TAKING DISTRIBUTED TRAINING SIMULATION PERSONALLY

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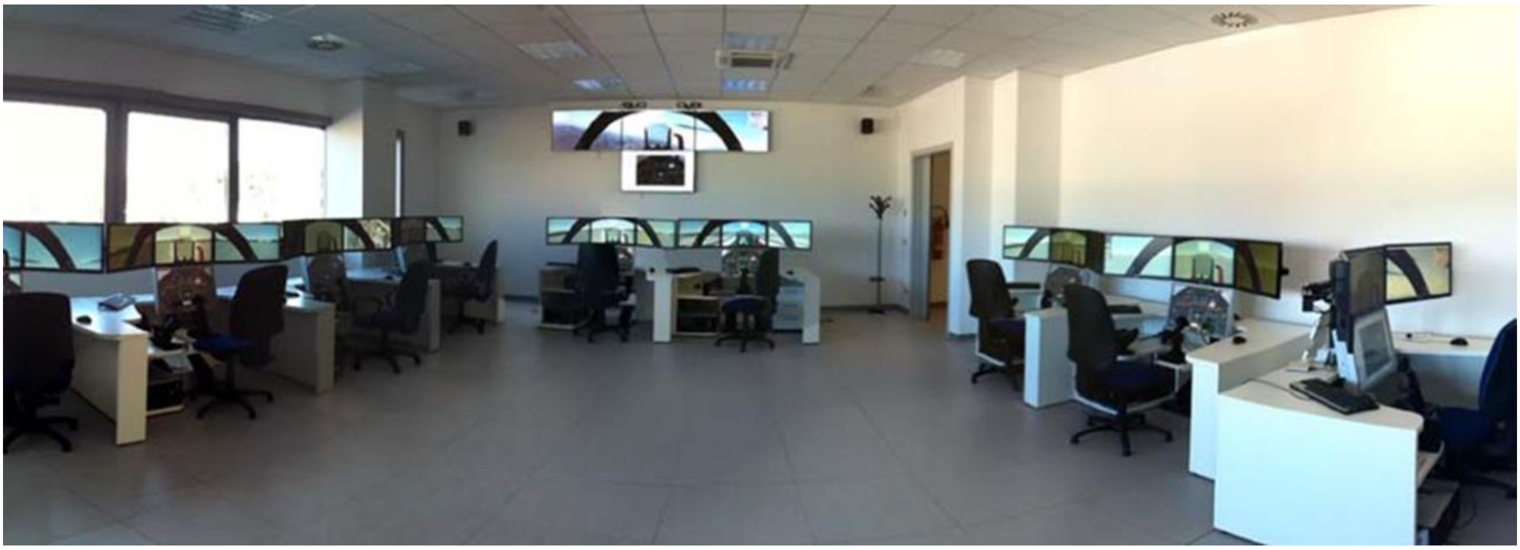
SIMIGON LTD
2016 ANNUAL REPORT

SIMIGON

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 air forces and commercial airlines worldwide. Founded in 1998, SimiGon maintains offices in Israel and the United States.



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TAKING DISTRIBUTED TRAINING 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, SimiGon offers 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

- Net profit of $0.36 million (2015: $1.78 million)
- Revenues of $6.02 million (2015: $6.94 million)
- Gross margin 69% (2015: 78%)
- Basic and diluted EPS $0.01 (2015: $0.04)
- Annual dividend declared of 0.136 cents per share
- Share buy-back programme (subject to shareholder approval)

Operational Highlights

- Continued success winning new business and expanding relationships in core markets:
    - Military and aviation markets: Winning Notice from the Israeli Air Force for $2 million contract
    - Non-military targeted vertical markets: five-and-a-half year contract worth $7.9 million to deliver SIMbox based training solutions to a leading provider of training solutions for the civilian aviation industries in the Far East
    - Continuing to meet project milestones for long term contract with Check-6, the Company's first major contract outside the aerospace and defence industry.
- Continue to establish and prove capability by successfully delivering on all contracts
- Identified opportunities for expansion beyond core markets into other domains such as crane operators, consumer drivers and civil aviation
- Ongoing transition to longer term, high visibility license contracts
- Next generation SIMbox v.5.3 released in Sept 2016, bringing more advanced capabilities to the training and simulation industry

APPLYING ROBUST TRAINING & SIMULATION SYSTEMS FOR MULTIPLE DOMAINS

Robust Training and Simulation systems are needed to improve individual readiness and organization-wide performance for high skills jobs in multiple domains.

Key Trends

The military and civilian training and simulation markets are forecast to achieve significant growth over the next decade due to new training requirements for high skill positions and the evident cost savings available through advanced training technology.

The Military Training and Simulation market, SimiGon's traditional core market, is expected to reach US$17 billion by 2026 while the civilian, Smart Education and Learning market, representing new expansion opportunities for SimiGon, is expected to grow from $193.24 billion in 2016 to $584.04 billion by 2021.

Commercial training continues to value technology-based solutions that reduce costs, similar to the ongoing Military training trend.

Well trained operators in demanding, high skill roles are required in military and civilian organizations. The type of training and delivery platform is wide ranging while a common core technology capable of meeting the disparate requirements of each domain is highly desirable. While the best simulation technology can't completely fully replicate the sensation of landing on a moving aircraft carrier; drilling for oil on a deep sea rig; providing maintenance service on an F-16 flight line, or interviewing patients with severe medical issues, simulation training has significant usefulness for hard skills and soft skills training. This is supported by a large body of research. In short, by simulating the operating environment and real world conditions, personnel are better prepared to handle real life situations from basic operations to troubleshooting to emergencies, in a safe, cost effective, environmentally friendly setting. The military sector is driven by new platform acquisitions and technology upgrades requiring advanced training of complex systems. Likewise, the civilian market is driven by a need to reduce accidents and liability through advanced training methods and technologies.

Training and simulation is utilized across multiple military and civilian domains to provide realistic, cost-effective training.

For example, in military aviation, the cost savings of simulated vs. flight hour is generality 90% or greater. With this enormous cost savings, the Government and Civilian sectors recognize the value of simulation in total training programs. Additional efficiencies delivered through training technologies such as an Intelligent Tutor include a dynamic training capacity capable of adapting to a trainee's skill level and enabling individual pace learning. The market will continue to seek and require cost effective, advanced training and simulation technologies and solutions. SimiGon's disruptive training and simulation technologies, solutions and services provide effective and efficient training systems to the market, delivering substantial time and cost savings for customer and partners.

Additional business growth is developed through system maintenance, upgrades and support contracts for existing training devices as well as technology upgrades and further deployment of training aids, devices and simulators.

SimiGon's technology products and services mix provide added value to customer requirements through improved training efficiencies and training analytics for saving time and money.

Business Growth Opportunities

SimiGon is engaged in several market plays that will lead to sustainable, rapid growth.

SimiGon's role as a Prime Contractor to the US and Government sector as well as a key technology supplier to Tier One integrators, is leading to recurring business with current customers and new business. The Company's systems are globally recognized as a leading training technology for achieving proficiency in complex skills and operations for individual and collective training. The Company is building on the expertise it has in delivering advanced training solutions to develop near term and long term business in the Government sector. The Company is also successfully expanding into new, targeted vertical markets such as maintenance training, commercial aviation training, oil and gas industry training and homeland security.

High Skills Jobs Require Advanced, Personalized Training & Simulation (Cont.)

According to Deloitte's Global Aerospace & Defense Outlook for 2017, the military subsector will grow due to global security threats and increases in the defense budgets by the Trump Administration and by regional powers such as Japan and India. Boeing estimates a worldwide requirement for over 39,620 new jet airplanes, valued at $5.9 trillion, attributing this to evolving aviation product offerings and growth in emerging markets.

The value of the global military fixed wing aircraft market is estimated to grow nearly 5% between 2017-2027, up from a value of US$60.3 billion in 2016.
Multi-role aircraft are 59.3% of the market and transport aircraft account for 23%. The third and fourth largest market segments are ISR aircraft and bombers, with a cumulative share of 12.5%. There are also numerous multi-role platforms being developed indigenously in India, South Korea, Pakistan, and Japan, further boosting the multi-role sub-sector value over the forecast period.

Unmanned Aircraft Vehicles (UAV) is another area forecasted for rapid growth, for military and civilian purposes. Teal Group's 2016 military market study estimates that UAV production will soar from current worldwide UAV production of $2.8 billion annually in 2016 to $9.4 billion in 2025, totalling $69.7 billion in the next ten years. Military UAV research spending would add another $26 billion over the decade.
Lt. Gen. Chris Nowland, the Air Force deputy chief of staff for operations, plans and requirements (AF/A3), said, "We focus on fighter pilots, but it's not just [them]. Our problem is capacity. It's how do we get the throughput up to produce the number of pilots we want." The Federal Aviation Administration's issuing draft rules for commercial drone flights is having a major effect. According to BI Intelligence, many companies are already authorized to fly drones commercially under a US government "exemption" program. Shipments of consumer drones will quadruple. Price competition and new technologies will make flying drones easier. Revenues from drones sales are expected to top $12 billion in 2021.

Major multinational tech companies such as Samsung, Google, Amazon and Facebook, as well as defense and aerospace corporations are developing UAV businesses either organically or through acquisitions.

A key component of the aforementioned $584 billion global smart education & learning market is Learning Management Systems (LMS). The market share of LMS is expected to increase due to its ability to create and deliver course according to customer needs, facilitating students and instructors collaboration 24/7/365 through mobile access. The North American market is expected to hold the largest market share during the forecast period because of the prevalence of smart devices.

SimiGon's high technology training platform fulfills multiple roles in this market, comprised of e-learning, virtual instructor-led training, mobile learning, social learning, simulation-based learning, and adaptive learning.

In the civilian aviation sector, Boeing's Current Aircraft Finance Market Outlook states there was approximately $127 billion worth of aircraft deliveries in 2016, up from $122 billion in 2015. This is expected to reach $172 billion by 2020. Boeing's 2016 Current Market Outlook (CMO) projects a demand for 39,620 new airplanes over the next 20 years, worth $5.9 trillion.

This growth will place an extraordinary demand for new airline pilots and technicians. Boeing forecasts that by 2035 the aviation industry will need to supply more than two million new aviation personnel—617,000 commercial airline pilots, 679,000 maintenance technicians, and 814,000 cabin crew. Skilled Instructors will also be required to support this workforce.

This market presents the Company with a remarkable and exciting opportunity. SimiGon's innovative training technologies, methodologies and solutions, proven and successful in the military aviation market, are fully transferable to commercial aviation training.

The Company's current and past performance is essential to compete and win new contracts in the Government and Civilian sectors and achieve growth. The ability to leverage SimiGon R&D and technologies for multiple domains remains consistent with the Company's strategy to be active in multiple vertical markets. SimiGon delivers the advanced, training and simulation management systems and services that high skills and professional organizations demand.

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.

Major Existing products under SIMbox

- Fully Functional F-16 Training Device
- T-6 Flight Training Device
- Cessna Caravan Training Device
- Sensor Operator Training System

KnowBook™ Family

KnowBook is a family of PC-based 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.

SHARING PERSONAL MESSAGES FROM CORPORATE LEADERSHIP

Chairman & CEO Reviews

Chairman's Statement

"The Board remains confident in the Group's long term growth potential and is encouraged by the ongoing evolution of the market as training moves increasingly toward learning through experience rather than through manuals"

Alistair Rae, Chairman

The financial performance for the year was impacted by circumstances outside of the Company's control, however the fundamentals of the business remained strong and profitable, with a healthy base of recurring revenues and improvements achieved across a number of strategic objectives.

The Group continued to successfully execute on its organic growth strategy, winning business with new strategic customers and within the existing base, as well as successfully leveraging its leading industry position and technology platform to further penetrate into new targeted, high growth markets. Importantly, the Group continued to make good progress in its transition toward high value, longer term contracts which provide better revenue and profit visibility and will improve the financial footing of the Group going forward.

SimiGon maintains a healthy balance sheet with a significant liquid cash balance of $8.14 million. The Board intends to pay a dividend of 0.136 cents per share. Furthermore, in light of the strong cash position, the Board intends to put in place, subject to shareholder approval, an irrevocable, non-discretionary programme for the repurchase of its ordinary shares, to be held in treasury, up to a total value of $0.2 million.

The Board remains confident in the Group's long term growth potential and is encouraged by the ongoing evolution of the market as training moves increasingly toward learning through experience rather than through manuals. The Board believes SimiGon is ideally positioned to capitalise on the significant market opportunity through its comprehensive offering of providing end-users with a complete training environment on a single, integrated platform.

We increasingly see evidence of the market moving toward a full solution, across defense, commercial and consumer applications, and as this happens, the more differentiated SimiGon's solution becomes.

On behalf of the Board, I would like to thank all employees whose commitment, expertise and passion for the business is what continues to drive us forward, and to our shareholders and customers for their ongoing support. We have a strong platform in place with industry-leading technology, an exciting market opportunity and a clear pipeline of new opportunities, which leaves me confident in the Group's ability to deliver growth over the long term.

Alistair Rae
Chairman

Chief Executive's Review

"Company continues to secure significant new contracts while diversifying its end markets and reaching an ever increasing audience".

Amos Vizer, President & CEO

SimiGon continues to cement its position as a prime contractor for major long term simulation programmes, which is reflected by our success in securing a number of significant new contracts during the year. We also continued to deliver project milestones for long term contracts, underpinning our strategic position as a technology partner to our customers.

Looking ahead, the transition to high value, long term contracts is continuing and whilst this may impact revenue performance in the short term, the expected improvement in long term revenue and profit visibility provides a much stronger footing for the Company.

We are confident that the previously announced contract delays will be concluded in the near future and the associated revenue and profit is expected to be additional to current expectations for the financial years 2017 and 2018.

The Board looks to the future with optimism and is confident in the Company's ability to deliver growth over the long term.

Overview

While the Company's financial performance for year 2016 has been affected by circumstances that were outside of its control the underlying business remains profitable and continues to perform well with new business won and growing recurring revenues from existing strategic partners. The pipeline of new business in the Company's core military, aviation and non-military verticals remains strong and the Board is encouraged by new opportunities identified in the mass application market.

For the year SimiGon recorded a net profit of $0.36 million (2015: $1.78 million) and revenue of $6.02 million (2015: $6.94 million). The Company has concluded that it must recognize in FY 2016 certain costs of meeting additional client demands outside the original scope of a major $6.7 million contract (as announced in June 2013). In addition, the Company has also been disappointed that procedural delays in concluding the signatory processes underlying its contract with the Israeli Air Force (as announced on 20 June 2016) have not enabled it to recognize any related revenues during the year. Research and development expenses increased from $1.47 million in 2015 to $1.71 million in 2016 which reflects the Company's commitment and focus on ongoing R&D to ensure future success.

SimiGon is a technology and services provider for large simulation training programs to governments and private sector organizations.

The Company's core end market is defense-related industries as well as vertical markets such as civilian applications for pilot training, maintenance training and soft skills training.

This core market remained robust during the year with two major contracts awarded. The Company has also identified new opportunities such as crane operators, consumer drivers and civil aviation in the mass commercial and consumer application market which the Board believes provides the Company with a huge expanded market opportunity to pursue as a result of the fundamental shift in training through experience rather than through manuals.

The Board is confident that the fundamentals of the business remain strong and our business in the past year has further strengthened our position as a preferred supplier for simulation and training technologies and solutions. The pipeline of business is encouraging and this, combined with a growing market opportunity and contracts scheduled to complete in the current financial year, leaves the Board confident in the long term prospects of the Company.

Operational Review

SimiGon undertakes to win and develop strategic, simulation-based training programs. The Company's partners include government and blue chip organizations as well as small businesses.

SimiGon is altering the Modelling, Simulation & Training world landscape with SIMbox technologies. The highly agile SIMbox platform can be used to create simulation content of any type and for any purpose. With the user friendly SIMbox Toolkit for simulation content development, SimiGon is focused on enabling non-programmers to rapidly create simulation content.

Markets

Core markets: military, aviation, targeted commercial verticals

The Company's core end market is defence-related industries as well as vertical markets such as civilian applications for pilot training, maintenance training and soft skills training. These targeted core markets share similar characteristics in that they are highly regulated, require complex and specialised skill training and have a zero margin for error. The Company has been successful in broadening out its core offering from the military application to tangential targeted verticals, including civil aviation.

Every program the Company is involved at is a growth opportunity in that specific market while also adding new capabilities that are easily transferable to vertical markets, including civil aviation training and industrial training and serves long term growth potential. While SimiGon has a strong position as a technology provider of choice for large military aviation training programs, the Company is very excited about the many opportunities in its core market.

SimiGon’s proven credentials in this market space as a strategic supplier of training and simulation technologies pave the way for a leading role in additional military flight training programmes.

New mass consumer application market

The Company has been at the forefront of designing and providing highly technical simulation and training solutions in markets to increase learning efficiencies, reduce risk and save costs for its clients, where there is absolutely no margin for error. The fact that the Company has contracts with bodies such as the US Air Force and the Israeli Air Force is testament to the quality of the solutions that it provides.

The Company believes that, as a result and through its high levels of IP and the experience gained over the last years, it is well placed to benefit from a cultural shift in how training is delivered in a diverse range of industries, solving a wide array of problems that eventually reduce risk and save costs.

Where online video is so readily accessible, written instruction manuals providing usability and functionality guides are fast becoming obsolete. The trend towards ‘learning by doing’ simulation is growing at pace with consumers demanding visual and interactive problem solving.

SimiGon’s technology positions it ideally to take advantage of this trend and currently provides the end-users with the compressive training environment solution needed. Whilst the company’s offering in this market is at a nascent stage, the Board believes it has the potential to offer a significant new, highly profitable revenue stream.

Business model:

SimiGon's strategy, in line with market requirements, is to focus on long-term, high value, stable license contracts that provide better revenue and profit visibility as a result of distributing over the period in which they are provided rather than on single lump sum license sales.

Growth Strategy

The Company’s organic growth strategy is focused on winning new strategic customers and growing engagement within the existing customer base.

SimiGon’s ability to capture market share is due to its ongoing participation in large scale simulation and training projects. This strong track record enables the Company to increase its strategic business scope and potential revenue streams. The Company's strategy is to compete as a prime contractor when feasible and as a subcontractor if the business analysis determines a higher win probability as a subcontractor.

When participating on a team as a technology provider and services subcontractor, the Company provides partners with significant added value as a training technologies developer and solution provider.

SimiGon has been delivering on all of its major contracts during 2016 and it continues to increase its visibility in the market and awareness of new opportunities as a prime contractor and strategic partner. The Company leverages direct relationships with end users and partners. As the business and sound reputation grow, SimiGon will be better disposed to contend for larger contracts.

The Company is committed to R&D to ensure its products and services remain at the forefront of the evolving training / education landscape. A continuous rollout of new, innovative solutions enables the Company to deepen its relationship with existing clients and capture new customers.

Contracts overview:

Delivery of a major contract as prime contractor

In June 2013, The Company announced that it had signed a contract valued at $6.7 million for a major training programme. This was a milestone contract for SimiGon in terms of the geographic region, the programme scope and the contract value.

Delivery under this contract has continued during 2016 although on a slower timetable than expected as a result of the client requesting SimiGon to provide a number of deliverables outside of the original contract scope. As part of SimiGon’s drive to support all its clients, the Company has been prepared to agree to these new demands and has been meeting the delivery milestones during year 2016. The Company now expects to complete all system delivery milestones and receive the requisite client confirmations within the first half of year 2017.

Expansion into the civil aviation market

In May 2016, SimiGon signed an exclusive five-and-a-half-year contract to deliver SIMbox based training solutions to a leading provider of training solutions for the civilian aviation industries in the Far East. Under the terms of the contract, SimiGon will be paid $7.9 million to license its SIMbox software over the contract period, with a minimum of $1.4 million per year starting this year.

This contract is part of SimiGon's strategy to focus on long-term, high value, stable license contracts that provide better revenue and profit visibility rather than on single lump sum license sales. In addition, this is another major contract outside of the defence industry which further expands the Company's growth strategy to diversify its product offering and increase its addressable market. The contract underlines SimiGon's ability to penetrate a much larger market and can be a stepping stone to securing additional business in the civilian aviation industry through similar opportunities.

New contract wins

SimiGon announced in June 2016 a Contract Winning Notice for a $2 million contract from the Israeli Air Force ("IAF") to provide advanced F-16 maintenance trainers to be delivered within a period of 18 months once the expected contract is signed.

By adding a new solution for virtual maintenance training to its product offering, SimiGon will be able to build upon its past performance to succeed in a growing market of virtual training for aircraft technicians. The same technology, training aids and methodology of delivering advanced training for aircrew is now leveraged for maintenance staff training, saving organizations considerable time and money with a single training technology backbone. This comprehensive solution is already being marketed worldwide and will contribute to the Company’s market share.

The contract deliverables include SimiGon's SIMbox enterprise training system and interactive Simulation Based Training lessons for F-16 maintenance technicians. The client-server system will support 60 trainees annually. Each trainee will have a personal workstation allowing them to learn avionics and front line maintenance with the support of a Virtual Instructor (VI) for a self-paced syllabus in a fully immersive, virtual environment. This solution further demonstrates the flexibility and extensibility of SIMbox as a suitable training solution for virtually any domain, including maintenance. This agreement is the latest in a long line of SimiGon contracts for providing its products and services to leading military organizations worldwide. The Contract Winning Notice underscores SimiGon's successful entry into the maintenance training market and opens the door to compete for and win similar opportunities in the future.

During year 2016 SimiGon has been awarded an additional contract valued of $0.4 million from its strategic European aircraft manufacturer customer, which mainly includes the delivery of licenses as part of simulation based training of the client installed at academic training centers.

Long term contracts

The Company has an increasing portfolio of long term partnerships developing further business and provide revenue visibility. Many of these partnerships are expected to continue with additional contracts through 2017 and beyond.

SimiGon continues in its support for the UK Military Flying Training System (UKMFTS) as a technology and services provider to Lockheed Martin. The Company continues to deliver under this long term contract, now in its seventh year of support, exceeding partner and end user expectations of SimiGon's technologies and performance.

Check-6 Inc., one of the leading providers of training solutions to the energy and mining industries, is a textbook example of SimiGon's ability to help companies achieve new growth. Throughout this contract, SimiGon has successfully executed against its agreed deliverables. This relationship continues to yield long term business. The Company is optimistic that additional agreements will be executed to extend this relationship.

The USAF maintenance and support contract awarded to SimiGon for the SIMbox based T-6A Modular Training Devices SimiGon delivered as part of a June 2011 contract demonstrates the long term nature of the relationship with this strategic customer. SimiGon continues in its efforts to support this customer and expand this relationship.

SimiGon continues to support a major existing European customer the Company has been supplying with software and services since 2009. The customer is operating SimiGon training solutions in four different training centers daily and is receiving very positive customer reviews. SimiGon is certain that this relationship will continue and lead to additional future orders.

SimiGon's support for successful Unmanned Aerial Vehicle ("UAV") training solutions for a leading provider in the small tactical unmanned aircraft systems remains solid.

Through SimiGon's ecosystem, the SIMbox technology supports initial operator training and advanced operational training at the schoolhouse. SimiGon continues to leverage this success in the UAV market.

Annual dividend declaration

In light of the strong cash position and further to the Company's previously declared intention to pay an annual dividend, the Board intends to pay a dividend of 0.136 cents per share, equating to approximately 19% of the Company's earnings per share (2015: approximately 15%) and to approximately 19% of the Company's net profit (2015: approximately 17.2%). The dividend will be payable on Friday 26 May 2017. The record date for payment of the dividend will be Friday 5 May 2017. The ex-dividend date will be Thursday 4 May 2017.

In line with the Israeli tax ordinance and regulations, the dividend payment will be subject to 25% withholding at source unless reduced by a relevant tax treaty.

In this regard, shareholders, who have a tax withholding exemption or reduced withholding tax rate from dividend payments obtained from by Israeli Tax Authorities, should present and deliver it to the Company, together with the contact details of their stock broker, no later than the end of the business day on Wednesday 3 May 2017.

Share buy-back programme

Given the significant liquid cash balance of $8.14 million and subject to shareholder approval, the Board intends to put in place an irrevocable, non-discretionary programme for the repurchase of its ordinary shares up to a total value of $0.2 million. It is intended that the repurchase programme will be independently managed by finnCap Ltd, the Company's nominated adviser and broker, which will make trading decisions independently and without the influence of the Company.

Any ordinary shares repurchased on behalf of the Company will be held in treasury and will be notified to a Regulatory Information Service in accordance with the AIM Rules for Companies. The repurchase programme will last until full repurchase of the Company's Ordinary Shares and will be conducted within pre-set parameters and in accordance with the authority that will be granted by the Company's shareholders to repurchase shares. Further announcements in relation to the implementation of the share buy-back programme and obtaining shareholder approval will be made in due course.

Financial Performance

Revenue for the year ended 31 December 2016 was \$6.02 million, compared to \$6.94 million in 2015. In terms of regional breakdown, 44% of SimiGon's revenues came from North America (2015: 56%), 19% from Europe, Middle East, South America and Australia (2015: 27%) and 37% from the Far East (2015: 17%).
Gross profit for the year ended 31 December 2016 was \$4.1 million, as compared to \$5.4 million for the year ended 31 December 2015. Accordingly, gross margins decreased to 69% for the year ended 31 December 2016 as compared to 78% for the year ended 31 December 2015. Net profit for the fiscal year of \$0.36 million (2015: profit of \$1.78 million).

Total operating expenses for the year ended 31 December 2016 increased by 4% to \$3.91 million as compared to \$3.77 million for the year ended 31 December 2015. Research and development expenses for year ended 31 December 2016 increased by 16% to \$1.71 million as compared to \$1.47 million for the year ended 31 December 2015, mainly due to increase salary expenses. Marketing expenses for the year ended 31 December 2016 decreased by 12% to \$1.09 million as compared to \$1.25 million for the year ended 31 December 2015 mainly due salary expenses.

General and administration expenses for the year ended 31 December 2016 increased by 6% to \$1.11 million as compared to \$1.05 million the year ended 31 December 2015 mainly to the collection in year 2015 of debts for which provisions for doubtful debts were recorded in the prior period and provisions for doubtful debts recorded in year 2016.

The Company has recorded a net income tax credit of \$0.07 million for the year ended 31 December 2016 mainly as a result of creating a deferred tax asset in relation to the expected utilization of carry forward losses against expected income in future years.

As a consequence of the factors above, operating profit for the year ended 31 December 2016 amounted to \$0.22 million, as compared to \$1.64 million for the year ended 31 December 2015.

Net basic and diluted earnings per share decreased to \$0.01 for the year ended 31 December 2016 as compared to \$0.04 for the year ended 31 December 2015.

As at 31 December 2016 the Company had liquid cash of \$8.14 million as compared to \$7.41 million as at 31 December 2015 and trade receivables of \$2.92 million compared to \$3.72 million for the year ended 31 December 2015. \$1.01 million of the year end trade receivables balance has been collected since the year end.

Outlook

SimiGon continues to be profitable through focusing on its strategic milestones and delivering against them. The Company's goal of being a prime contractor and technology provider for major, long term simulation training programmes is being achieved and the Company continues to secure significant new contracts while diversifying its end markets and reaching an ever increasing audience.

The transition towards high value long term license contracts is expected to continue. Though this may lead to lower revenue from these contracts in the short term, it is expected to give SimiGon much greater visibility over both revenue and profits in the long term.

The Board of Directors is confident in its aim to successfully deliver long term growth.

Amos Vizer
President & CEO

DISPLAYING PERSONAL COMMITMENT TO ORGANIZATIONAL SUCCESS

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.

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.

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.

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 dollardeals with tier-one companies and managed business development activities with potential partners worldwide.

Ran Pappo, Independent Non-Executive Director

Mr. Ran Poppo has 25 years of business experience while delivering results worldwide. Mr. Pappo is the Chief Executive Officer of Diva Hirschthal Ltd. a large organization engaged in designing, manufacturing and world wild selling of high quality swimwear. Mr. Pappo also serves as a director in JS Group Srl, supervising its financial activities while reviewing its manuals and goals. Mr Pappo is a strategic consultant focusing on organizational workflows, financial forecasting, budgeting, auditing, human resources optimization, production planning and marketing. Mr Pappo has an extensive financial knowledge including budgeting, managing and auditing financial statements for national Organizations. Mr. Pappo holds a BS in Business Administration, Finance and International Marketing, from the College for Management in Israel.

Deborah M. Bitman, Independent Non-Executive Director

Mrs. Deborah M. Bitman has extensive experience on school improvement committees and other school activities and programs. Mrs. Bitman works with various educators to address curriculum standards and needs. Working as a director at the Jewish Academy of Orlando, she has great experience in school policy guidance, budget review, future plans, and creating and managing educational curriculum. Mrs. Deborah M. Bitman holds a Bachelor in English from the University of Michigan in Ann Arbor and a Masters in Elementary Education from Indiana University in Bloomington.

DISPLAYING PERSONAL COMMITMENT TO ORGANIZATIONAL SUCCESS (CONT.)

Management

Amos Vizer, President & CEO

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Roger Torres - Director, Programs

Mr Torres joined SimiGon's Programs team in 2011. He has over 14 years of management experience, primarily with Aerospace, Department of Defense (DoD), and Courseware Development programs. Prior to program management Mr. Torres was a pilot, and flew charter, corporate, and commercial operations world-wide. He holds several certificates and ratings from the aviation industry, including Flight Instructor, Flight Engineer, and Airline Transport Pilot. Mr. Torres has a Bachelor in Vocational Education and a Master's in Aeronautical Science.

Hagai Pichovich - VP, R&D

Mr Pichovich joined the company as a software developer for the LMS team in 2006 and since then carried out various roles such as team lead and Director of R&D. He has an extensive experience with large scale project architecture and deep knowledge with SimBox based solutions and internals. Picho has over 15 years of experience with software development using various technologies and methodologies, and holds a bachelor degree in computer science.

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.

Koby Ben Yakar, VP Product

Koby, 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.

Jeff Annis, VP Sales & Marketing

Mr Annis, joined SimiGon in 2011 and has a career in the Sales & Marketing of simulation, training, and software development technology, primarily in the Aerospace/Defense and Automotive sectors. Before joining SimiGon he held Director positions at Adacel Systems, Advanced Rotorcraft Technology, and Engenuity Technologies each specializing in high-tech, advanced pilot training software systems. Prior to this Mr. Annis founded American Data-Pro, a company specializing in the development of database and network systems. Mr. Annis has a Bachelor degree in Management and Marketing from Troy University in Alabama.

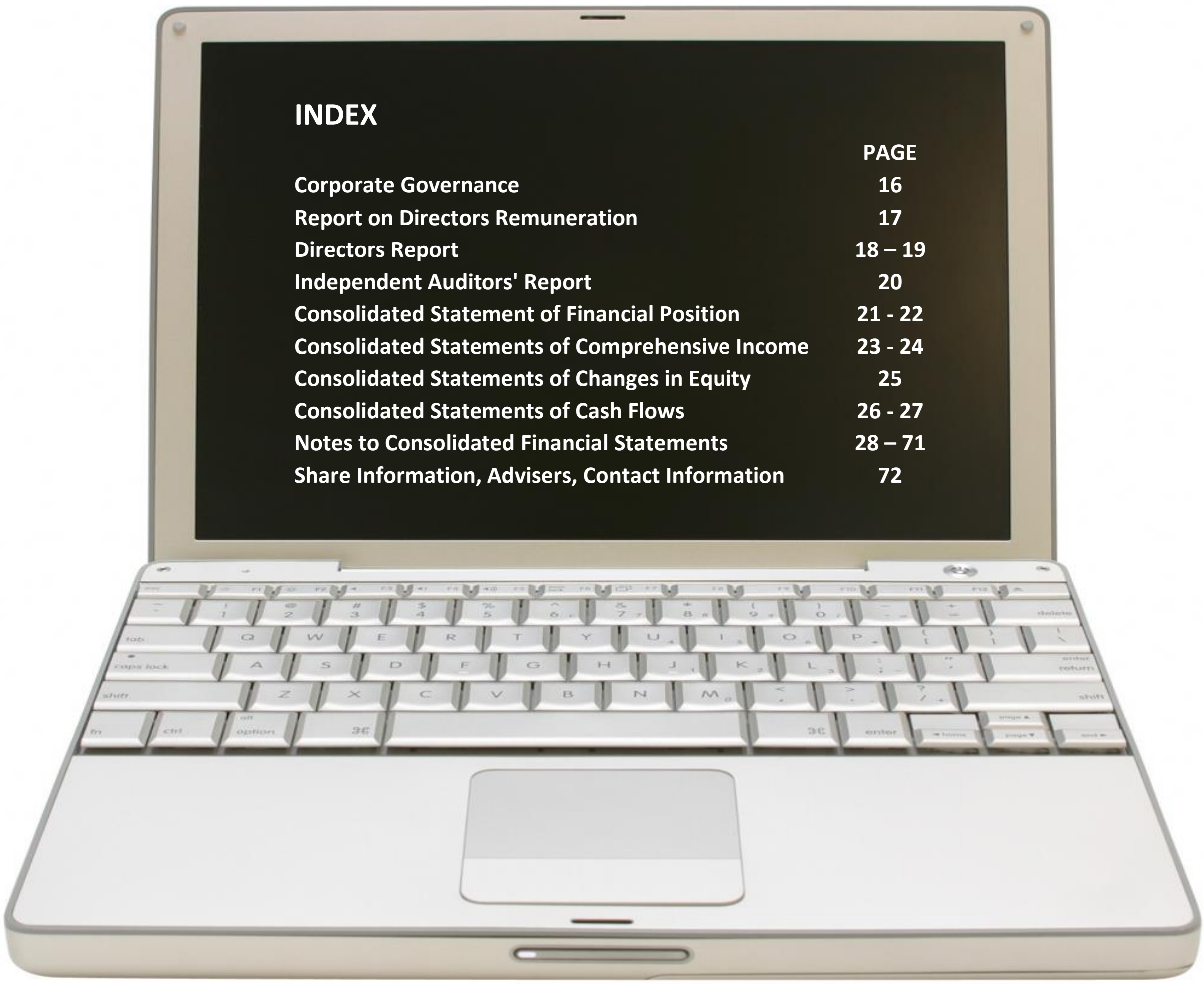
Merav Nahmani, Director of Human Resources

Ms. Nachmani, 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

Consolidated Financial Statements of SimiGon Ltd. and Its Subsidiaries as of December 31, 2016

(U.S. Dollars in Thousands)



Corporate Governance For The Period Ended 31 December 2016

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 2016	**Total 2015**
Executive	**$**	**$**
Ami Vizer *	410,635	410,697
Efraim Manea **	141,140	123,689
Non-Executive		
Alistair Rae	46,807	53,348
Eitan Cohen	26,400	26,400
Nevat Simon ***)	-	26,400
Dr. Vered Shany ***)	-	26,400
Mr. Ran Pappo	26,400	-
Dr. Vered Shany	26,400	-
Total	**677,782**	**666,934**

* Year 2016 does not include $59,651 paid in respect of vacation days, additional $28,721 paid in respect of severance allocation transfer, additional $35,145 paid in respect to health insurance, annual bonus of $62,500 paid in respect to year 2015 performance and annual bonus provision of $36,762 in respect to year 2016 performance.

Year 2015 does not include $19,583 paid in respect of vacation days, additional $28,721 paid in respect of severance allocation transfer, additional $35,144 paid in respect to health insurance, annual bonus of $79,609 paid in respect to year 2014 performance and annual bonus provision of $62,500 in respect to year 2015 performance.

** Year 2016 does not include annual bonus of $16,121 paid in respect to year 2015 performance and annual bonus provision of $ 9,551 in respect to year 2016.

Year 2015 does not include annual bonus of $20,470 paid in respect to year 2014 performance and annual bonus provision of $ 16,121 in respect to year 2015.

*** On December 30, 2015 Mr. Ran Pappo and Mrs. Deborah M Bitman were appointed as an independent external, replacing Mr. Nevat Simon and Dr. Vered Shany, respectively.

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 2016.

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, 2016 the total numbers of Ordinary Shares Issued were 51,394,189.

Share Options

As of 31 December 2016, the outstanding balance of options granted to certain employees of SimiGon is approximately 1.8 percent of the Company's issued and outstanding shares at an average exercise price of $0.37. 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

Further to the Company's previously declared intention to pay an annual dividend, the following dividend has been distributed to its shareholders:

- On 11 April 2017 the Company announced an annual dividend distribution of 0.136 cents per share for a total issued and outstanding shares of 51,394,189, equating to approximately 19% of the Company's earnings per share and to approximately 19% of the Company's net profit for year 2016.

- On 27 May 2016 an annual dividend of 0.6 cents per share for a total issued and outstanding shares of 50,993,154, equating to approximately 15% of the Company's earnings per share and to approximately 17% of the Company's net profit for year 2015 has been paid to the Company's shareholders with respect to year 2015.

- On 29 May 2015 an annual dividend of 0.6 cents per share for a total issued and outstanding shares of 50,079,690, equating to approximately 20% of the Company's earnings per share and to approximately 22% of the Company's net profit for year 2014 has been paid to the Company's shareholders with respect to year 2014.

- On 30 May 2014 an annual dividend of 0.543 cents per share for a total issued and outstanding shares of 47,292,706, equating to approximately 27% of the Company's earnings per share and to approximately 30% of the Company's net profit for year 2013 has been paid to the Company's shareholders with respect to year 2013.

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:

- Mr. Amos Vizer has been an executive director of the Company since 4 November 1998.
- Mr. Efraim Manea was appointed as an executive director on July 30, 2010.
- Mr. Alistair Rae, appointed as a director and Chairman of the Board on 27 October 2006.
- Mr. Eitan Cohen was appointed a non-executive director on June 3, 2008.
- Mr. Ran Pappo, appointed as an independent director on December 30, 2015.
- Mrs. Deborah M Bitman, appointed as an independent director on December 30, 2015.

Directors Interest in Shares and Share Options

The interest of directors in the issued share capital of the company at 31, December 2016 were as follows.

Directors	Number of Ordinary Shares Capital	Percentage of Ordinary shares	Shares to be issued	Options
Alistair Rae	227,249	0.40	-	-
Eitan Cohen	97,000	0.19	-	-
Ami Vizer	11,365,489	22.11	125,338 *)	50,000
Efraim Manea	284,346	0.55	32,564 *)	50,000

*) The Company’s board of directors approved that 2016 annual bonuses to Mr. Ami Vizer, and to Mr. Efraim Manea of $27,254 and $7,080 respectively, that have already been approved at the Company’s board meeting dated April 16, 2016 in accordance to the Company’s Director’s & Officer’s Compensation Policy, will be granted in Ordinary Shares of the Company calculated based on the closing price on the day of announcement of the Company's financial results for 2016 instead of being payable in cash. The grant of bonuses in Ordinary Shares of the Company will also be subject to the approval of the Company’s shareholders.

Substantial Shareholdings

At 31, December 2016 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
A. Vizer Holdings A. Vizer	11,365,489	21.83%
Jeffrey Braun	6,543,039	12.51%
Herald Investment Management Limited	5,050,000	9.66%
Axxion S.A.	3,500,000	6.69%
Green Venture Capital Ltd.	3,067,848	5.87%
G. Poran Holding Ltd	2,273,444	4.35%
Shroder Euroclear Nominees Limited	1,711,070	3.27%

Auditors

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

Building a better working world

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
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, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2016, 2015 and 2014, and the related notes to the consolidated financial statements, which, as described in Note 2 to the consolidated financial statements, have been prepared on the basis of International Financial Reporting Standards as adopted by the European Union.

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 as adopted by the European Union; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the each of the years ended December 31, 2016, 2015 and 2014 in accordance with International Financial Reporting Standards as adopted by the European Union.

April 6, 2017
Tel-Aviv, Israel

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2016	2015
	Note	U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		5,221	5,545
Short-term bank deposit		1,005	-
Short-term investments	3	1,913	1,867
Trade receivables, net	4	2,919	3,715
Other accounts receivable and prepaid expenses		61	59
Total current assets		11,119	11,186
NON-CURRENT ASSETS:			
Restricted cash	5	374	374
Long-term prepaid expenses		39	12
Deferred tax	12	223	159
Property, plant and equipment	6	111	82
Goodwill and intangible asset	7	1,072	1,122
Total non-current assets		1,819	1,749
Total assets		12,938	12,935

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2016	December 31, 2015
		U.S. dollars in thousands	
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Trade payables		98	123
Deferred revenues		558	574
Other accounts payable and accrued expenses	8	684	875
Total current liabilities		1,340	1,572
NON-CURRENT LIABILITIES:			
Long-term deferred revenues		38	-
Employee benefit liabilities	9	222	192
Other non-current liabilities	13a	732	722
Total non-current liabilities		992	914
Total liabilities		2,332	2,486
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	10		
Share capital		125	124
Additional paid-in capital		16,629	16,526
Accumulated deficit		(6,144)	(6,201)
Total equity attributable to equity holders of the Company		10,610	10,449
Non-controlling interests		(4)	-
Total equity		10,606	10,449
Total liabilities and equity		12,938	12,935

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

April 6, 2017			
Date of approval of the financial statements	Alistair Rae Non-Executive Chairman of the Board of Directors	Ami Vizer Chief Executive Officer and Director	Efraim Manea Chief Financial Officer and Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2016	2015	2014
		U.S. dollars in thousands (except share and per share amounts)		
Revenues	15	6,018	6,935	8,316
Cost of revenues	14a	1,882	1,534	1,989
Gross profit		4,136	5,401	6,327
Operating expenses:				
Research and development	14b	1,714	1,472	2,381
Selling and marketing	14c	1,092	1,245	1,458
General and administrative	14d	1,107	1,048	1,181
Total operating expenses		3,913	3,765	5,020
Operating profit		223	1,636	1,307
Finance income	14e	172	74	178
Finance expenses	14f	103	82	127
Income before income taxes		292	1,628	1,358
Income tax benefit	12	69	154	-
Net income		361	1,782	1,358

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	2016	2015	2014
		Year ended December 31,		
		U.S. dollars in thousands (except share and per share amounts)		
Net income		361	1,782	1,358
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Remeasurement gain (loss) from defined benefit plan		(2)	4	6
Total comprehensive income		359	1,786	1,364
Net income (loss) attributable to:				
Equity holders of the Company		365	1,786	1,358
Non-controlling interests		(4)	-	-
		361	1,782	1,358
Total comprehensive income (loss) attributable to:				
Equity holders of the Company		363	1,786	1,364
Non-controlling interests		(4)	-	-
		359	1,786	1,364
Net basic and diluted earnings per share attributable to equity holders of the Company in U.S. dollars		0.01	0.04	0.03
Weighted average number of shares used in computing basic earnings per share (in thousands)	16	51,097	50,683	48,854
Weighted average number of shares used in computing diluted earnings per share (in thousands)	16	51,319	50,818	49,085

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Number of shares	**Share capital**	**Additional paid-in capital**	**Accumulated deficit**	**Total**	**Non-controlling interests**	**Total equity**
	U.S. dollars in thousands (except share amounts)						
Balance as of December 31, 2013	47,292,706	113	16,248	(8,782)	7,579	-	7,579
Total comprehensive income	-	-	-	1,364	1,364	-	1,364
Dividend distribution	-	-	-	(269)	(269)	-	(269)
Share-based compensation	-	-	90	-	90	-	90
Exercise of stock options (Note 10a2 till 10a6)	2,786,984	8	12	-	20	-	20
Balance as of December 31, 2014	50,079,690	121	16,350	(7,687)	8,784	-	8,784
Total comprehensive income				1,786	1,786	-	1,786
Dividend distribution	-	-	-	(300)	(300)	-	(300)
Share-based compensation	-	-	65	-	65	-	65
Share issuance (Note 10 a7)	285,000	1	107	-	108	-	108
Exercise of stock options (Note 10a2 and 10a8 till 10a9)	628,464	2	4	-	6	-	6
Balance as of December 31, 2015	50,993,154	124	16,526	(6,201)	10,449	-	10,449
Total comprehensive income	-	-	-	363	363	(4)	359
Dividend distribution	-	-	-	(306)	(306)	-	(306)
Share-based compensation	-	-	65	-	65	-	65
Share issuance (Note 10 a7)	100,000	*) -	38	-	38	-	38
Exercise of stock options (Note 10a2)	301,035	1	-	-	1	-	1
Balance as of December 31, 2016	51,394,189	125	16,629	(6,144)	10,610	(4)	10,606

*) 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,		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income	361	1,782	1,358
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	87	88	101
Deferred tax	(64)	(159)	-
Finance income, net	(71)	(34)	(9)
Share-based compensation	65	65	90
Change in employee benefit liabilities, net	28	19	6
Changes in asset and liability items:			
Decrease (increase) in trade receivables	796	(3,209)	(257)
Decrease in other accounts receivable and prepaid expenses (including long-term)	18	11	28
Increase (decrease) in trade payables	(25)	(30)	10
Increase (decrease) in deferred revenues	22	(351)	(293)
Increase (decrease) in other accounts payable and accrued expenses	(167)	99	53
	689	(3,501)	(271)
Net cash provided by (used in) operating activities	1,050	(1,719)	1,087

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
Cash flows from investing activities:			
Decrease (increase) in short-term investments	-	1,086	(2,943)
Decrease in restricted cash	-	-	30
Decrease (increase) in short-term bank deposits	(1,001)	-	511
Increase in long-term deposits	(26)	(2)	-
Purchase of fixed assets	(66)	(16)	(39)
Net cash provided by (used in) investing activities	(1,093)	1,068	(2,441)
Cash flows from financing activities:			
Proceeds from share issuance	*) -	1	-
Exercise of stock options	-	5	13
Dividend distribution	(306)	(300)	(269)
Repayment of refundable grants	25	-	-
Net cash used in financing activities	(281)	(294)	(256)
Decrease in cash and cash equivalents	(324)	(945)	(1,610)
Cash and cash equivalents at beginning of year	5,545	6,490	8,100
Cash and cash equivalents at end of year	5,221	5,545	6,490
(a) Supplemental disclosure of non-cash financing activities:			
Receivable in respect of issuance of shares	1	2	7
Issuance of shares in respect of 2014 annual bonus to directors and employees	38	107	-

*) 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. and National Simulation Services Inc., which are engaged in the marketing of the Company's products in the United States, and a wholly-owned subsidiary in Singapore, SimiGon Pte Ltd., which is engaged in the marketing of the Company's products in the Far East and a 70% holding in a subsidiary located in Colombia for the purpose of marketing the Company’s products in South America.

c. The Company's shares are traded on the Alternative Investment Market ("the AIM") on the London Stock Exchange.

d. Definitions:

In these financial statements:

The Company	-	SimiGon Ltd.
The Group	-	SimiGon Ltd. and its subsidiaries.
Subsidiaries	-	Companies that are controlled by the Company, as defined in IFRS 10.
Related parties	-	As defined in IAS 24.
Dollar/$	-	U.S. dollar

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

b. Functional currency, presentation currency and foreign currency:

The consolidated financial statements are presented in U.S. dollars, which is the Company's functional 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.
The functional currency of the subsidiaries is the U.S. dollar.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or recorded in equity in hedging transactions, are recognized in profit or loss. Non-monetary assets and liabilities measured at cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

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

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

d. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. 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.

f. 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.

The Company did not recognize an allowance in respect of groups of trade receivables that are collectively assessed for impairment due to immateriality. Impaired receivables are derecognized when they are assessed as uncollectible.

g. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables.

a) Financial assets at fair value through profit or loss:

This category includes financial assets held for trading (short-term investments in mutual funds).

b) Loans and Receivables:

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market.

After initial recognition, loans are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Financial liabilities:

Financial liabilities are initially recognized at fair value. After initial recognition, loans and other liabilities are measured at amortized cost based on their terms net of directly attributable transaction costs using the effective interest method.

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.

i. 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.

The Group as lessee:

Operating leases:

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.

j. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses.

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 expected life, whichever is shorter

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from the derecognizing of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the financial statements) is included in profit or loss when the asset is derecognized.

k. Intangible assets:

Intangible assets (Technology) acquired in a business combination are included at fair value at the acquisition date. 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 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 is recognized in the profit or loss.

The useful life of the Technology is 10 years.

l. 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.

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.

The following criteria are applied in assessing impairment of these specific assets:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Goodwill in respect of business combination:

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

The Company reviews goodwill for impairment once a year as of December 31 or more frequently if events or changes in circumstances indicate that there is impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

n. 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.

After initial recognition, the liability is measured at amortized cost using the effective interest method. Changes in the projected cash flows are discounted using the original effective interest and recorded in profit or loss in accordance with the provisions of IAS 39.AG8.
Royalty payments are treated as a reduction of the liability.

o. Revenue recognition:

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. When the Company acts as a principal and is exposed to the risks associated with the transaction, revenues are presented on a gross basis. Revenues are measured at the fair value of the consideration less any trade discounts.

The Company generates revenues mainly from licensing the software products and sales of software licenses that require significant customization. The Company also generates revenues from maintenance, support and training.

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, 2016 and 2015, 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.

p. Earnings 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.

q. Provisions:

A provision in accordance with IAS 37 is recognized when the Company has a present (legal or constructive) 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.

If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Employee benefits:

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. Remeasurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

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.

s. Fair value of financial instruments:

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

t. 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 Company's employees/other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions.

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration of equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted .

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

u. Finance income and expenses:

Finance income includes interest income on amounts invested, government grants and exchange rate gains.
Finance expenses comprise interest expense on bank loan, government grants, fees and exchange rate losses.

v. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements.

In the process of applying the significant accounting policies, the Group has made the following judgments which have a significant effect on the amounts recognized in the financial statements:

1. Judgments:

- Determining the fair value of share-based payment transactions:

  The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price and exercise price and judgments regarding expected volatility, expected life of share option and expected dividend yield.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. 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.

- Chief Scientist grants:

  Government grants received from the Office of the Chief Scientist at the Ministry of Industry, Trade and Labor are recognized as a liability if future economic benefits are expected from the research and development activity that will result in royalty-bearing sales. There is uncertainty regarding the estimated future cash flows and the estimated discount rate used to measure the amount of the liability. As for the accounting treatment of grants received from the OCS, see also Note 13.

- Deferred tax assets:

  Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits, its source and the tax planning strategy.

w. Taxes on income:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

1. Current taxes:
The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

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

IFRS 15, "Revenue from Contracts with Customers":

In May 2014, the IASB issued IFRS 15 ("IFRS 15").

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of

Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The IFRS 15 introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: *Identify the contract with a customer*, including reference to contract combination and accounting for contract modifications.

Step 2: *Identify the separate performance obligations in the contract*

Step 3: *Determine the transaction price*, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Step 4: *Allocate the transaction price to the separate performance obligations* on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: *Recognize revenue when the entity satisfies a performance obligation* over time or at a Point in time.

IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. IFRS 15 allows an entity to choose to apply a modified retrospective approach, according to which IFRS 15 will only be applied in the current period presented to existing contracts at the date of initial application. No restatement of comparative periods is required.

The Company is evaluating the possible impact of IFRS 15 but is presently unable to assess its effect, if any, on the financial statements.

IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if certain conditions are met. Subsequent measurement of all other debt instruments and financial assets should be at fair value.

According to IFRS 9, the provisions of IAS 39 will continue to apply to derecognizing and to financial liabilities for which the fair value option has not been elected. IFRS 9 also prescribes new hedge accounting requirements.
IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Company is evaluating the possible impact of IFRS 9 but is presently unable to assess its effect, if any, on the financial statements.

Amendments to IAS 7, "Statement of Cash Flows", regarding additional disclosures of financial liabilities:

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require additional disclosures regarding financial liabilities. The amendments require disclosure of the changes between the opening balance and the closing balance of financial liabilities, including changes from cash flows, changes arising from obtaining or losing control of subsidiaries, the effect of changes in foreign exchange rates and changes in fair value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The amendments are effective for annual periods beginning on or after January 1, 2017. Comparative information for periods prior to the effective date of the amendments is not required. Early application is permitted.

The Company will include the necessary disclosures in the financial statements when applicable.

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the new Standard:

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".

- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expenses separately.

- The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.

- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted provided that IFRS 15 is applied concurrently.

The Company believes that the new Standard is not expected to have a material impact on the financial statements.

NOTE 3:- SHORT-TERM INVESTMENTS

	December 31, 2016	December 31, 2015
	U.S. dollars in thousands	
Financial assets classified as held for trading at fair value through profit or loss- Mutual Funds *)	1,913	1,867

*) Short-term investments in mutual funds are considered as highly liquid low risk investments.

NOTE 4: - TRADE RECEIVABLES

	December 31, 2016	December 31, 2015
	U.S. dollars in thousands	
Trade receivables (1)	2,919	3,715
(1) Net of allowance for doubtful debts	259	224

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				Total
		< 30 days	30 - 60 days	60 - 90 day	> 90 days	
	U.S. dollars in thousands					
2016	2,279		297	-	343	2,919
2015	3,579	-	72	-	64	3,715

NOTE 5:- RESTRICTED CASH

a. As part of a $ 6.7 million contract signed in May 2013 in which the Company was selected as a prime contractor to deliver a SIMbox based training solution, on June 10, 2013 the Company issued a Performance Bond in favor of its customer in a total amount of $ 335 thousand prior to contract deliveries and receiving payments from the client. The expiration date of the Performance Bond has been extended to October 30, 2018.

b. To operate an ongoing business bank account, the Company is obligated to secure a deposit in the amount of $ 15 thousand in favor of the bank.

c. As part of its premises lease agreement, the Company is obligated to secure a deposit in the amount of $ 24 thousand in favor of the landlord.

NOTE 6:- PROPERTY, PLANT AND EQUIPMENT

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, 2015	747	204	55	1,006
Disposal during the year	(10)	-	-	(10)
Acquisitions during the year	8	8	-	16
Balance as of December 31, 2015	745	212	55	1,012
Disposal during the year	(4)	-	-	(4)
Acquisitions during the year	29	1	36	66
Balance as of December 31, 2016	770	213	91	1,074
Accumulated depreciation:				
Balance as of January 1, 2015	705	145	53	903
Disposal during the year	(10)	-	-	(10)
Depreciation during the year	24	13	-	37
Balance as of December 31, 2015	719	158	53	930
Disposal during the year	(4)	-	-	(4)
Depreciation during the year	27	4	6	37
Balance as of December 31, 2016	742	162	59	963
Depreciated cost as of December 31, 2016	28	51	32	111
Depreciated cost as of December 31, 2015	26	54	2	82

NOTE 7:- GOODWILL AND INTANGIBLE ASSET

	Carrying amount as of December 31,	
	2016	2015
	U.S. dollars in thousands	
Technology **)	4	54
Goodwill *)	1,068	1,068
Total	1,072	1,122

*) As the activities of Visual Training Solution Group ("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, 2016, the recoverable amount determined using the fair value of the Company, based on the market price of its shares, exceeded significantly the carrying amount of the Company's net assets (equity), and therefore, no provision for impairment was recorded.

NOTE 7:- GOODWILL AND INTANGIBLE ASSET (Cont.)

**) During the years ended December 31, 2016, 2015 and 2014, the Company recorded amortization in the amount of $ 50 thousand, $ 51 thousand and $ 50 thousand, respectively, which was recorded in cost of revenues.

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2016	**2015**
	U.S. dollars in thousands	
Employees and payroll accruals	373	554
Accrued expenses	311	321
	684	875

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES, NET

a. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to Section 14 to the Severance Pay Law, as specified below.

The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Company into pension funds and/or policies of insurance companies release the Company from any additional liability to employees for whom said contributions were made. These contributions and contributions for benefits represent defined contribution plans.

	Year ended December 31,		
	2016	**2015**	**2014**
	U.S dollars in thousands		
Expenses in respect of defined contribution plans	99	94	108

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

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

	Year ended December 31,		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
Current service cost	47	46	50
Interest cost	8	7	7
Exchange rate	3	(1)	(20)_
Total expense included in profit or loss	58	52	37

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

Composition:

	Year ended December 31,		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
Balance at January 1	192	178	177
Interest cost	8	7	7
Exchange rate	3	(1)	(21)
Current service cost	47	46	50
Benefits paid	(30)	(34)	(29)
Remeasurement loss (gain)	2	(4)	(6)
Balance at December 31	222	192	178

d. The actuarial assumptions used are as follows:

	Year ended December 31,		
	2016	**2015**	**2014**
Discount rate	4.05%	4.13%	3.83%
Future salary increases	3.60%	3.55%	3.80%
Average expected remaining working years	7.85	7.57	6.78

	Year ended December 31,		
	2016	**2015**	**2014**
	U.S. in thousands		
Remeasurement gain (loss) in respect of defined benefit plan	(2)	4	6

NOTE 10:- EQUITY

a. Share issuance:

1. Further to the implementation of a one-year plan for salary reduction of 15% for the Non-Executive Board members dated July 27, 2009, on April 12, 2012 the Company issued a total of 72,000 and 47,727 Ordinary Shares to the Company's Non-Executive Directors and to Non-Executive Chairman of the Board respectively in return for a one year salary reduction.

   On October 9, 2013 the Company issued a total of 72,000 and 47,727 Ordinary Shares to the Company's Non-Executive Directors and to Non-Executive Chairman of the Board respectively in return for a one year salary reduction.

2. On September 12, 2011, the Board of Directors approved the implementation of a share bonus plan ("the Share Bonus Plan") for year 2011.

   According to the Share Bonus Plan, the Bonus Compensation will be granted with an equivalent value of Ordinary shares based on the quoted fair market price of the shares as of September 12, 2011, which is equal to $ 0.0812 per Ordinary share ("the Bonus Shares"). The Bonus Shares will vest upon receiving actual payment from the customer under the relevant PO ("the Bonus Shares Vested Date").
   The fair value, on date of grant equal to $ 0.08 per Ordinary Share.

   Based on full vesting as of December 31, 2011, the Company's senior management and other employees are entitled to a total of 2,889,379 Ordinary Shares and a total of 3,141,288 Options at an exercise price of NIS 0.01 per share of the Company, which Ordinary Shares and Options were issued in 2012.

   On April 12, 2012 the Company issued a total 2,055,838 Ordinary Shares and 3,141,288 Options at an exercise price of 0.01 NIS each ("Options") to its senior management and other employees.

   On October 11, 2012, a total of 833,541 Ordinary Shares of have been issued to senior management and employees, including 516,921 Ordinary Shares to Mr. Ami Vizer the Chief Executive Officer of the Company and also a Director of the Company.

   Further to the above, on April 30, 2014 a total of 1,712,429 options were exercised under the Company's Stock Option Plan by senior management into SimiGon's Ordinary Shares at an exercise price of NIS 0.01 each. Out of the shares issued, 1,497,674 and 37,582 Ordinary Shares were issued to the Company's CEO and CFO, who are also Directors of the Company; respectively.

   On November 11, 2014 a total of 527,554 options were exercised under the Company's Stock Option Plan into SimiGon's Ordinary Shares at an exercise price of NIS 0.01 each by the Company's CEO, who is also Director of the Company.

NOTE 10:- EQUITY (Cont.)

On April 27, 2015, a total of 600,270 options were exercised under the Company's Stock Option Plan by the Company's CEO, Mr. Ami Vizer, who is also a Director of the Company, into Ordinary shares at an exercise price of NIS 0.01 each.

On September 27, 2016, a total of 301,035 options were exercised under the Company's Stock Option Plan by the Company's CEO, Mr. Ami Vizer, who is also a Director of the Company, into Ordinary shares at an exercise price of NIS 0.01 each.

The Company recorded share-based compensation expenses of $ 46 thousand and $ 65 thousand, in respect of the bonus compensation for year 2014 and 2013, respectively.

3. On April 30, 2014 a total of 27,500 options were exercised under the Company's Stock Option Plan by senior management into SimiGon's Ordinary Shares at an exercise price of $ 0.08 each.

4. On April 30, 2014 a total of 454,000 options were exercised under the Company's Stock Option Plan by senior management into SimiGon's Ordinary Shares at an exercise price of NIS 0.01 each.

5. On May 20 2014, a total of 15,500 options were exercised under the Company's Stock Option Plan by a former employee into SimiGon's Ordinary Shares of 0.01 NIS. Out of the options exercised, 8,000 Options and 7,500 Options were exercised at an exercise price of $ 0.13 and $ 0.08 each; respectively.

6. On November 11 2014, a total of 50,001 options were exercised under the Company's Stock Option Plan by a former employee into SimiGon's Ordinary Shares of 0.01 NIS. Out of the options exercised, 16,667 Options and 33,334 Options were exercised at an exercise price of $ 0.25 and $ 0.14 each; respectively.

7. On February 26, 2015, the Company's Board of directors approved the grant of an annual bonus to key employees and Non-Executive Directors of $150 thousand in recognition of their contribution to the Company's positive financial performance in 2014 and as part of the Company's consistent approach to compensate its key employees and Non-Executive Directors (excluding the Company's CEO and CFO). The bonus was to be granted in shares calculated based on the closing price on the day of announcement of the Company's financial results for 2014. The bonus granted to the Non-Executive Directors was subject to the approval of the Company's shareholders. A provision for this bonus was recorded in the 2014 annual financial statements.

   Further to the above, on May 21, 2015 the Company issued a total of 285,000 Ordinary shares to the key employees and Non-Executive Directors

   On September 27, 2016 the Company issued a total of 100,000 Ordinary shares to the Non-Executive Directors, in respect of the above bonus.

NOTE 10:- EQUITY (Cont.)

8. On January 21, 2015, a total of 3,194 options were exercised under the Company's Stock Option Plan by a by a former employee at an average exercise price of $ 0.19.

9. On April 16, 2015, a total of 25,000 options were exercised under the Company's Stock Option Plan by a by a former employee at an average exercise price of $ 0.12.

10. With respect to fiscal year 2016 and in accordance to the Company's Compensation Policy Plan mentioned below, on April 16, 2016, the Company's Board of directors approved the grant of annual bonuses in the amount of up to $ 125 thousand and up to NIS 125 thousand to Mr. Ami Vizer, the Company's Chief Executive Officer who is also a Director of the Company and to Mr. Efraim Manea, a director of the Company and its CFO; respectively. The granted bonuses are subject to revenues, net profit and share price criteria and milestones.

    On April 6, 2017 the Company's board of directors approved that the bonuses were to be granted in Ordinary Shares of the Company calculated based on the closing price on the day of announcement of the Company's financial results for 2016 instead of being payable in cash. The grant of bonuses in Ordinary Shares of the Company will also be subject to the approval of the Company's shareholders. A provision for this bonus was recorded in the 2016 annual financial statements.

b. Composition of share capital:

	December 31, 2016, 2015 and 2014	December 31, 2016	December 31, 2015	December 31, 2014
	Authorized	**Issued and outstanding**		
	Number of shares			
Ordinary shares of NIS 0.01 par value each	100,000,000	51,394,189	50,993,154	50,079,690

c. 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 ratably 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, 2016, an aggregate of 1,924,149 Ordinary shares of the Company are still available for future grant.

NOTE 10:- EQUITY (Cont.)

On January 31, 2012 the Board of Directors granted to the Company employees a total of 190,000 options to purchase Ordinary shares of the Company. Such options are granted in accordance with the Company's Employees' Stock Option Plan (the "ISOP") and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price of US$ 0.14.

On April 11, 2013 the Board of Directors granted to the Company employees a total of 155,000 options to purchase Ordinary shares of the Company. Such options were granted in accordance with the Company's Employees' Stock Option Plan and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price of $ 0.33.

On May 30, 2013 the Board of Directors granted to the Company employees a total of 150,000 options to purchase Ordinary shares of the Company. Such options were granted in accordance with the Company's Employees' Stock Option Plan and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price of $ 0.42.

On July 10, 2014 the Board of Directors approved a total grant of 237,000 options to purchase Ordinary shares of the Company the SimiGon’s employees. Such options were granted in accordance with the Company's Employees' Stock Option Plan and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price of $ 0.43.

On November 13, 2014 the Board of Directors approved a total grant of 10,000 options to purchase Ordinary shares of the Company the SimiGon’s employees. Such options were granted in accordance with the Company's Employees' Stock Option Plan and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price of $ 0.39.

On April 14, 2016 the Board of Directors approved a total grant of 40,000 options to purchase Ordinary shares of the Company the SimiGon’s employees. Such options were granted in accordance with the Company's Employees' Stock Option Plan and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price of $ 0.24.

On November 24, 2013, the Company's Board of directors approved the extension of the Israeli Share and Option Plan for 2003 for additional 10 years under the same terms and conditions.

Further to the termination of the US Stock Option Plan from December 2006 (USOP 2006), on November 23, 2016, the Company's Board of directors approved the adoption of a new US Share and Option Plan (USOP) which will be based on the same terms and conditions of USOP 2006. The new USOP is subject to the approval of the Company’s shareholders.

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 the years ended December 31, 2016 and 2014: risk-free interest rate ranging from 0.87% - 2.15%; a dividend yield of 3%; expected volatility of 80% for years 2014 and 2016; and a weighted average expected life of the options of 6.25 years. The weighted average fair values of the options granted in 2016, 2014 and 2013 were $0.24, $ 0.43 and $ 0.38, respectively.

A summary of the activity in options to employees, consultants, and directors (including the senior management, see d. below) for the years 2016, 2015 and 2014 is as follows:

	Year ended December 31,					
	2016		2015		2014	
	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	1,386,507	$ 0.416	2,121,188	$ 0.297	4,962,471	$ 0.134
Granted	35,000	$ 0.241	-	-	227,000	$ 0.425
Exercised	(301,035)	$ 0.003	(628,464)	$ 0.008	(2,786,984)	$ 0.007
Expired	(25,000)	$ 0.250	(22,050)	$ 0.6	(128,300)	$ 0.6
Forfeited	(187,639)	$ 1.276	(84,167)	$ 0.417	(152,999)	$ 0.214
Outstanding at end of year	907,833	$ 0.372	1,386,507	$ 0.416	2,121,188	$ 0.297
Exercisable options	733,769	$ 0.307	958,585	$ 0.393	908,481	$ 0.409

The options outstanding as of December 31, 2016, have been separated into ranges of exercise price as follows:

Exercise price	Options outstanding as of December 31, 2016	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2016
$ 0.002 - $ 0.25	405,833	3.90	375,833
$ 0.335 - $ 1.2	447,000	2.42	323,936
$ 1.33 - $ 2.5	55,000	0.65	25,000
	907,833		733,769

NOTE 10:- EQUITY (Cont.)

d. Options to the CEO and senior employees:

1. 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 management 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 in 3 tranches annually equal amounts commencing as of January 1, 2010 and will be conditional upon the following:

   a) Employee being employed by the Company, and

   b) The EBITDA of the Company (on a consolidated basis) for the relevant fiscal year (2011, 2012 and 2013) shall increase by more than 20% compared to the previous year.

      The 2011 EBITDA performance goal was not achieved therefore the first tranche did not vest.

      The 2012 and 2013 EBITDA performance goal was achieved.

   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, 2013 a total of 552,233 options have been vested and the Company recorded share-based compensation expenses in a total of $ 15 thousand, $ 12 thousands and $ 6 thousands in respect to Mr. Ami Vizer, the Company's Chief Executive Officer who is also a Director of the Company, to senior management and to employees, respectively for the year 2013.

NOTE 10:- EQUITY (Cont.)

Further to the above and to note 2a6, on April 30, 2014 a total of 454,000 options were exercised under the Company's Stock Option Plan by senior management into SimiGon's Ordinary Shares at an exercise price of NIS 0.01 each. Out of the shares issued, 240,000 and 50,000 Ordinary Shares were issued to the Company's CEO and CFO, who are also Directors of the Company; respectively

2. On June 29, 2011 the Company's Board of Directors approved. the extension in terms of options granted to former senior employee according to which, options in a total of 75,000 will be exercisable until June 10, 2012 only in case of a Transaction (as defined in the Company's Share Option Plan). All other vested options in a total of 85,400 will be exercisable until December 7, 2012 only in case of a Transaction (as defined in the Company's Share Option Plan).

3. On November 28, 2011 the Annual General meeting of the Company's approved the grant of 40,000 options to purchase ordinary shares of the Company to Mr. Efraim Manea, a director of the Company and its CFO. Such options are granted to Mr. Manea in accordance with the Company's Employees' Stock Option Plan (the "ISOP") and in the same terms that similar options are granted to the employees of the Company. The options will be vested over 36 months commencing September 2012 at an exercise price of US$ 0.08. The Vested Options are exercisable only in an event of a Transaction as defined under the ISOP.

4. Further to note 10a2, (a) on April 12, 2012, the Company issued 2,926,533 and 182,541 Options to Mr. Ami Vizer, the Company's Chief Executive Officer who is also a Director of the Company, and to senior management, respectively; (b) on December 20, 2012 the Annual General meeting of the Company's approved the grant of 37,582 options to purchase Ordinary Shares to Mr. Efraim Manea, a director of the Company and its CFO and (c) as of December 31, 2014 and 2013, the Company recorded share-based compensation expenses in a total of $ 46 thousand and $ 66 thousand in respect to the CEO, respectively.

   On April 30, 2014 a total of 1,497,674 and 182,541 Options have been exercised into Ordinary Shares of the Company by Mr. Ami Vizer and to senior management, respectively;

   On November 11, 2014 a total of 527,554 Options have been exercised into Ordinary Shares of the Company by Mr. Ami Vizer

   On April 27, 2015, a total of 600,270 Options have been exercised into Ordinary Shares of the Company by Mr. Ami Vizer

   On September 27, 2016, a total of 301,035 Options have been exercised into Ordinary Shares of the Company by Mr. Ami Vizer

NOTE 10:- EQUITY (Cont.)

5. On April 30, 2014 a total of 27,500 options were exercised under the Company's Stock Option Plan by senior management into SimiGon's Ordinary Shares at an exercise price of $ 0.08 each. Out of the shares issued, 7,500 Ordinary Shares were issued to Mr. Efraim Manea the Company's Financial Officer who is also a Director of the Company

e. Shares to the CEO and senior employees:

Further to Note 10a2, (a) on April 12, 2012 the Company issued a total 1,972,233 and 66,291 Ordinary Shares to Mr. Ami Vizer the Company's Chief Executive Officer who is also a Director of the Company and to senior management, respectively; (b) On October 11, 2012, a total of 516,921 and 309,711 Ordinary Shares each have been issued, to Mr. Ami Vizer and to senior management, respectively; (c) On April 30, 2014 a total of 1,497,674 and 214,755 Ordinary Shares have been issued, to Mr. Ami Vizer and to senior management, respectively; (d) On November 11, 2014 a total of 527,554 Ordinary Shares have been issued, to Mr. Ami Vizer (e) (f) On April 27, 2015, a total of 600,270 Ordinary Shares have been issued, to Mr. Ami Vizer and (h) On September 27, 2016, a total of 301,035 Ordinary Shares have been issued, to Mr. Ami Vizer.

For the years ended December 31, 2015 and 2014, the Company recorded share-based compensation expenses in a total of $ 28 thousand and $ 46 thousand, in respect to the shares granted to the CEO, respectively.

NOTE 11:- JOINT VENTURE

On March 30, 2014 SimiGon's subsidiary ("the Subsidiary") entered into a Joint Venture agreement ("the Joint Venture") with a company based in China that will provide the Joint Venture with aviation services. Under the terms of the Joint Venture agreement, the Subsidiary will provide the SIMbox licenses enabling the Joint Venture to develop its own training solutions. The Subsidiary will invest $ 30 thousand in the Joint Venture representing an interest of 4% in its shares. As of the date of the approval of the financial statements as of December 31, 2016, the Joint Venture hasn’t started to operate, yet.

On April 20, 2016 SimiGon's subsidiary ("the Subsidiary") entered into an agreement with Team Systems International LLC (TSI) in which both parties will establish a Joint Venture for business cooperation (“the Agreement”). Under the term of the Agreement, the Subsidiary will hold 49% of the Joint Venture while TSI will hold 51%. On February 22, 2017 the Joint Venture was established under the name TSIM LLC.

NOTE 12:- 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 benefits.

The "Approved Enterprise" status will allow the Company a tax benefit 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 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. The company expects to remain in the scope of the preferred tax regime described above until the end of 2018.

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 canceled 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 derived from "Approved Enterprise" 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. The change in the tax rate will have immaterial effects on the Company.

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).

NOTE 12:- INCOME TAXES (Cont.)

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.

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 benefited 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 benefited 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 benefited 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 2012 - 15% (in development area A - 10%), 2013 - 12.5% (in development area A - 7%) and in 2014 and thereafter - 16% (in development area A - 9%).

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 2b, 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 12:- INCOME TAXES (Cont.)

c. Carryforward losses:

Domestic:

As of December 31, 2016, 2015 and 2014, the Company had accumulated losses for Israeli tax purposes of approximately $ 0.4 million, $ 0.5 million and $ 1.5 million, respectively, which may be carried forward, in order to offset taxable income in the future, for an indefinite period (See Note f below).

Foreign:

As of December 31, 2016, 2015 and 2014, the federal tax loss carryforwards of the U.S. subsidiaries amounted to approximately $ 5.2 million, $ 5.5 million and $ 5.9 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.

As of December 31, 2016 and 2015, the tax loss carryforwards of the Singaporean subsidiary amounted to approximately $ 79 thousands and $ 75 thousands; respectively, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

As of December 31, 2016, the tax loss carryforwards of the Colombian subsidiary amounted to approximately $ 32 thousands, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

As of December 31, 2016, total deferred tax assets of $ 223 thousand were recorded in respect of certain carryforward operating losses in SimiGon Ltd and SimiGon Inc.

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

Domestic:

The Israeli corporate income tax rate was 25% in 2016 and 26.5% in 2015 and 2014.

In January 2016, the Law for Amending the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 2016 was approved, which includes a reduction of the corporate tax rate from 26.5% to 25%, effective from January 1, 2016.

The effect of the reduction of the tax rate on the balance of deferred taxes as of December 31, 2015, was immaterial.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

NOTE 12:- INCOME TAXES (Cont.)

The deferred tax balance as of December 31, 2016, has been calculated based on the revised tax rates. The effect of the change in the tax rate on the balance of deferred taxes was immaterial.

A company is taxable on its real capital gains at the corporate income tax rate in the year of sale.

Foreign:

The U.S. 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%.

e. Tax assessments:

The Company's tax assessments in Israel for the years until and including 2009 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.

f. Tax reconciliation:

In 2014, the main reconciling item between tax expense, assuming income before taxes was taxed at the statutory tax rate of the Company, and the tax expense recorded in profit or loss is carryforward tax losses and tax exemption for which no deferred taxes were provided. In years 2016 and 2015, the income tax benefit recorded in profit or loss is due to the recognition of carryforward losses which were not recognized in prior years –see item c. above.

NOTE 13:- OTHER 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).

NOTE 13:- OTHER LIABILITIES AND COMMITMENTS (Cont.)

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.

2. On September 1, 2009, the Company and a third party signed a Cooperation and Project Funding Agreement with KORIL ("the Agreement"), 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 ("the proposal") and the third party for a research and development project in the maximum amount of $ 273 thousand.

   As of December 31, 2016, the Company received a total amount of $ 254 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, 2016 and 2015 was $ 191 thousand and $ 206 thousand, respectively.

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.

   On March 29, 2011, the Company signed on a supplement to the Agreement ("the Supplement"). According to the Supplement, the OCS agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company for a research and development continued project in the maximum amount of $ 278 thousand.

NOTE 13:- OTHER LIABILITIES AND COMMITMENTS (Cont.)

As of December 31, 2016, the Company received total amount of $ 611 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 proposals (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 years ended December 31, 2016 and 2015 was $ 425 thousand and $ 444 thousand, respectively.

4. On April 7, 2011, the Company and a third party signed a Cooperation and Project Funding Agreement with the OCS, which is an establishment of the Italian-Israel Industrial Research and Development Fund. According to the agreement, the OCS agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company ("the proposal") and the third party for a research and development project in the maximum amount of $ 91 thousand.

   As of December 31, 2016, the Company received a total amount of $ 95 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, 2016 and 2015 was $ 71 thousand and $ 72 thousand, respectively.

5. On November 24, 2015, the Company and a third party signed a Cooperation and Project Funding Agreement with the OCS, which is an establishment of the Italian-Israel Industrial Research and Development Fund. According to the agreement, the OCS agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company ("the proposal") and the third party for a research and development project in the maximum amount of $ 62 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.

NOTE 13:- OTHER LIABILITIES AND COMMITMENTS (Cont.)

As of December 31, 2016, the Company received a total amount of $ 25 thousand. The total non-current liability for the year ended December 31, 2016 was $ 44 thousand.

b. Lease commitments:

1. Premises occupied by the Company are rented under various non-cancelable lease agreements. The latest rental agreement for the premises expires in October 2017 as determined under a lease agreement signed on October 1, 2014.

2. The Company has leased various motor vehicles under cancelable operating lease agreements, which expire on various dates, the latest of which is in August 2018. On March 2017 Company has leased additional motor vehicles under cancelable operating lease agreements of which the latest expire in March 2019

3. Premises occupied by the subsidiaries are rented under non-cancelable lease agreements. The latest rental agreement for the premises expires in March 2021 as determined under a lease agreement signed on February 9, 2016 by SimiGon Inc.

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

Year ended December 31,	U.S. dollars in thousands
2017	211
2018	77
2019	77
2020	79
2021	17
	461

The total expense for the years ended December 31, 2016, 2015 and 2014 was $ 273 thousand, $ 266 thousand and $ 342 thousand, respectively.

NOTE 14:- SUPPLEMENTARY INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME

		Year ended December 31,		
		2016	2015	2014
		U.S. dollars in thousands		
a.	Cost of revenues:			
	Salaries and related benefits	857	910	946
	Lease and office maintenance	148	148	151
	Travel expenses	149	185	149
	Depreciation and amortization	67	66	69
	Share-based compensation	7	13	15
	Subcontractors	654	212	659
		1,882	1,534	1,989
b.	Research and development expenses:			
	Salaries and related benefits	1,567	1,436	2,060
	Lease and office maintenance	181	173	312
	Depreciation and amortization	11	13	21
	Share-based compensation	6	12	13
	Other	-	(121)	-
	Government grants	(51)	(41)	(25)
		1,714	1,472	2,381
c.	Selling and marketing expenses:			
	Salaries and related benefits	905	1,006	1,042
	Lease and office maintenance	49	59	66
	Consultant fees	-	-	101
	Advertising and sales promotion	40	33	32
	Travel expenses	66	77	102
	Depreciation and amortization	5	6	7
	Share-based compensation	23	38	60
	Commission	4	26	45
		1,092	1,245	1,458
d.	General and administrative expenses:			
	Salaries and related benefits	596	648	659
	Lease and office maintenance	56	63	58
	Travel expenses	19	11	26
	Professional fees and public company expenses	301	394	425
	Depreciation and amortization	4	3	4
	Share-based compensation	29	2	2
	Doubtful debt provision	80	(78)	-
	Other	22	5	7
		1,107	1,048	1,181

NOTE 14:- SUPPLEMENTARY INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME (Cont.)

	Year ended December 31,		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
e. Finance income:			
Exchange rate differences	53	67	132
Government grants interest	-	-	37
Interest income from banks and short term investments	119	7	9
	172	74	178
f. Finance cost:			
Exchange rate differences	65	74	120
Government grants interest	36	4	-
Bank loans and fees	2	4	7
	103	82	127

NOTE 15:- REVENUES

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

a. Revenues:

	Year ended December 31,		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
Software licenses and customization	5,254	5,449	6,798
Recurring Maintenance & Support	728	1,460	1,466
Training	36	26	52
	6,018	6,935	8,316

NOTE 15:- REVENUES (Cont.)

b. Geographical information:

Revenues classified by geographical destinations based on the customer location:

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
North America	2,654	3,884	4,166
Asia Pacific	2,244	1,172	2,963
Rest of the world (1)	1,120	1,879	1,187
	6,018	6,935	8,316

(1) Europe, South America, Middle East and Australia.

The carrying amounts of non-current assets (property, plant and equipment and intangible assets) based on the location of the assets are as follows:

	December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
Asia Pacific and rest of the world	29	30	43
North America	1,154	1,174	1,233
	1,183	1,204	1,276

c. Information about major customers:

Revenues from major customers, each of whom amount to 10% or more of total revenues reported in the financial statements:

	Year ended December 31,		
	2016	2015	2014
Customer A	32%	21%	22%
Customer B	9%	3%	7%
Customer C	6%	29%	20%
Customer D	2%	11%	5%
Customer E	14%	16%	32%
Customer F	23%	-	-

NOTE 16:- EARNINGS PER SHARE

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

	Year ended December 31,		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
Net income for the year	361	1,782	1,358

	2016	**2015**	**2014**
Weighted average number of Ordinary shares for computing basic earnings (loss) per share	51,097	50,683	48,854
Effect of dilution:			
Share options	222	135	231
Weighted average number of Ordinary shares adjusted for the effect of dilution	51,319	50,818	49,085

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	Year ended December 31,		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
a. Expenses to related party of a shareholder:			
Cost of revenues *)	38	-	-
Research and development *)	10	-	-
Selling and marketing *)	9	-	-
General and administration *)	5	-	-
	62	-	-

*) On February 9, 2016 the Company's subsidiary signed an office lease agreement for a period of 60 months commencing March 15, 2016 for annual rent of $75 thousand with TwoChi LLC, a company owned (directly and together with relatives) by Mr. Ami Vizer the Chief Executive Officer of the Company, a Director and a shareholder holding 22% of the issued share capital of the Company.

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

	Year ended December 31, 2016	2015	2014
	U.S. dollars in thousands		
b. Compensation of key management personnel of the Company:			
Employee benefits *)	1,627	1,621	1,628
Share-based payments **)	1	41	55
	1,628	1,662	1,683

*) Includes long-term employee benefits in the amount of $11 thousand, $ 8 thousand and $ 11 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

Year 2016 includes bonus provision to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2016 in the amount of $ 9 thousand (see Note 17e). Year 2015 includes bonus provision to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2015 in the amount of $ 16 thousand (see Note 17e). Year 2014 includes bonus provision to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2014 in the amount of $ 21 thousand (see Note 17e).

Year 2016 includes bonus provision to Mr. Ami Vizer, the Company's Chief Executive Officer and executive director ("the CEO") to be granted in Ordinary Shares of the Company in respect to fiscal year 2016 in the amount of $ 37 thousand (see Note 17f). Year 2015 includes bonus provision to Mr. Ami Vizer, the Company's Chief Executive Officer and executive director ("the CEO") in respect to fiscal year 2015 in the amount of $ 63 thousand (see Note 17f). Year 2014 includes bonus provision to Mr. Ami Vizer, the Company's Chief Executive Officer and executive director ("the CEO") in respect to fiscal year 2014 in the amount of $ 80 thousand (see Note 17f).

Year 2016 includes bonus provision to VP Product with respect to fiscal year 2016 in the amount of $ 6 thousand.

Year 2015 includes bonus provision to VP Marketing with respect to fiscal year 2015 in the amount of $ 23 thousand.

As disclosed under Note 10a7, year 2014 includes bonus payment of $ 51 thousand to the VP of Business Development, Director of human resource and VP Projects.

**) Years 2015 and 2014 include share-based compensation of $ 28 thousand and $ 46 thousand, respectively, due the Share Bonus Plan as described under Note 10e, in respect to the CEO.

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

c. Balances with related parties:

The Company’s liability balances for related parties as of December 31, 2016 and December 31, 2015 amount to $ 366 thousand and $ 422 thousand; respectively, out of which, a total of $ 182 thousand and $ 192 thousand is related to severance, vacation and recovery liabilities for key employees as of December 31, 2016 and December 31, 2015; respectively.

d. Compensation policy for the Company's Directors and officers:

On November 24, 2013, the Company's Board of directors approved the adoption of a Compensation policy for the Company's Directors and officers (the "Compensation Policy Plan") as required by the Israeli Companies Law in order to provide the Company the ability to attract, retain, reward and motivate highly skilled Officers and to assure that the compensation structure meets the Company's interests and its overall financial and strategic objectives.

The Compensation policy for the Company's Directors and officers was approved at SimiGon Annual General Meeting for year 2013 held on December 30, 2013.

On December 29, 2016 the Annual General Meeting for year 2016 has re-approve the Compensation Policy Plan.

e. Agreement with CFO:

On December 6, 2012, the Board of Directors approved the grant of a one-time cash bonus to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2013 in the amount of up to $ 34 thousand, subject to revenues, net profit and share price criteria and milestones. The actual bonus was paid on May 2014 and amounted to $ 34 thousand.

On November 24, 2013, the Board of Directors approved the grant of a one-time cash bonus to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2014 in accordance to the Company's Compensation Policy Plan mentioned above. The granted bonus is in the amount of up to $ 35 thousand, subject to revenues, net profit and share price criteria and milestones. The actual bonus was paid on May 2015 and amounted to $ 21 thousand.

On February 26, 2015, the Board of Directors approved the grant of a one-time cash bonus to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2015 in accordance to the Company's Compensation Policy Plan mentioned above. The granted bonus is in the amount of up to $ 35 thousand, subject to revenues, net profit and share price criteria and milestones. As of December 31, 2015, the Company has made a provision of $ 16 thousand in respect of its CFO annual bonus for year 2015. The actual bonus was paid on May 2016 and amounted to $ 16 thousand.

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

On April 14, 2016, the Board of Directors approved the grant of a one-time cash bonus to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2016 in accordance to the Company's Compensation Policy Plan mentioned above. The granted bonus is in the amount of up to $ 35 thousand, subject to revenues, net profit and share price criteria and milestones. On April 6, 2017 the Company’s board of directors approved that the bonus was to be granted in shares calculated based on the closing price on the day of announcement of the Company's financial results for 2016. The grant of bonus in Ordinary Shares of the Company will also be subject to the approval of the Company’s shareholders. A provision for this bonus was recorded in the 2016 annual financial statements. As of December 31, 2016, the Company has made a provision of $ 9 thousand in respect of its CFO annual bonus for year 2016.

f. Significant agreements with shareholders:

1. 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 approved an increase of 10% in his salary effective January 1, 2010.

   On December 6, 2012, the Board of Directors approved a one-time cash bonus grant to Mr Ami Vizer with respect to fiscal year 2011 in the amount of $ 30 thousand. It has also approved the grant of a one-time cash bonus to Mr Ami Vizer with respect to fiscal years 2012 and 2013 in the amount of up to $ 125 thousand per year, subject to revenues, net profit and share price criteria and milestones (the "Conditions"). Based on the Conditions above, the Company recorded as of December 31, 2012, a provision of $ 114 thousand in respect to Mr Ami Vizer bonus for year 2012. The actual bonus was paid on April 2013 amounted to $ 120 thousand.

   On November 24, 2013, the Board of Directors approved the grant to Mr. Ami Vizer, the Company's Chief Executive Officer and executive director of a one-time cash bonus to with respect to fiscal year 2014 in accordance with the Company's Compensation Policy Plan mentioned above. The granted bonus is in the amount of up to $ 125 thousand, subject to revenues, net profit and share price criteria and milestones. On December 30, 2013 the Company's Annual General Meeting for year 2013, approved 2014 bonus grant to Mr Ami Vizer. The actual bonus was paid on May 2015 and amounted to $ 80 thousand.

   In the annual general meeting for year 2013 held on December 30, 2013, the shareholders, reapproved the employment agreement of Mr. Ami Vizer as the Company's Chief Executive Officer and an executive director.

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

On February 26 2015, the Board of Directors approved the grant to Mr. Ami Vizer, the Company's Chief Executive Officer and executive director of a one-time cash bonus to with respect to fiscal year 2015 in accordance with the Company's Compensation Policy Plan mentioned above. The granted bonus is in the amount of up to $ 125 thousand, subject to revenues, net profit and share price criteria and milestones. As of December 31, 2015, the Company has made a provision of $ 63 thousand in respect of Mr. Ami Vizer annual bonus for year 2015. The actual bonus was paid on May 2016 and amounted to $ 63 thousand.

Further to the approval of the Company's Board of Directors from November 24, 2015, on February 9, 2016 the Company’s subsidiary signed an office lease agreement for a period of 60 months commencing March 15, 2016, for annual rent of $75 thousand with TwoChi LLC, a company owned (directly and together with relatives) by Mr. Ami Vizer the Chief Executive Officer of the Company, a Director and a shareholder holding 22% of the issued share capital of the Company.

On April 14, 2016, the Board of Directors approved the grant of a one-time cash bonus to Mr. Ami Vizer, a director of the Company and its CEO with respect to fiscal year 2016 in accordance to the Company's Compensation Policy Plan mentioned above. The granted bonus is in the amount of up to $ 125 thousand, subject to revenues, net profit and share price criteria and milestones. On April 6, 2017 the Company’s board of directors approved that the bonus was to be granted in Ordinary Shares of the Company calculated based on the closing price on the day of announcement of the Company's financial results for 2016 instead of being payable in cash. The grant of bonus in Ordinary Shares of the Company will also be subject to the approval of the Company’s shareholders. A provision for this bonus was recorded in the 2016 annual financial statements. As of December 31, 2016, the Company has made a provision of $ 37 thousand in respect of its CEO annual bonus for year 2016.

Total salary including employer tax (excluding share bonus grant mentioned under Note 10a2) of Mr. Ami Vizer during year 2016 amounted to an annual salary of $ 358 thousand, related benefits include bonus for 2015 fiscal year of $ 63 thousand, annual social benefits of $ 43 thousand (12.5% out of his annual salary), expenses allowance of $ 6 thousand, recovery fees of $ 1 thousand, severance pay of $ 29 thousand, car insurance of $3 thousand, vacation days of $ 39 thousand and health insurance of $ 35 thousand. In addition, the Company has made a provision for 2016 bonus of $ 37 thousand.

2. On September 27, 2006, the Company entered into a consultant agreement ("the Consultant 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.

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

Prior to this agreement, Mr. Rami Weitz had been the Chairman of the Board of Directors of the Company.

On April 22 2014, the Company signed on a Loan Agreement with Mr. Rami Weitz ("the Loan Agreement") according to which, the Company will provide Mr.Weitz with a loan in a total of $ 60 thousand bearing interest at the minimum rate mandated by law, repayable within 12 months till April 7, 2015. According to the Loan Agreement, the Company shall have the right at any time (even prior to the due repayment date) to set-off and deduct any amount due hereunder from any amount payable by the Lender to Mr.Weitz, to Packet Science Ltd. or to any company in which Mr.Weitz and/or his immediate family and/or third respective affiliates have a controlling interest.

On May 18 2014, the consultant Agreement was terminated and the Company offset the above loan against fees due to Mr. Weitz.

NOTE 18:- DIVIDEND DISTRIBUTION

a. In May 2014 the Company's Board paid a dividend in an amount of $ 269 thousands (approximately $ 0.543 cents per share).

b. In May 2015 the Company paid a dividend in an amount of $300 thousand ($ 0.6 cents per share, representing approximately 22% of the Company's earnings per share for 2014).

c. In May 2016 the Company paid a dividend in an amount of $306 thousand ($ 0.6 cents per share, equating to approximately 15% of the Company's earnings per share and to approximately 17.2% of the Company's net income for year ended December 31, 2015).

NOTE 19:- 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.

NOTE 19:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

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, 2016, balances in foreign currency are immaterial.

b. Credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits, restricted cash, short-term investments, trade receivables and other accounts receivables.

Cash and cash equivalents, including restricted cash and short-term 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 ongoing 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.

As of December 31, 2016, cash and cash equivalents together with the Company's short-term bank deposits and short-term investments amounted to $ 8,139 thousand.

c. Liquidity risk:

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

December 31, 2016:

	Less than one year	Between 2 to 4 years	More than 4 years	Total
	U.S. dollars in thousands			
Government grants	26	215	668	909
Trade payables	98	-	-	98
Other accounts payable and accrued expenses	658	-	-	658
	782	215	668	1,665

NOTE 19:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

December 31, 2015:

	Less than one year	Between 2 to 4 years	More than 4 years	Total
	U.S. dollars in thousands			
Government grants	11	577	313	901
Trade payables	123	-	-	123
Other accounts payable and accrued expenses	864	-	-	864
	998	577	313	1,888

NOTE 20:- SUBSEQUENT EVENT

On April 6, 2017 the Company’s board of directors approved that 2016 annual bonuses to Mr. Ami Vizer, the Company's Chief Executive Officer who is also a Director of the Company and to Mr. Efraim Manea, a director of the Company and its CFO, that have already been approved at the Company’s board meeting dated April 16, 2016, were to be granted in Ordinary Shares of the Company calculated based on the closing price on the day of announcement of the Company's financial results for 2016 instead of being payable in cash. The grant of bonuses in Ordinary Shares of the Company will also be subject to the approval of the Company’s shareholders.

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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

finnCap
60 New Broad St
London, EC2M 1JJ

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

Public Relation

AlmaPR
1 Fore Street
London
EC2Y 9DT

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.

111 S. Maitland Avenue,
Suite 210, Maitland, Florida 32751
Phone: +1 (407) 951-5548
Fax: +1 (407) 960-4794
For more information:
info@simigon.com


MISION DE ENTRENAMIEN
SIMART
SIMART

WWW.SIMIGON.COM

SIMIGON