk management. He has more than seven years of accounting and management experience and before joining SimiGon served for approximately four years as an Audit Team Manager at Ernst & Young's High-Technology sector. Mr Manea is a Certified Public Accountant and holds a BA in Accounting and Business Administration from the College for Management in Israel.

Dr. Vered Shany, Independent Non-Executive Director
Since March 2002, Vered has managed Tashik Consultants, providing strategic consulting and corporate analysis in the life sciences sector. Previously, Vered served as managing director of Up-Tech Ventures Ltd., as a member of the board of directors of the Weizmann Science Park Incubator, and as vice president of marketing for Arad Technological Incubator. Prior to that, she was business and marketing manager of Medun Ltd., a medical start-up company, from 1995 to 1998. Vered received her masters' degree in business administration from Heriot–Watt University, Edinburgh Business School, and gained her doctorate of medical dentistry and her B.Med.Sc. from the Hebrew University of Jerusalem.

Board & Management (Cont.)

Management

Amos Vizer, President & CEO
Prior to founding SimiGon, Amos founded Logi-Cali, a software development house specializing in data storage applications. He previously served as marketing and business development manager of ISYS Operational Management Systems, an international IT company. Amos also previously worked for the missiles division of RAFAEL Armament Development Authority Ltd. Additionally, he served ten years in the Israeli Air Force (IAF) as an F-4 Phantom Fighter navigator, a flight school course commander, and a Popeye missile weapons officer. With extensive training in advanced software development, Amos holds a BA in business administration.

Alon Shavit, VP Business Development
Before joining SimiGon, Alon served 15 years in the Israeli Air Force (IAF), having flown F-16s for the past 20 years. He was an instructor in the Operational Training Unit (OTU) on A-4s for two years and a commander of the F-16 OTU for 18 months. His last role in the IAF was managing the planning, coordination, synchronization, and monitoring of the training program. Alon holds an MBA and bachelor’s degrees in economics and psychology.

Efraim Manea, CFO
Mr Manea joined the Company as its finance controller in June 2008, managing its financial aspects including financial reporting, corporation accounting and tax preparation, budget and forecasting and risk management. He has more than seven years of accounting and management experience and before joining SimiGon served for approximately four years as an Audit Team Manager at Ernst & Young's High-Technology sector. Mr Manea is a Certified Public Accountant and holds a BA in Accounting and Business Administration from the College for Management in Israel.

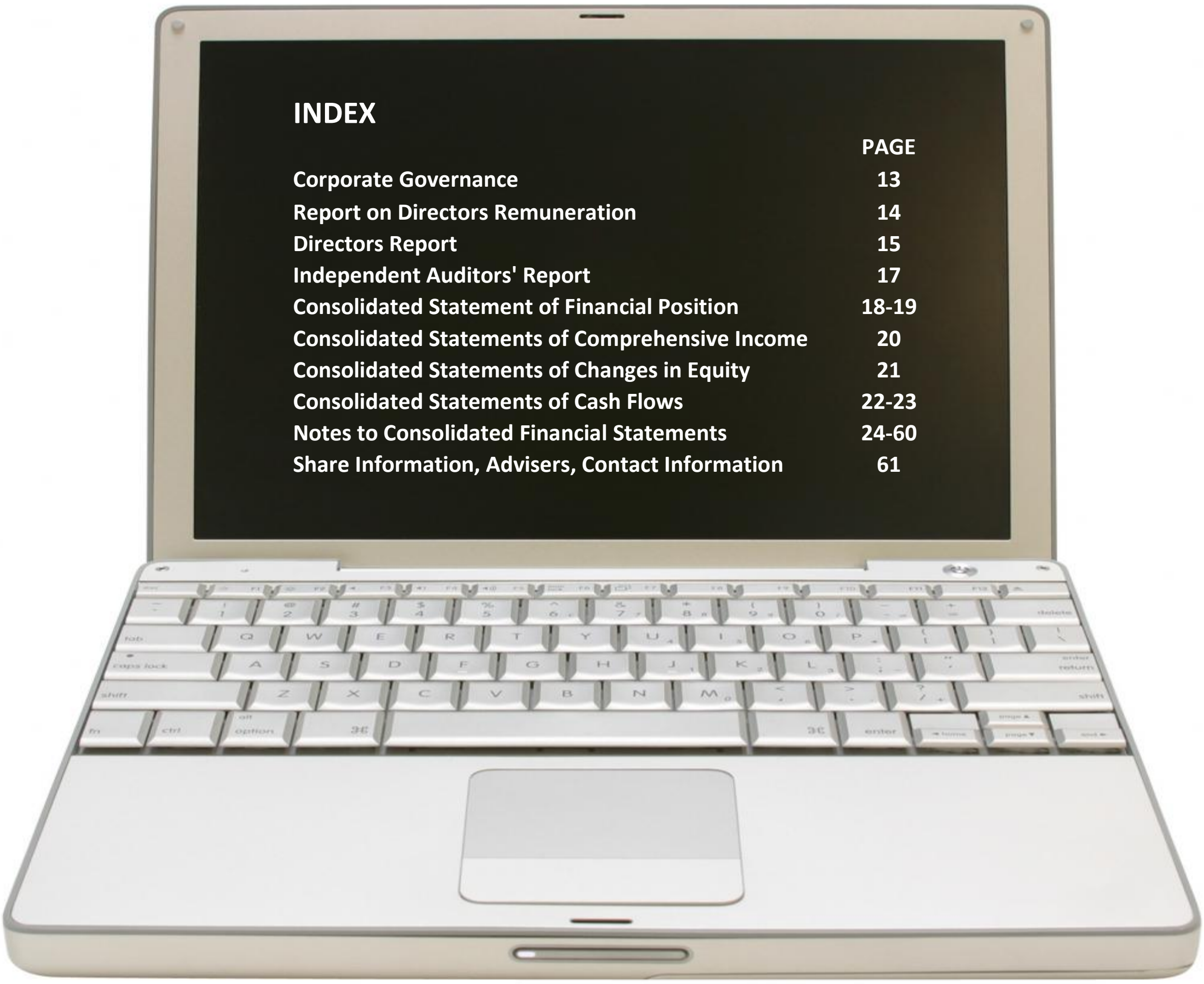
Koby Ben Yakar - Director, Product Development
Koby, 33, has a distinguished record as an experienced manager with extensive technical skills and knowledge. Mr. Ben Yakar has led a wide range of projects with cross-functional teams, including serving as SimiGon’s Information Technology team leader and overseeing the architecture, design and development of the SIMbox LCMS Server infrastructure. Mr. Ben Yakar has over 10 years of experience in large training and simulation technologies enterprise projects with a proven ability to manage business and technical relationships for large-scale projects.

Yaron Goldberg - VP Programs
Yaron has worked in SimiGon as a Software Designer, Program Manager and then Programs Director, managing all aspects of multiple, large-scale programs to ensure delivery and implementation of customer contracts, starting from marketing stages to delivery. Nr. Goldberg served for 7 years in the IAF as an F-4 pilot and as an instructor in the IAF academy. Mr. Goldberg has a Bachelor degree in Business Management majoring in Information Technologies. He serves in the reserve as an instructor in the IAF academy.

Merav Nachmani - Director of Human Resources
Ms. Nachmani, aged 39, joined SimiGon in November 2005 and has been managing SimiGon’s HR Department since July 2009. Ms. Nachmani has more than ten years of experience in financial aspects including payroll controlling, accounts payable, accounts receivable , cash flow and tax reporting. Before joining SimiGon Ms. Nachmani served as a bookkeeping & salary controller in several High-Technology companies. Ms. Nachmani has a Bookkeeping &Salary controller diploma.

FINANCIALS

SIMIGON LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010 (U.S DOLLARS IN THOUSANDS)



CORPORATE GOVERNANCE FOR THE PERIOD ENDED 31 DECEMBER 2010

Introduction
SimiGon Ltd. commenced trading on the AIM Market operated by the London Stock Exchange on 2 November 2006. Although the rules of AIM do not require the Company to comply with the Combined Code on corporate governance ("the Code") published by the Financial Reporting Council, the Company fully supports the principles set out in the Code and will attempt to comply with them wherever appropriate, given the Company's size, the constitution of the Board and the resources available to the Company. Details are provided below of how the Company applies those parts of the Code, which it believes to be appropriate.

Directors
The Board comprises two executive Directors, two Non- Executive Directors and two independent Non-Executive Directors nominated by the majority shareholders of the Company. The Board generally meets a minimum five times a year and receives a Board pack comprising a report from senior management together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility for formulating, reviewing and approving the Group's strategy, budgets, major items of expenditure and acquisitions.

Audit Committee
The audit committee consists of Eitan Cohen, Dr. Vered Shany and Nevat Simon and meets at least twice a year. The role of the audit committee is to review the management and systems of internal control of the company, including in consultation with the internal auditor and the company's independent auditor and to recommend any remedial action. In addition, the approval of the audit committee is required to effect certain related-party transactions.

Remuneration Committee
The remuneration committee consists of Alistair Rae, Dr. Vered Shany and Nevat Simon. The Remuneration Committee has a primary responsibility to review the performance of the Company's executive directors and the senior employees and to recommend their remuneration and other terms of employment.

Shareholder Relations
The Company meets with its shareholders and analysts periodically to encourage communication with shareholders. In addition, the Company intends to facilitate communication with shareholders through the annual report and accounts, interim statement, press releases as required during the ordinary course of business and the Company website (www.simigon.com).

Going Concern
The directors have satisfied themselves that the Company has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements are prepared on a going concern basis.

Internal Control
The Board is responsible for the system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss. Each year, on behalf of the Board, the audit committee reviews the effectiveness of these systems. This is achieved primarily by considering risks potentially affecting the Group and from discussions with the external auditors. Each year, the Group is subject to internal audit, the results of which are presented to the audit committee.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, as compared against budget, are reported to the Board on a quarterly basis and discussed in detail at each meeting of the Board. The Group maintains appropriate insurance cover in respect of any legal actions against the Directors as well as against material loss or claims against the Group and reviews the adequacy of the cover regularly. To comply with AIM rules, the Company has adopted a code for dealings in its shares by directors and employees.

REPORT ON DIRECTORS REMUNERATION

Remuneration Policy

The remuneration packages for non-executive directors are based principally on annual salaries. The remuneration packages for independent non-executive directors are based on an annual fixed fee and till October 2009 were including payment for each Board or Board committee meeting attended. The remuneration packages for executives are based on annual salaries and benefits.

	Total 2010	**Total 2009**
Executive	**$**	**$**
Ami Vizer *	382,247	334,427
Haim Yatim**	96,189	149,683
Efraim Manea***	39,679	-
Non-Executive		
Alistair Rae	45,465	55,000
Eitan Cohen	22,440	25,410
Nevat Simon	24,000	38,248
Dr. Vered Shany	24,000	37,192
Total	634,020	639,960

*) Year 2009 amount does not include $60,250 paid in respect of vacation days and $75,000 bonus paid on 2010 in respect of 2009 sales and does not include $248,069 paid in respect of transfer of severance allocation.
Year 2010 amount does not include $26,100 paid in respect of vacation days and does not include $48,977 paid in respect of transfer of severance allocation.

**) Till July 2010

***) From August 2010

Please see the Directors Report below for details of options and shares granted to directors.

DIRECTORS REPORT

The directors submit their report and the financial statements of the Group for the period ended 31 December 2010.

Incorporation and Admission onto the AIM Market

The Company was incorporated on 1 October 1998. On November 2006 the Company commenced trading on AIM and issued 6,076,811 new Ordinary Shares of NIS 0.01 at price of £0.88 per share. The number of Ordinary Shares issued immediately following the admission were 37,250,666.

Shares

As of December 31, 2010 the total numbers of Ordinary Shares Issued were 41,642,283.

Share Options

As of 31 December 2010, the outstanding balance of options granted to certain employees of SimiGon is approximately 6.4 percent of the Company's issued and outstanding shares at an average exercise price of $0.371. The majority of the options vest in four years from the date of grant. The options expire in ten years from the date of grant.

Review of Business and Future Developments

The business review is given within the Chief Executive Officer's statement.

Dividends

The Company has not declared a dividend in respect of the relevant period.

Suppliers Payment Policy

The Group does not operate a standard code in respect of payment to suppliers. It has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 60 days of the date of invoice, except where different arrangements have been arranged with suppliers.

Directors

The following directors have held office during the year:

- Amos Vizer has been an executive director of the Company since 4 November 1998.
- Haim Yatim, appointed as an executive director on 24 September 2006. On July 30, 2010 Mr. Efraim Manea was appointed as an executive director replacing Mr. Yatim as a Director in the Company.
- Alistair Rae, appointed as a director and Chairman of the Board on 27 October 2006.
- Nevat Simon, appointed as an independent director on 27 October 2006.
- Dr. Vered Shany, appointed as an independent director on 27 October 2006.
- Mr. Eitan Cohen was appointed a non-executive director on June 3, 2008.

Directors Interest in Shares and Share Options

The interest of directors in the issued share capital of the company at 31, December 2010 were as follows.

Directors	Number of Ordinary Shares Capital	Percentage of Ordinary shares	Options
Alistair Rae*)	70,454	0.17	0
Eitan Cohen *)	24,000	0.06	0
Dr. Vered Shany *)	24,000	0.06	0
Nevat Simon *)	24,000	0.06	0
Ami Vizer **)	3,854,098	9.26	410,000
Efraim Manea ***)	63,452	0.15	92,500

Substantial Shareholdings

At 31, December 2010 the Company was informed of the following interests of 3% or more in its ordinary shares issued at that date:

Shareholder	Number Of Ordinary Shares	Percentage of issued
Jeffrey Braun	6,543,039	15.71
Packet Science Rami Weitz	6,244,944	14.99
A. Vizer Holdings A. Vizer **)	3,854,098	9.26
G. Poran Holding Ltd	3,778,444	9.07
Green Venture Capital Ltd.	3,067,848	7.36
Israel Aircraft Industries Ltd	2,624,310	6.30
Moldavski High-tech Ltd	1,750,297	4.20
Shroder Euroclear Nominees Limited	1,711,070	4.11

*) On January 2010 the Non-Executive Board members were granted a total of 119,727 Ordinary shares per year of the Company with an equivalent fair value on date of grant of $ 0.165. The shares will be vested in 12 equal monthly instalments.

The following are number of Ordinary shares granted for each director. All shares were vested as of December 31, 2010:

Directors	Number of Ordinary Shares Capital
Alistair Rae	47,727
Nevat Simon	24,000
Dr. Vered Shany	24,000
Eitan Cohen	24,000

The salary reduction of 15% for the Non-Executive Board members remains in effect, and they will be granted additional Ordinary shares of the Company during 2011.

**) Not Including 1,984,530 Ordinary shares to be issued under the Share Bonus Plan as mentioned in Note 10e under the Company's Annual report for year 2010.

***) Not Including 103,703 Ordinary shares to be issued under the Share Bonus Plan as mentioned in Note 10e under the Company's Annual report for year 2010.

Auditors

Kost Forer Gabbay & Kasierer
A member of Ernst & Young Global
3 Aminadav St.
Tel Aviv 67067
Israel

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 67067, Israel

Tel: 972 (3)6232525
Fax: 972 (3)5622555
www.ey.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

SIMIGON LTD.

We have audited the accompanying consolidated financial statements of SimiGon Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2010 and 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows for each of the years ended December 31, 2010, 2009 and 2008, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2010 and 2009, and of its financial performance and cash flows for each of the years then ended December 31, 2010, 2009 and 2008, in accordance with International Financial Reporting Standards.

April 14, 2011
Tel-Aviv, Israel

Kost Forer Gabbay and Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2010	December 31, 2009
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		2,110	2,053
Short-term bank deposits	3	507	504
Trade receivables	4	3,377	3,301
Other accounts receivable and prepaid expenses		181	67
Total current assets		6,175	5,925
NON-CURRENT ASSETS:			
Long-term prepaid expenses		25	38
Fixed assets, net	5	85	104
Intangible assets, net	6	1,374	1,425
Total non-current assets		1,484	1,567
Total assets		7,659	7,492

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2010	December 31, 2009
		U.S. dollars in thousands	
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Current maturities of loan	9	562	895
Trade payables		205	157
Deferred revenues		409	205
Other accounts payable and accrued expenses	7	691	697
Total current liabilities		1,867	1,954
NON-CURRENT LIABILITIES:			
Employee benefit liabilities, net	8	122	101
Long-term loan	9	188	-
Other non-current liabilities	12a	460	89
Total non-current liabilities		770	190
Total liabilities		2,637	2,144
EQUITY:	10		
Share capital		98	98
Treasury shares		-	(3)
Additional paid-in capital		15,644	15,295
Accumulated deficit		(10,720)	(10,042)
Total equity		5,022	5,348
Total liabilities and equity		7,659	7,492

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

April 14, 2011			
Date of approval of the financial statements	Alistair Rae Non-Executive Chairman	Ami Vizer Chief Executive Officer	Efi Mena Chief Financial Officer

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	2010	2009	2008
		Year ended December 31,		
		U.S. dollars in thousands (except share and per share amounts)		
Revenues	14	5,207	6,057	5,143
Cost of revenues	13a	804	977	999
Gross profit		4,403	5,080	4,144
Operating expenses:				
Research and development	13b	1,760	1,833	2,537
Selling and marketing	13c	1,711	1,610	1,822
General and administrative	13d	1,478	1,566	1,849
Total operating expenses		4,949	5,009	6,208
Operating profit (loss)		(546)	71	(2,064)
Finance income	13e	75	230	354
Finance cost	13f	(207)	(229)	(270)
Net income (loss) and total comprehensive income (loss)		(678)	72	(1,980)
Basic and diluted earnings (loss) per share in U.S. dollars	15	(0.02)	0.00	(0.05)
Weighted average number of shares used in computing basic earnings (loss) per share (in thousands)	15	41,361	40,204	37,453
Weighted average number of shares used in computing diluted earnings (loss) per share (in thousands)	15	41,361	40,660	37,453

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of shares	Share capital	Additional paid-in capital	Treasury shares	Accumulated deficit	Total equity
	U .S. dollars in thousands (except share amounts)					
Balance as of January 1, 2008	37,259,326	89	14,521	-	(8,134)	6,476
Total comprehensive loss	-	-	-	-	(1,980)	(1,980)
Issuance of shares (Note 10)	538,868	1	210	-	-	211
Share-based compensation	-	-	173	-	-	173
Balance as of December 31, 2008	37,798,194	90	14,904	-	(10,114)	4,880
Total comprehensive income	-	-	-	-	72	72
Issuance of shares (Note 10d)	2,263,383	5	(5)	*) -	-	-
Share-based compensation	-	-	396	-	-	396
Treasury shares (Note 12e)	-	-	-	(3)	-	(3)
Exercise of stock options	1,460,979	3	-	-	-	3
Balance as of December 31, 2009	41,522,556	98	15,295	(3)	(10,042)	5,348
Total comprehensive loss	-	-	-	-	(678)	(678)
Issuance of shares (Note 10d)	119,727	*) -	*) -	-	-	*) -
Share-based compensation	-	-	320	-	-	320
Issuance of Treasury shares (Note 12e)	-	-	29	3	-	32
Balance as of December 31, 2010	41,642,283	98	15,644	-	(10,720)	5,022

*) Represents an amount lower than $ 1 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income (loss)	(678)	72	(1,980)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Income and expenses not involving operating cash flows:			
Depreciation and amortization	110	125	134
Finance cost (income)	22	26	(70)
Share-based compensation	320	396	173
Accrued interest on long-term loan	(33)	26	4
Change in employee benefit liabilities, net	21	(205)	(45)
Changes in operating assets and liabilities:			
Increase in trade receivables	(76)	(1,421)	(733)
Decrease (increase) in other accounts receivable and prepaid expenses (including long-term)	34	(33)	154
Increase in trade payables	48	10	22
Increase (decrease) in deferred revenues	204	(131)	315
Increase (decrease) in other accounts payable and accrued expenses	(39)	93	(371)
	611	(1,114)	(417)
Interest paid	(33)	(50)	(5)
Interest received	7	20	75
	(26)	(30)	70
Net cash used in operating activities	(93)	(1,072)	(2,327)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Cash flows from investing activities:			
Investment in short-term deposits, net	-	-	(500)
Purchase of fixed assets	(40)	(23)	(50)
Net cash used in investing activities	(40)	(23)	(550)
Cash flows from financing activities:			
Proceeds from treasury shares	32	-	-
Issuance of shares, net	*) -	-	44
Exercise of stock options	-	3	-
Repayment of bank loan	(919)	(81)	-
Proceeds from refundable grants	327	89	-
Proceeds from long-term bank loans, net	750	-	946
Net cash provided by financing activities	190	11	990
Increase (decrease) in cash and cash equivalents	57	(1,084)	(1,887)
Cash and cash equivalents at beginning of year	2,053	3,137	5,024
Cash and cash equivalents at end of year	2,110	2,053	3,137
(a) Supplemental disclosure of non-cash financing activities:			
Issuance of shares in consideration of liability due to VTSG	-	-	167

*) Represents an amount lower than $ 1 thousand.

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

NOTE 1:- GENERAL

a. The Company commenced its operations on October 1, 1998, and is engaged in developing advanced learning, training and simulation technologies and applications for use in professional communities. The Company's registered office is in Herzlia, Israel.

b. The Company has two wholly-owned subsidiaries in the United States, SimiGon Inc., which is engaged in the marketing of the Company's products in the United States and National Simulation Services Inc., which is engaged in marketing of the Company's products in the United States.

c. On November 2, 2006, the Company completed its Initial Public Offering ("IPO") on the Alternative Investment Market ("the AIM") on the London Stock Exchange, by issuing 6,076,811 Ordinary shares of NIS 0.01 par value each at a price of £ 0.88 ($ 1.65) per share for a total net consideration of $ 8.4 million.

d. Definitions:

In these financial statements:

The Group	-	SimiGon Ltd. and its subsidiaries.
The Company	-	SimiGon Ltd.
Subsidiaries	-	Companies that are controlled by the Company.
Related parties	-	As defined in IAS 24.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Measurement basis:

The Company's financial statements have been prepared on a cost basis, except for the following:

Employee benefit obligations;

Provisions;

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Basis of preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These Standards comprise:

a) International Financial Reporting Standards (IFRS).
b) International Accounting Standards (IAS).
c) Interpretations issued by the IFRIC and by the SIC.

c. Consistent accounting policies:

The accounting policies adopted in the financial statements are consistent with those of all periods presented, except when otherwise indicated.

d. Significant accounting estimates and assumptions used in the preparation of the financial statements:

Estimates and assumptions:

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

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

Impairment of goodwill:

The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit to which the goodwill has been allocated and also to choose a suitable discount rate for those cash flows. Further details are given in Note 6.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Pensions and other post-employment benefits:

The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 8.

Determining the fair value of share-based payment transactions:

The fair value of share-based payment transactions is determined using an option-pricing model. The model's assumptions consist of the share price, exercise price, expected volatility, expected life, expected dividend and risk-free interest rate.

e. Functional currency and foreign currency:

The consolidated financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

f. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

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

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Cash equivalents:

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

h. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of acquisition. The deposits are presented according to their terms of deposit.

i. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Impaired debts are derecognized when they are assessed as uncollectible.

j. Financial instruments:

Interest-bearing loans:

All loans and borrowings are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Treasury shares:

Company shares held by the Company are recognized at cost and deducted from equity. Any gain or loss arising from a purchase, sale, issuance or cancellation of treasury shares is recognized directly in equity. Voting rights attached to treasury shares are revoked.

k. Leases:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

l. Fixed assets:

Items of fixed assets are measured at cost with the addition of direct acquisition costs, less accumulated depreciation.

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

	%
Computers and peripheral equipment	33
Office furniture and equipment	7 - 15 (mainly 15%)
Leasehold improvements	Over the term of the lease or the estimated useful life, whichever is shorter

m. Impairment of non-financial assets:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Intangible assets:

Intangible assets acquired in a business combination are included at fair value at the acquisition date (see Note 6). After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.

According to management's assessment, intangible assets have a finite useful life. The assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively as changes in accounting estimates. The amortization of intangible assets with finite useful lives is recognized in the profit or loss.

	Backlog	**Technology**
Useful lives	1 year	10 years
Amortization method used	straight-line basis	straight-line basis

o. Government grants:

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

Government grants received from the Office of the Chief Scientist ("OCS") and the Korea Israel Industrial R&D Foundation as support for research and development projects which grants include an obligation to pay royalties that are conditional on future sales arising from the project, are recognized upon receipt as a liability if future economic benefits are expected from the project that will result in royalty-bearing sales. If no such economic benefits are expected, the grants are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as contingent liability in accordance with IAS 37.

At the end of each reporting period, the Company evaluates, based on its best estimate of future sales, whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties). If there is such reasonable assurance, the appropriate amount of the liability is derecognized and recorded in profit or loss as a reduction of research and development expenses. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate amount of the liability that reflects expected future royalty payments is recognized with a corresponding adjustment to research and development expenses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Grants received after January 1, 2009, which are recognized as a liability, are accounted for as forgivable loans, in accordance with IAS 20 (Revised), pursuant to the provisions of IAS 39, "Financial Instruments: Recognition and Measurement". Accordingly, when the liability for the loan is first recognized, it is measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grants received and the fair value of the liability is accounted for upon recognition of the liability as a government grant and recognized as a reduction of research and development expenses.

Royalty payments are treated as a reduction of the liability.

p. Research and development:

Research and development costs are charged to profit or loss as incurred as development costs do not meet the criteria for recognition as an intangible asset.

q. Revenue recognition:

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenues can be reliably measured.

The Company generates revenues mainly from licensing the rights to use its software products and sales of software licenses that require significant customization. The Company also generates revenues from maintenance, support and training. The resellers usually add an additional component to the package sold or include the Company's products as part of a broader package.

Revenues from software licensing that requires significant customization are recognized by reference to the stage of completion of the transaction at the end of the reporting period. When the outcome of the transaction cannot be estimated reliably, revenues are recognized only to the extent of the costs recognized that are recoverable. A provision for estimated losses on uncompleted contracts is recorded in the period in which such losses are first identified. As of December 31, 2010, no provision for such losses has been identified.

Maintenance and support revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement. The fair value of the undelivered elements (maintenance and support services) is determined based on the price charged for the undelivered element when sold separately.

Deferred revenue includes unearned amounts received under maintenance and support contracts, and amounts received from customers but not recognized as revenues.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenues from software arrangements:

Software arrangements contain multiple elements (software, integration, installation, upgrades, support, training, consultation etc.). The Company evaluates the arrangement's elements, including those delivered on a "when and if available basis", in order to determine if the elements can be separately identified.

The Company recognizes revenues from the sale of software only after the significant risks and rewards of ownership of the software have been transferred to the buyer for which a necessary, but not sufficient condition, is delivery of the software, either physically or electronically, or providing the right to use or permission to make copies, of the software. The Company recognizes revenues from providing software related services when the outcome can be measured reliably by reference to the stage of completion of the transaction at the end of the reporting period. If the services consist of a number of activities that are not defined over a specified period of time, revenues are recognized on a straight-line basis over the specified period, unless there is evidence that some other method better represents the stage of completion.

r. Earnings (loss) per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

s. Provisions:

A provision in accordance with IAS 37 is recognized when the Company has a present (legal) obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is measured at its present value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Employees benefit liabilities:

The Company's liability for severance pay pursuant to the Israel's Severance Pay Law (for those who elected not to be fully included under section 14 of the Severance Pay Law, 1963) is based on the last monthly salary of the employee multiplied by the number of years of employment, as of the date of severance.

The cost of providing severance pay is determined using an independent actuary. Actuarial gains and losses are recognized immediately in the statements of comprehensive income in the period in which they occur.

Pursuant to Section 14 of the Severance Pay Law, which covers 75% of most of the employees' severance pay, monthly deposits with insurance companies release the Company from any future severance obligations in respect of those employees (defined contribution). Deposits under Section 14 are recorded as an expense in the Company's statements of comprehensive income.

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u. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term bank deposits, trade receivables, other accounts receivable, short-term bank loans, trade payables and other accounts payable approximate their fair value due to the short-term maturity of such instruments.

v. Share-based payment transactions:

The Company applies the provisions of IFRS 2, "Share-Based Payment". IFRS 2 requires an expense to be recognized where the Company buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares of rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Company is the expensing of employees' and directors' share options (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the instruments were granted. The fair values of Ordinary shares for the purpose of calculating the fair values of options and warrants were determined by management based on a number of factors.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

w. Finance income and expenses:

Finance income includes interest income on amounts invested and exchange rate gains.

Finance expenses comprise interest expense on bank loan fees and exchange rate loss.

x. Disclosure of new IFRSs in the period prior to their adoption:

IAS 24 - Related Party Disclosures:

The amendment to IAS 24 clarifies the definition of a related party in order to simplify the identification of such relationships and to eliminate inconsistencies in its application. In addition, Government-related companies are provided a partial exemption of disclosure requirements for transactions with the Government and other Government-related companies. The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2011. Earlier application is permitted.

The relevant disclosures will be included in the Company's financial statements.

NOTE 3:- SHORT-TERM BANK DEPOSITS

The short-term bank deposits (between three months and a year) as of December 31, 2010 and 2009 (in a total of $ 507 thousand and $ 504 thousand, respectively) bear an annual interest rate of 0.35% and 1.4%, respectively.

NOTE 4: - TRADE RECEIVABLES

	December 31, 2010	December 31, 2009
	U.S. dollars in thousands	
Trade receivables (1)	3,377	3,301
(1) Net of allowance for doubtful accounts	412	130

Trade receivables are non-interest bearing and are generally on 30 - 90 days' terms.

The aging analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired: < 30 days	30 - 60 days	60 - 90 day	> 90 days	Total
	U.S. dollars in thousands					
2010	3,018	299	-	24	36	3,377
2009	2,913	117	143	44	84	3,301

NOTE 5:- FIXED ASSETS, NET

Composition and movement:

	Computers and peripheral equipment	Office furniture and equipment	Leasehold improvements	Total
		U.S. dollars in thousands		
Cost:				
Balance as of January 1, 2009	710	165	54	929
Acquisitions during the year	23	-	-	23
Balance as of December 31, 2009	733	165	54	952
Acquisitions during the year	40	*) -	-	40
Balance as of December 31, 2010	773	165	54	992
Accumulated depreciation:				
Balance as of January 1, 2009	625	105	44	774
Provision during the year	56	13	5	74
Balance as of December 31, 2009	681	118	49	848
Provision during the year	47	8	4	59
Balance as of December 31, 2010	728	126	53	907
Depreciated cost as of December 31, 2010	45	39	1	85
Depreciated cost as of December 31, 2009	52	47	5	104

*) Represents an amount lower than $ 1 thousands.

NOTE 6:- BUSINESS COMBINATION AND INTANGIBLE ASSETS

On January 24, 2007, SimiGon Inc. signed an agreement ("the Agreement") with Visual Training Solution Company, Inc. ("VTSG") to acquire the assets and business relating to its simulation and training technologies. VTSG was a former business partner of the Company whereby the Company provided the software and VTSG provided the content and hardware integration.

According to the Agreement, the total consideration of the assets and business acquired is up to $ 2 million. The first payment of $ 1.25 million was paid on the date the agreement was signed and the second payment of up to $ 0.75 million, which was due in January 2008, was contingent upon meeting certain targets such as revenues and employee retention.

NOTE 6:- BUSINESS COMBINATION AND INTANGIBLE ASSETS (Cont.)

The fair values of identifiable assets of VTSG as of the date of acquisition were estimated as follows:

	Fair value recognized on acquisition
	U.S. dollars in thousands
Technology	505
Backlog	10
Total assets acquired	515
Goodwill arising on acquisition	735
Total consideration	1,250

The carrying amount of intangible assets acquired as of December 31, 2010 and 2009 in the accounts of the Company was as follows:

	Carrying amount as of December 31,	
	2010	2009
	U.S. dollars in thousands	
Technology **)	306	357
Goodwill arising on acquisition *)	1,068	1,068
Total	1,374	1,425

*) As part of the Agreement, on February 5, 2008, the Company paid an additional amount of $ 333 thousand for the second payment. This amount was recorded as an adjustment to goodwill.

The amount of $ 333 thousand was recorded as follows: (a) $ 166 thousand was offset from a receivable from VTSG, and (b) the balance of $ 167 thousand was settled through the issuance of 164,628 Ordinary shares of the Company on February 7, 2008.

As the activities of VTSG have been fully integrated into those of the Company, the goodwill arising in the acquisition of VTSG is evaluated for impairment purposes as part of the cash generating unit representing the Company. As of December 31, 2010, the recoverable amount determined based on the value in use exceeded the carrying amount of the Company's net assets (equity).

NOTE 6:- BUSINESS COMBINATION AND INTANGIBLE ASSETS (Cont.)

An external expert based his impairment analysis according to IAS 36.
The expert used the following assumptions:
After-tax net cash-flow discount Rate of 23.39%, the yearly average growth for years 2011-2015 of 18.32% and terminal growth value of 3%.

**) During the years ended December 31, 2010, 2009 and 2008, the Company recorded amortization in the amount of $ 51 thousand, $ 51 thousand and $ 52 thousand, respectively, which was recorded in cost of revenues.

NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2010	**2009**
	U.S. dollars in thousands	
Employees and payroll accruals	341	320
Accrued expenses	350	377
	691	697

NOTE 8:- EMPLOYEE BENEFIT LIABILITIES, NET

a. The amounts recognized in the balance sheet are as follows:

	December 31,	
	2010	**2009**
	U.S. dollars in thousands	
Liability at the beginning of the year	101	306
Expense recognized in the profit or loss	31	84
Contribution paid	-	(1)
Benefits paid	(10)	(288)
Liability at the end of the year	122	101

NOTE 8:- EMPLOYEE BENEFIT LIABILITIES, NET

b. Amounts recognized in the statements of comprehensive income are as follows:

	December 31, 2010	December 31, 2009
	U.S. dollars in thousands	
Current service cost	26	18
Interest cost	6	8
Expected return on plan assets	-	(1)
Net actuarial loss (gain) recognized in the year	(1)	59
Total expense included in profit or loss	31	84

c. Changes in the present value of defined benefit obligation:

1. Composition:

	2010	2009
	U.S. dollars in thousands	
Balance at January 1	101	352
Interest cost	6	8
Current service cost	26	18
Benefits paid	(10)	(335)
Net actuarial loss (gain)	(1)	58
Balance at December 31	122	101

2. Plan assets:

a) Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

b) The movement in the fair value of the plan assets:

	2010	2009
	U.S. dollars in thousands	
Balance at January 1	-	46
Expected return	-	(1)
Contributions by employer	-	1
Benefits paid	-	(47)
Net actuarial gain	-	1
Balance at December 31	-	-

NOTE 8:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

d. The actuarial assumptions used are as follows:

	Year ended December 31,		
	2010	2009	2008
Discount rate	5.10%	4.66%	4.29%
Expected rate of return on plan assets	5.39%	4.96%	6.35%
Future salary increases	2%	2%	2%
Average expected remaining working years	6.44	6.21	5.9

NOTE 9:- LONG-TERM LOAN

a. Comprised as follows:

	Linkage terms	Interest rate as of December 31,		December 31,	
		2010	2009	2010	2009
				U.S. dollars in thousands	
From bank (c)	LIBOR +4%	4.26%	4.25%	750	918
Less - loan origination fees				-	4
Less - Ordinary shares issued in connection with the loan (see c)				-	19
				-	23
Total long-term loan				750	895
Less - current maturities				562	895
				188	-

NOTE 9:- LONG-TERM LOAN (Cont.)

b. The aggregate annual maturities of the long-term loan are as follows:

	December 31,	
	2010	**2009**
	U.S. dollars in thousands	
First year (current maturities)	562	895
Second year	188	-
	750	895

c. On November 16, 2008, the Company signed a loan agreement ("the Loan Agreement") with Bank Mizrahi Ltd. ("Mizrahi"), according to which Mizrahi provided a loan to the Company in the amount of $ 1 million. The loan bears an annual interest rate of LIBOR+4% and is repayable in 12 equal monthly payments commencing December 25, 2009. As part of the Loan Agreement, the Company issued to Mizrahi 374,240 Ordinary shares, which were recorded as transaction costs, based on the market price of the shares on the date of issuance. In addition, the Company paid loan origination fees of $ 10,000. As of December 31, 2009, the fair value of the loan approximates its carrying amount.

According to the Loan Agreement, the Company is obligated to maintain cash, cash equivalents and trade receivables at more than 125% of the loan value. The Company complied with those obligations.

On May 24, 2010, the Company signed a refinance loan agreement ("Refinance Loan") with Bank Mizrahi Ltd. ("Mizrahi"), according to which the Company will repay Mizrahi the initial Loan Agreement in a total of $ 590 thousand and Mizrahi will provide the Company with a Refinance Loan in a total amount of $ 750 thousand. The Refinance Loan bears an annual interest rate of LIBOR+4% and is repayable in 12 equal monthly payments commencing April 26, 2011. In addition, the Company paid loan commission of $ 20 thousand. According to the Loan Agreement, the Company is obligated to maintain cash, cash equivalents and trade receivables at more than 150% of the loan value and to maintain cash and cash equivalent balance of $ 500 thousand under Mizrahi. As of December 31, 2010, the Company is in compliance with this obligation.

As of December 31, 2010, the fair value of the loan approximates its carrying amount.

NOTE 10:- EQUITY

a. On November 2, 2006, the Company completed its Initial Public Offering ("IPO") on the Alternative Investment Market ("the AIM") on the London Stock Exchange, by issuing 6,076,811 Ordinary shares of NIS 0.01 par value each at a price of £ 0.88 ($ 1.65) per share for a total net consideration of $ 8,411 thousand.

b. In February 2008, the Company issued 164,628 Ordinary shares of the Company, as additional consideration for the VTSG business (see Note 6).

c. As described in Note 9, in November 2008, the Company issued to Mizrahi 374,240 Ordinary shares in connection with the granting of a loan to the Company.

d. On April 23, 2009, the Board of Directors approved the implementation of a one-year plan for salary reduction of 15% for senior management and other employees ("the Reduction Plan"). According to the Reduction Plan, the individuals, in exchange for the reduction on salary, are to be granted 2,263,383 Ordinary shares of the Company with an equivalent fair value on date of grant of $ 0.15. The shares which have been issued and are being held by a trustee will vest in 12 equal monthly instalments. Out of the issued shares, a total of 380,313 Ordinary shares were returned to the Company due to departure of employees and recorded as treasury shares ("the Treasury Shares"). On November 30, 2010, the Chief Executive Officer of the Company and also a Director of the Company acquired the Treasury Shares at a price of £ 0.0512 ($ 0.7979) per share, reflecting the fair market value of the stock on the purchase date.

   Further to the Reduction Plan, on July 27, 2009, the Non-Executive Board members also decided to implement a one-year salary reduction of 15% and instead will be granted 119,727 Ordinary shares of the Company, with an equivalent fair value on date of grant of $ 0.165, which will vest in 12 equal monthly instalments. The shares were issued to the trustee in January 2010.

   The salary reduction of 15% for the Non-Executive Board members remains in effect, and will be granted additional Ordinary shares of the Company.

e. On November 2, 2010, the Board of Directors approved the implementation of a share bonus plan ("the Share Bonus Plan").

   According to the Share Bonus Plan, the Bonus Shares will be granted with an equivalent value of Ordinary shares based on the quoted fair market price of the shares as of November 2, 2010, which is equal to $ 0.0821 per Ordinary share ("the Bonus Shares") at a purchase price of NIS 0.01 per share. The Bonus Shares will be calculated based on approved Board formula and will be vested upon receiving actual payment from the customer under the relevant PO.

NOTE 10:- EQUITY (Cont.)

As of December 31, 2010, the Company's senior management and other employees are to be granted 2,582,928 Ordinary shares of the Company. Out of the issued shares, a total of 1,984,530 Ordinary shares are to be issued to the Chief Executive Officer of the Company and Director of the Company.

As of the date the financial statements were approved, 2,556,368 shares are due.

As of December 31, 2010, the Company recorded share-based compensation expenses of $ 212 thousand, in respect of the bonus compensation.

f. Composition of share capital:

	December 31, 2010, 2009 and 2008	December 31,		
		2010	2009	2008
	Authorized	Issued and outstanding		
	Number of shares			
Ordinary shares of NIS 0.01 par value each	100,000,000	41,642,283 *)	41,522,556	37,798,194

* Not including 2,582,928 shares to be issued under the Share Bonus Plan.

g. Warrants:

In August 2000, in connection with the lease of its facilities, the Company issued to the lessor fully vested warrants to purchase 51,613 Ordinary shares at an exercise price of $ 0.90 per share. The options were to be exercised at any time until March 30, 2007. In connection with the extension of the lease period, the Company modified the options for extending the period of exercise for an additional 36 months until March 2010. The incremental fair value of the modification amounted to $ 24 thousand. On March 2010, the options expired.

h. Stock option plan:

In August 2000, the Company's Board of Directors authorized an incentive share option plan ("the Option Plan") and has since granted options to purchase Ordinary shares to employees and consultants. Under the Option Plan, options generally vest rateably over a period of four years, commencing with the date of grant. The exercise price of the options granted under the Option Plan may not be less than the par value of the shares. The options generally expire no later than 10 years from the date of the grant, and are non-transferable, except under the laws of succession. On November 2, 2010, the Company decided to increase its Option Plan reserves by 8,000,000 options to accumulate a total of 17,500,000. As of December 31, 2010, an aggregate of 10,439,275 Ordinary shares of the Company are still available for future grant.

NOTE 10:- EQUITY (Cont.)

The fair value of share options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The following are the inputs to the model used for each of the three years in the period ended December 31, 2010: risk-free interest rates ranging from 1.31%-3.59%; a dividend yield of 0%; volatility factor of the expected market price of the Company's Ordinary shares of 70%; and a weighted average expected life of the options of 6.5 years.

The weighted average fair values of the options granted in 2010, 2009 and 2008 were $ 0.03, $ 0.09 and $ 0.62, respectively.

A summary of the activity in options to employees, consultants, and directors (including the senior management, see Note 10i below) for the years 2010, 2009 and 2008 is as follows:

	Year ended December 31,					
	2010		2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	2,207,822	$ 0.693	2,408,069	$ 0.706	2,493,269	$ 0.800
Granted	1,234,000	$ 0.031	477,500	$ 0.089	73,900	$ 0.618
Exercised	-	-	(442,125)	$ 0.002	-	$ -
Expired	(110,245)	$ 0.461				
Forfeited	(658,133)	$ 0.741	(235,622)	$ 0.886	(159,100)	$ 1.360
Outstanding at end of year	2,673,444	$ 0.371	2,207,822	$ 0.693	2,408,069	$ 0.706
Exercisable options	1,192,198	$ 0.781	1,575,944	$ 0.736	1,867,026	$ 0.558

The options outstanding as of December 31, 2010, have been separated into ranges of exercise price as follows:

Exercise price	Options outstanding as of December 31, 2010	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2010
$ 0.002-0.120	1,275,002	5.99	157,764
$ 0.127-0.630	1,085,292	7.04	733,509
$ 1.200-2.170	313,150	5.23	300,925
	2,673,444		1,192,198

NOTE 10:- EQUITY (Cont.)

i. Options to the CEO and senior employees:

1. On March 26, 2009, a total of 80,000 options at an exercise price of $ 0.08 per share were exercised by the Company's senior employees.

2. On March 29, 2009, a total of 32,978 options at an exercise price of NIS 0.01 per share were exercised by the Company's senior employees.

3. On January 27, 2010, the Board of Directors granted 1,249,000 options as follows:

   a) A total of 360,000 options were granted to the CEO at an exercise price of NIS 0.01 per share.

   b) A total of 312,000 options were granted to senior employees at an exercise price of NIS 0.01 per share.

   c) A total of 132,000 options were granted to employees at an exercise price of NIS 0.01 per share.

   d) A total of 304,000 options were granted to employees at an exercise price of $ 0.13 per share.

   e) A total of 141,000 options were granted to the former CFO at an exercise price of NIS 0.01 per share.

   The options will vest over 3 years in equal annual amounts commencing as of January 1, 2010 and will be conditional upon the following:

   a) Employee being employed by the Company.

   b) The EBIDTA of the Company (on a consolidated basis) for the relevant fiscal year shall increase by more than 20% compared to the previous year.

   Vesting will be fully accelerated in the event of any of the following:

   a) Merger, acquisition or reorganization of the Company with one or more other entities;

   b) A sale of all or substantially all of the assets or shares of the Company;

   c) An investment in the Company of at least $ 2 million.

   As of December 31, 2010, no options have been vested and the Company did not record share-based compensation expenses.

NOTE 10:- EQUITY (Cont.)

4. On July 28, 2010, the Board of Directors approved that all vested options granted to the former CFO in total amount of 319,388 options at the date of termination of his engagement by the Company will be exercisable until December 31, 2011, or an M&A event (whichever is sooner).

   On September 27, 2010, the Board of Directors approved that all vested options granted to a former senior employee in total amount of 90,171 options at the date of termination of her engagement by the Company will be exercisable until December 31, 2011, or an M&A event (whichever is sooner).

   The effect of the modification in terms of the options was an increase in their fair value in the amount of $ 49 thousand which was recorded as share based compensation expense in 2010.

j. Shares to the CEO and senior employees:

1. The Reduction Plan as mentioned under Note 10d. above includes a total of 342,717 and 435,495 Ordinary shares of the Company which were granted to the CEO and senior management; respectively, with an equivalent fair value on date of grant of $ 0.15. The shares which have been issued and are being held by the Company's trustee, will vest in 12 equal instalments.

2. The Share Bonus Plan as mentioned under Note 10e includes a total of 1,984,530 and 339,690 Ordinary shares of the Company to be issued to the CEO and senior management, respectively, at a purchase price of NIS 0.01 per share, with an equivalent fair value on date of grant equal to $ 0.0821 per Ordinary Share.

   As of the date the financial statements were approved 2,314,476 are due.

   As of December 31, 2010, the Company recorded share-based compensation expenses in a total of $ 163 thousand and $ 28 thousand in respect to the CEO and senior management, respectively.

NOTE 11:- INCOME TAXES

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959:

The Company has been granted an "Approved Enterprise" status for an original program and an additional expansion program, ("the programs") under the Law for the Encouragement of Capital Investments, 1959 ("the Law"). According to the provisions of the Law, the Company has elected to enjoy the "alternative benefits track" - a waiver of grants in return for tax holidays. The "Approved Enterprise" status will allow the Company a tax holiday on undistributed income derived from the "Approved Enterprise" program. The income derived from this "Approved Enterprise" will be tax-exempt for a period of two years, and may enjoy a reduced tax rate of 10% to 25% (based on percentage of foreign ownership) for an additional five years. The seven-year period of benefits will commence with the first year in which the Company earns taxable income.

The Company completed the implementation of its original and expansion programs.

The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval. The period of benefits has not yet commenced, and will expire in the year 2016.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the above Law, regulations published thereunder and the letters of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest.

Should the Company derive income from sources other than the "Approved Enterprise" during the period of benefits, such income shall be taxable at the regular corporate tax rate.

If tax-exempt profits are distributed to shareholders, they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits, currently between 10%-25% for an "Approved Enterprise".

An amendment to the Law, which became effective in 2005 ("the Amendment") changed certain provisions of the Law. As a result of the Amendment, a company is no longer obliged to implement an "Approved Enterprise" status in order to receive the tax benefits previously available under the alternative benefits provisions, and therefore there is no need to apply to the Investment Center for this purpose (Approved Enterprise status remains mandatory for companies seeking grants). Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the Amendment. A company is also granted a right to approach the Israeli Tax Authorities for a pre-ruling regarding their eligibility for benefits under the Amendment.

NOTE 11:- INCOME TAXES (Cont.)

Tax benefits are available under the Amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of the company's business income from export. In order to receive the tax benefits, the Amendment states that a company must make an investment in the beneficiary enterprise exceeding a minimum amount specified in the Law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the beneficiary enterprise ("the Year of Election"). Where a company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a beneficiary enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In this case, the minimum investment required in order to qualify as a beneficiary enterprise is required to exceed a certain percentage of the company's production assets before the expansion. The duration of tax benefits is subject to a limitation of the earlier of 7 years from the Commencement Year, or 12 years from the first day of the Year of Election.

Amendments to the Law for the Encouragement of Capital Investments, 1959:

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment"), which prescribes, among others, amendments in the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The Amendment became effective as of January 1, 2011. According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income. Commencing from the 2011 tax year, the Company will be able to opt to apply (the waiver is non-recourse) the Amendment and from the elected tax year and onwards, it will be subject to the amended tax rates that are: 2011 and 2011 - 15% (in development area A - 10%), 2013 and 2014 - 12.5% (in development area A - 7%) and in 2015 and thereafter - 12% (in development area A - 6%).

b. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index ("CPI"). As explained in Note 2d, the financial statements are presented in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a difference between taxable income or loss and the income or loss before taxes reflected in the financial statements.

NOTE 11:- INCOME TAXES (Cont.)

c. Tax reconciliation:

In 2010, 2009 and 2008, the main reconciling item between the statutory tax rate of the Company and the effective tax rate (0%) is carryforward tax losses and tax exemption for which no deferred taxes were provided.

d. Carryforward losses:

Domestic:

As of December 31, 2010, 2009 and 2008, the Company had accumulated losses for Israeli tax purposes of approximately $ 6.8 million, $ 5.2 million and $ 3.9 million, respectively, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

Foreign:

As of December 31, 2010, 2009 and 2008, the federal tax loss carryforwards of the U.S. subsidiaries amounted to approximately $ 5.9 million, $ 5.7 million and $ 6.9 million, respectively. Such losses are available for offset against future U.S. taxable income of the subsidiaries and will expire in the years 2023-2026.

Due to the uncertainty of the utilization of these carryforward losses, no deferred tax assets have been recorded.

e. Tax rates applicable to the income of the Company and its subsidiaries:

Domestic:

The rate of the Israeli corporate tax is as follows: 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 - 25%. Tax at a reduced rate of 25% applies on capital gains arising after January 1, 2003, instead of the regular tax rate. In July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

Foreign:

The subsidiaries were incorporated in Orlando, Florida, U.S.A., and are taxed according to U.S. tax laws. The statutory federal tax rate is 35%.

NOTE 11:- INCOME TAXES (Cont.)

f. Tax assessments:

The Company's tax assessments in Israel for the years until and including 2006 are considered final, subject to the powers vested with the director of the Tax Authority pursuant to sections 145, 147 and 152 to the Income Tax Ordinance.

g. Deferred taxes:

On December 31, 2010, there was no recognized deferred tax liability for taxes that would be payable on unremitted earnings of the Company and its subsidiaries.

NOTE 12:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Royalty commitments:

1. In June 2001, the Company and a third party signed a Cooperation and Project Funding Agreement with Britech, which is an establishment of the United Kingdom-Israel Industrial Research and Development Fund. According to the agreement, Britech agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company and the third party for a research and development project in the maximum amount of £ 227 thousand.

   The Company shall make repayments to Britech, based on gross sales derived from the sale, leasing or other marketing or commercial exploitation of the innovation, including service or maintenance contracts, commencing with the first commercial transaction. Such payments shall be repaid in Pounds Sterling at the rate of 2.5% of the first year's gross sales and, in succeeding years, at the rate of 5% of the gross sales until 100%-150% of the conditional grant and other sums have been repaid (incremental 50% based upon agreed milestone which was not fulfilled).

   The Company received a total amount of $ 324 thousand, of which $ 150 thousand and $ 174 thousand were deducted from the research and development expenses in 2001 and 2003, respectively.

   Although the development of technology had been completed by the third party and the Company, the Company has never received the third party's portion of the developed technology upon completion of the project although it requested it from both the third party and Britech. Therefore, since the Company cannot utilize the developed technology without the essential portion developed by the third party, the Company has not paid any royalties to Britech and the Company's management believes that it will not be required to pay royalties in the future for the abovementioned project. In addition, the Company did not submit any patent applications in connection with the Britech grant.

NOTE 12:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. On September 1, 2009, the Company and a third party signed a Cooperation and Project Funding Agreement with KORIL, which is an establishment of the Korea-Israel Industrial Research and Development Fund. According to the agreement, KORIL agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company and the third party for a research and development project in the maximum amount of $ 273 thousand.

   As of December 31, 2010, the Company received total amounts of $ 109 thousand.

   The Company shall make repayments to KORIL, based on gross sales derived from the gross invoiced sales value of the products, processes, inventions, technology, discoveries, improvements, modifications, methods, software, specifications, or any form of technical information developed or arising from the proposal (gross sales). Such payments shall be repaid in U.S. dollars at the rate of 2.5% of the first year's gross sales until 100% of the conditional grant and other sums have been repaid.
   The total non-current liability for the years ended December 31, 2010 and 2009 was $ 168 thousand and $ 89 thousand, respectively.

   As of the financial statement approval date, the Company has not paid any royalties to KORIL as no related gross sales were recorded.

3. On September 16, 2010, the Company signed a Project Funding Agreement ("the Agreement") with the Israeli Chief Scientist ("the OCS"). According to the Agreement, the OCS agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company for a research and development project in the maximum amount of $ 365 thousand.

   As of December 31, 2010, the Company received an amount of $ 327 thousand.

   The Company shall make repayments to the OCS, based on gross sales derived from the gross invoiced sales value of the products, processes, inventions, technology, discoveries, improvements, modifications, methods, software, specifications, or any form of technical information developed or arising from the proposal (gross sales). Such payments shall be repaid in NIS at the rate of 3% of the first year's gross sales until 100% of the conditional grant and other sums have been repaid.

   The total non-current liability for the year ended December 31, 2010 was $ 232 thousand.

NOTE 12:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

b. Lease commitments:

1. Premises occupied by the Company are rented under various non-cancellable lease agreements. The rental agreements for the premises in Israel are until March 2012.

2. The Company has leased various motor vehicles under cancellable operating lease agreements, which expire on various dates, the latest of which is in 2013.

3. Premises occupied by the subsidiaries are rented under a non-cancellable lease agreement. The latest rental agreement for the premises expires in October 2012.

4. Future minimum rental payments under non-cancellable operating leases are as follows:

Year ended December 31,	U.S. dollars in thousands
2011	367
2012	79
	446

The total expense for the years ended December 31, 2010, 2009 and 2008 was $ 350 thousand, $ 341 thousand and $ 340 thousand, respectively.

c. Floating charge:

The Company recorded a first priority unlimited floating charge on all of its assets, in favour of a bank, in consideration of the loan agreement as described in Note 9.

d. Promotion agreement:

On May 31, 2007, the subsidiary, SimiGon Inc., signed an agreement with a consultant ("the Consultant"). According to the agreement, SimiGon Inc. has appointed the Consultant to be its business development and sales consultant for the promotion of the sale of its products within the territory.

Upon signing the agreement, SimiGon Inc. granted the Consultant 50,000 options at an exercise price of $ 2.2 per share. The options vest in 10 instalments of 5,000 options each upon the occurrence of a major transaction, as defined in the agreement. Since the Consultant has not yet completed any major transaction, no options have vested, and no expense has been recorded in respect of these options.

NOTE 12:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

On May 1, 2009, the subsidiary, SimiGon Inc., signed a new agreement ("the new agreement") with the Consultant according to which the Company will pay the Consultant consulting fees of $ 144 thousand per annum payable in equal monthly instalments.

Upon signing the New Agreement, the Company granted the Consultant options to purchase 100,000 Ordinary shares of the Company at an exercise price of $ 0.13 per share. These options will vest in full over 24 months, provided that the Consultant is providing services under this agreement during this period. The company included share based compensation expense in respect of these options in the amount of $ 3 thousand and $ 1 thousand in 2010 and 2009, respectively.

e. Legal:

In connection with the agreement signed with VTSG (see Note 6), on September 18, 2008, the Company filed a complaint ("the complaint") against VTSG and its CEO. The complaint stated claims for breach of contract, breach of duty of good faith and fair dealing, and tortuous interference with contractual and business relationships. The Company alleges damage in excess of $ 1 million. On November 12, 2008, VTSG and its CEO responded to the complaint and filed a counterclaim against the Company alleging claims in excess of $ 1 million for breach of contract and breach of duty of good faith and fair dealing. On December 8, 2008, the Company responded to the counterclaim of VTSG and its CEO and denied all their allegations.

On April 14, 2009, the Company reached a settlement with VTSG and its CEO, according to which the Company received a payment of $ 7.5 thousand (offset against legal expenses) and a return of 36,497 of its Ordinary shares, with a fair value of approximately $ 3 thousand which were recorded as treasury shares. On November 30, 2010, the Chief Executive Officer of the Company and also a Director of the Company, acquired the shares together with the treasury shares (see note 10d) at a price of £ 0.0512 ($ 0.7979) per share, reflecting the fair market value of the stock on the purchase date.

NOTE 13:- SUPPLEMENTARY INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31, 2010	2009	2008
	U.S. dollars in thousands		
a. Cost of revenues:			
Salaries and related benefits	406	581	603
Lease and office maintenance	132	147	119
Travel expenses	35	23	70
Depreciation and amortization	61	62	65
Share-based compensation	6	64	32
Subcontractors	164	100	110
	804	977	999
b. Research and development expenses:			
Salaries and related benefits	1,466	1,400	2,135
Lease and office maintenance	297	214	272
Depreciation and amortization	32	38	41
Share-based compensation	22	185	57
Other	4	15	32
Government grants	(61)	(19)	-
	1,760	1,833	2,537
c. Selling and marketing expenses:			
Salaries and related benefits	919	882	1,102
Lease and office maintenance	132	125	123
Consultant fees	241	258	183
Advertising and sales promotion	45	58	190
Travel expenses	142	111	163
Depreciation	10	12	16
Share-based compensation	219	67	45
Commission	3	97	-
	1,711	1,610	1,822

NOTE 13:- SUPPLEMENTARY INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME (Cont.)

	Year ended December 31,		
	2010	**2009**	**2008**
	U.S. dollars in thousands		
d. General and administrative expenses:			
Salaries and related benefits	547	716	698
Lease and office maintenance	95	149	89
Consultant fees	10	122	123
Travel expenses	22	31	85
Professional fees and public company expenses	436	405	530
Depreciation	7	13	12
Share-based compensation	73	80	39
Other	288	50	273
	1,478	1,566	1,849
e. Finance income:			
Exchange rate differences	68	210	279
Interest income from banks	7	20	75
	75	230	354
f. Finance cost:			
Exchange rate differences	131	150	249
Bank loans and fees	76	79	21
	207	229	270

NOTE 14:- REVENUES

The Company manages its business on the basis of one reportable segment.

a. Revenues:

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
Software licenses	3,666	4,093	3,647
Software licenses that require significant customization	1,161	1,226	838
Maintenance	296	738	517
Training	84	-	141
	5,207	6,057	5,143

b. Geographical information:

Revenues classified by geographical destinations based on the customer location:

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
EMEA (1)	1,388	2,693	1,632
North America	3,509	3,201	3,011
Asia Pacific	310	163	500
	5,207	6,057	5,143

(1) Europe, Middle East, Australia and Africa.

The carrying amounts of non-current assets (fixed assets, investment property and intangible assets) in the Company's country of domicile (Israel) and in foreign countries, based on the location of the assets, are as follows:

	December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
EMEA	60	82	125
North America	1,399	1,447	1,506
	1,459	1,529	1,631

NOTE 14:- REVENUES (Cont.)

c. Information about major customers:

Revenues from major customers, each of whom amount to 5% or more of total revenues reported in the financial statements:

	Year ended December 31,		
	2010	**2009**	**2008**
Customer A	48%	30%	47%
Customer B	3%	4%	5%
Customer C	3%	3%	5%
Customer D	-	1%	6%
Customer E	13%	17%	-
Customer F	6%	9%	1%
Customer G	3%	5%	3%

NOTE 15:- EARNINGS (LOSS) PER SHARE

The following reflects the income (loss) and share data used in the basic and diluted earnings (loss) per share computations:

	Year ended December 31,		
	2010	**2009**	**2008**
	U.S. dollars in thousands		
Income (loss) for the year	(678)	72	(1,980)

	2010	**2009**	**2008**
Weighted average number of Ordinary shares for computing basic earnings (loss) per share	41,361	40,204	37,453
Effect of dilution:			
Share options	-	456	-
Weighted average number of Ordinary shares adjusted for the effect of dilution	41,361	40,660	37,453

There have been no significant transactions involving Ordinary shares or potential Ordinary shares between the balance sheet date and the date of approval of these financial statements.

Share options and warrants (see Note 10) were not included in the 2010 and 2008 earnings (loss) per share calculation due to their antidilutive effect.

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
a. Expenses to related party of a shareholder:			
Cost of revenues *)	-	15	88

*) As part of a project agreement signed with a customer ("the Engagement"), the Company engaged an independent service provider company controlled by a Company shareholder.

	Year ended December 31,		
	2010	2009	2008
	U.S. dollars in thousands		
b. Compensation of key management personnel of the Company:			
Employee benefits *) **)	1,128	1,300	1,262
Share-based payments ***)	264	216	51
	1,392	1,516	1,313

*) Includes increase in long-term employee benefits due to change in provision for severance pay in a total amount of $ 43 thousand and $ 150 thousand for the years ended December 31, 2010 and 2009, respectively.

**) Year 2010 includes the provision for sales bonus in a total of $ 7 thousand to the VP of Business Development. Year 2009 includes the provision for sales bonus in a total of $ 75 thousand and $ 11 thousand to the CEO and to the VP of Business Development, respectively. It also includes the provision for the CEO severance pay in a total of $ 30 thousand due to the salary increase approved by the Company's Board of Directors on January 27, 2010 (see Note 10).

***) Year 2010 includes share-based compensation in a total of $ 163 thousand and $ 28 thousand due the Share Bonus Plan as described under Note 10e, in respect to the CEO and senior management, respectively.

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

c. Significant agreements with shareholders:

On September 21, 2006, the Company signed an agreement with Mr. Ami Vizer, the Chief Executive Officer of the Company, according to which Mr. Ami Vizer is engaged with a current salary of $ 313 thousand per annum (excluding bonuses and benefits), terminable by either party on nine months' notice. In addition, pursuant to this agreement, Mr. Vizer received options.

On January 27, 2010, the Board of Directors also approved the grant of a sales bonus to the CEO in the amount of $ 75 thousand and an increase of his salary by 10% effective January 1, 2010.

On September 27, 2006, the Company signed an agreement with Mr. Simi Efrati, pursuant to which Mr. Efrati receives a fee of $ 122 thousand per annum for consulting services. The agreement may be terminated by either party on six months' written notice. In addition, pursuant to this agreement Mr. Efrati received options. Prior to this agreement, Mr. Simi Efrati had been a Non-Executive director of the Company. The agreement was terminated effective February 1, 2010.

On September 27, 2006, the Company entered into an agreement with Mr. Rami Weitz, pursuant to which Mr. Weitz receives a fee of $ 122 thousand per annum in consideration of consulting services. The agreement may be terminated by either party by at least six months' written notice. In addition, pursuant to this agreement, Mr. Weitz received options. Prior to this agreement, Mr. Rami Weitz had been the Chairman of the Board of Directors of the Company.

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital management:

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and sufficient capital in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

Financial risks factors:

The Company's activities expose it to various financial risks such as market risk (including foreign exchange risk), credit risk and liquidity risk.

a. Foreign exchange risk:

The Company operates in a number of countries and is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the NIS. As of December 31, 2010, balances in foreign currency are immaterial.

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

b. Credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term bank deposits, trade receivables, current maturities and long-term loan.

Cash and cash equivalents and short-term bank deposits are invested in major banks in Israel and the United States. Management believes that the financial institutions that hold investments of the Company and its subsidiaries are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The Company trades only with creditworthy customers. The Company performs on-going credit evaluation of its customer's financial condition and requires collateral as deemed necessary.

The Company has no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

The Company has no significant concentrations of credit risk. The Company has a policy to ensure collection through sales of its products to wholesalers with an appropriate credit history and through retail sales in cash or by credit card.

Credit risk may arise from the exposure of holding several financial instruments with a single entity or from entering into transactions with several groups of debtors with similar economic characteristics whose ability to discharge their obligations will be similarly affected by changes in economic or other conditions. Factors that have the potential of creating concentrations of risks consist of the nature of the debtors' activities, such as their business sector, the geographical area of their operations and the financial strength of groups of borrowers.

The Company regularly monitors the credit extended to its customers and requires collateral as security for these receivables. The Company provides an allowance for doubtful accounts based on the factors that affect the credit risk of certain customers, past experience and other information.

The Company maintains cash and cash equivalents, and other financial instruments in various financial institutions. These financial institutions are located in different geographical areas around the world. The Company's policy is to diversify its investments among the various institutions. According to the Company's policy, the relative credit stability of the various financial institutions is evaluated on a regular basis.

As of December 31, 2010, cash and cash equivalents totalled $ 2,617 thousand.

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

c. Liquidity risk:

The Company is required to maintain cash, cash equivalents and trade receivables equal to at least 150% of the carrying amount of the loan (as described in Note 9c).

The table below presents the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

December 31, 2010:

	Less than one year	**3 to 4 years**	**Total**
	U.S. dollars in thousands		
Current maturities	586	-	586
Government grants	33	460	493
Trade payables	205	-	205
Other accounts payable and accrued expenses	658	-	658
	1,482	460	1,942

December 31, 2009:

	Less than one year	**2 to 3 years**	**Total**
	U.S. dollars in thousands		
Current maturities	948	-	948
Government grants	-	89	89
Trade payables	157	-	157
Other accounts payable and accrued expenses	697	-	697
	1,802	89	1,891

d. Interest rate risk:

The Company has a loan which bears interest at a variable rate. The Company estimates that any reasonably possible changes in the interest rate in the coming year would not have a material effect on the profit of the Company.

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SHARE INFORMATION

SimiGon is listed on the AIM. The shares of the Company are available through the Crest settlement system, enabling immediate, secured electronic trading and registration of shareholders' assets. Symbol: SIM
Financial Year End: 31 December

ADVISERS

Nominated Adviser and Broker

Evolution Securities
100 Wood Street
London
EC2V 7AN

Registrar

Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street
St Helier
Jersey
JE1 1ES

Auditors and Reporting Accountants

Kost Forer Gabbay & Kasierer
A member of Ernst & Young Global
3 Aminadav Street
Tel Aviv 67067
Israel

Solicitor to the Company as to English law

Halliwells LLP
1 Threadneedle Street
London
EC2R 8AW

Counsel of the Company as to Israeli law

Amit, Pollak, Matalon & Co. Advocates and Notary
Nitsba Tower, 19th Floor, 17 Yitzhak Sadeh St.,
Tel Aviv 67775
Israel

CONTACT INFORMATION

To request additional information about SimiGon and our products, please contact us by telephone, fax or e-mail:

SimiGon Ltd.

1 Sapir St.
PO Box 12050
Herzliya, Israel 46733
Tel: +972-9-956-1777
Fax: +972-9-951-3566

SimiGon Inc.

12001 Research Parkway
Suite 236
Orlando, FL, USA 32826-3009
Tel: +1 407 737-7722
Fax: +1 321 251-7692
For more information:
info@simigon.com

WWW.SIMIGON.COM

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