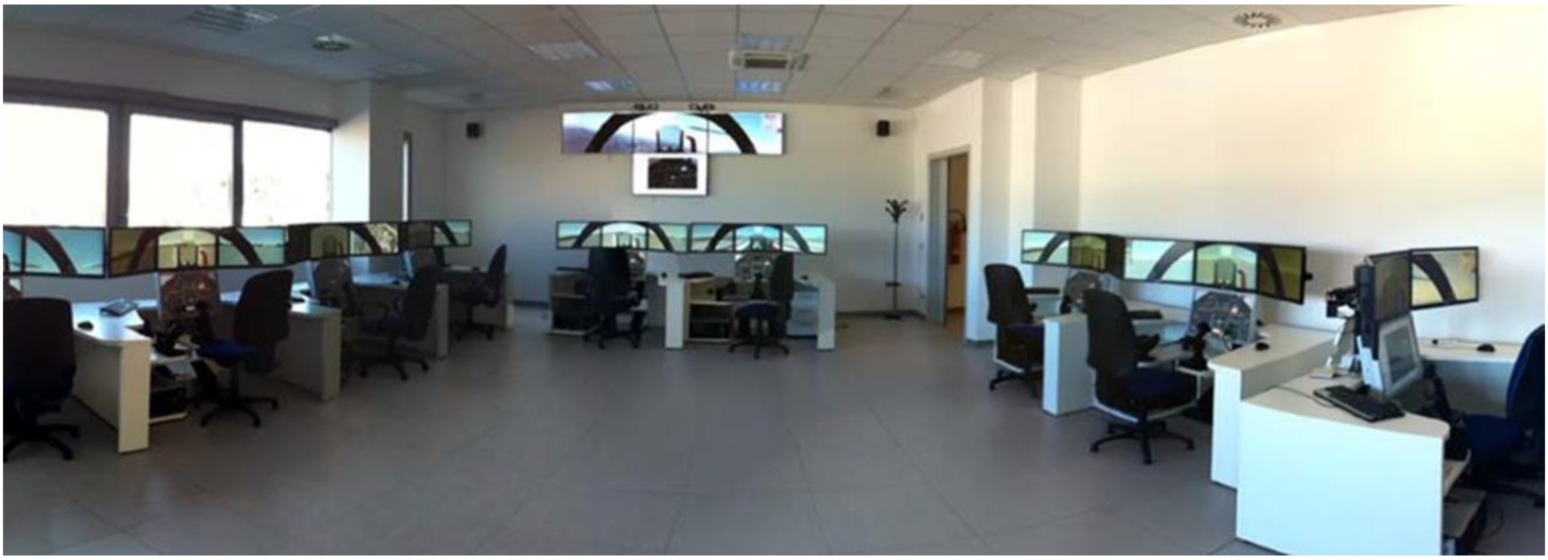
SIMIGON

WE TAKE DISTRIBUTED SIMULATION TRAINING

PERSONALLY

2017
ANNUAL REPORT



About SimiGon

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

- Audited final results slightly ahead of trading update on 16 January 2018
- Revenues of $4.34 million (2016: $6.02 million)
- Net loss of $0.95 million (2016: net profit of $0.36 million)
- Gross margin 78% (2016: 69%)
- Basic and diluted loss per share of $0.02 (2016: earning per share $0.01)

Operational Highlights

- Continued success in securing additional business in core defence-related market;
  - Successfully leveraged the USAF T-6A Flight Training Devices ("FTD") upgrade to win Contractor Logistics Support modification;
  - Successful support for Lockheed Martin's UK Military Flight Training System ("UKMFTS") including extended onsite and offsite development program support and additional licenses;
- Delivery milestones for $2 million contract announced in June 2016 for the Israeli Air Force for F16 maintenance trainers (IAF F16 Maintenance Trainer);
- Delivery milestones completed for large scale contract as prime contractor, including the successful completion of all systems delivery milestones for $6.7 million contract announced in June 2013;
- Continued support for major military flight training programmes including advanced jet training program and the U.S. Air Force Air Education Training Command Undergraduate Remotely Piloted Aircraft Training ("URT");
- Continued Research & Development ("R&D") efforts to position the Company for new high growth market opportunities and support simulation based training across all hardware devices; and
- Continue to identify additional opportunities and expand into the commercial and civilian training markets.

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 $586.04 billion by 2021, a compound growth rate of 25%. This market includes Simulation, eLearning, Virtual Instructor, Collaborative, Adaptive and Blended learning, core technology components of SimiGon's training solutions.

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, performing de-icing on military and commercial aircraft readying for their mission /flight, or training for customer service-driven industries, simulation training has significant usefulness for hard skills and soft skills jobs. 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.

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

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.

According to BlackRock, the aerospace and military subsector offer additional upside following President Trump's election, rising geo-political tension, and tax reform. 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.

For the period of 2018-2023, the military fixed-wing aircraft market is expected to be reaching a value of more than $82 billion by 2023, with a growth rate of 4%. The military fixed-wing aircraft market growth is expected to be driven by the replacement of ageing military aircraft, increased internal and external security threats, and modernization strategies.

Multi-role and transport aircraft are expected to account for 59.3% and 23% of this market, while the reconnaissance and surveillance aircraft and bombers segments split the rest of the market. Additionally, large multi-role platform programs are being performed by countries such as India, South Korea, Pakistan, and Japan.

The Unmanned Aircraft Vehicles (UAV) market is estimated to be worth $20.71 billion in 2018 and expected to be worth $52.3 billion by 2025, with a growth rate of 14.15% between 2018 to 2025.

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 $586 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 multiplied 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

- VR Aircraft De-icing Simulation System
- F-16 Maintenance Training Device
- F-16 Aircrew Training Devices
- T-6A Aircrew Training Devices
- C-208 – Cessna Caravan Training Device
- Sensor Operator Training System
- UAS Training Device
- Simulation Development Environment
- Learning Management System
- Learning and Content Management System
- After Action Review/Playback System
- Driver 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.

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

"I am encouraged by the many exciting business and Research & Development activities the Group is engaged in, which are expected to deliver and long term success"

Alistair Rae, Chairman

Though circumstances largely outside of SimiGon's control have impacted the financial performance for the year, the fundamentals of the business remained strong, with a healthy base of recurring revenues and improvements attained across a number of strategic objectives.

SimiGon has successfully continued the deliveries for new and ongoing strategic programs, meeting and exceeding customer expectations. Throughout year 2017, the Company continued its organic growth strategy, winning new business with existing and new strategic customers.

SimiGon is focused on successfully advancing and leveraging its technology to deliver growth in its established aviation market while entering additional markets requiring advanced personal training. Based on the various markets SimiGon is actively engaged in and the multipliers each represents, the Board of Directors is confident in the Company's ability to build sustainable, long term growth. SimiGon technologies and applications are truly unique and present significant value-add to its customers and markets across defense, commercial and eventually consumers.

SimiGon offers a robust, versatile training platform that is being used to develop more diverse applications and capture more opportunities and I am encouraged by the many exciting business and Research & Development activities the Group is engaged in, which are expected to deliver and long term success.

On behalf of the Board, I would like to thank our dedicated employees whose expertise, passion and drive to make us successful provide the required forward thrust to the business, and to our shareholders and customers for their ongoing support.

Alistair Rae
Chairman

Chief Executive's Review

"SimiGon is well positioned in the simulation and training market for developing and delivering high tech solutions for the industry and has a business partners and customer foundation to propel the Company to its next stage of growth".

Amos Vizer, President & CEO

As previously announced the financial results for the Period have been adversely affected by a number of contributing factors resulting in both revenue and profit performance being behind what we had hoped to achieve at the outset of the year. Procedural delays in concluding the signatory processes for the significant contract with the Israeli Air Force resulted in the contract commencing later in the Period than expected. In addition we have only been able to recognise half of the revenue, despite recognising all of the costs, for another significant contract in the civilian training market.

Despite these frustrating setbacks, related to the timing of revenue recognition rather than actual underperformance, the board remains optimistic about the long term growth profile of the business. We are confident that the work we have continued to do in relation to research and development and repositioning the Company to be seen as a leading technology partner across a number of markets will come to fruition. This confidence is underlined by the fact that we have a backlog of over $20 million over the next ten years, approximately $5 million of which is expected to be delivered and recognised in 2018 (including the contract signed with a particular customer in the civilian training market).

Overview

While the Company's financial performance for year 2017 has been disappointing, the underlying business remains profitable and continues to perform well with new business won and 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. This is demonstrated in the Group’s ten year backlog of over $20 million with $5 million expected to be recognized as revenue in FY2018 (including the contract signed with a particular customer in the civilian training market).

As announced in the trading update in January 2018, procedural delays in concluding the signatory processes over the IAF F16 Maintenance Trainer were resolved later in the Period than expected. In addition, the Company has been unable, as previously announced, to recognize approximately $0.7 million of revenue related to services provided to a particular customer in the civilian training market, for which partial payment has yet to be received. The Company had initially taken a very prudent approach to the recognition of revenue from this contract but, following discussions with the customer and the Company’s auditors, revenue has been partially recognized and associated costs fully recognized in this period. Discussions continue with that customer.

Together with ongoing investment in the business, our reported results for the Period have been affected. For the 12 months ended 31 December 2017, revenue was $4.34 million (2016: $6.02 million) and loss before income tax of $0.96 million (2016: profit before income tax of $0.29 million).

The Company maintains a strong balance sheet with liquid cash balances of $7.79 million as at 31 December 2017 as compared to $8.14 million as at 31 December 2016.

Notwithstanding the financial performance having been adversely affected by events outside our control, during the year, the Company continued to progress operationally with the underlying business, including the successful delivery milestones of its long term contracts. This includes, final deliveries for a $6.7m aviation training contract initially awarded in June 2013, delivering project milestones with Check-6 for training in the energy and mining industries and successfully continuing the URT program. In addition, as a result of successful deliveries and proven technology, SimiGon was awarded additional work scope in relation to UKMFTS program after successfully converting delivery of T-6A FTD into an additional support contract with the USAF.

The Company’s R&D team continues to stay ahead of the market with major advances in simulation streaming, graphic engine and Image Generation capabilities, Machine Learning and Training Management System infrastructure to boost SIMbox technology and increase market penetration across military and civilian training markets. Significant progress has been made in adapting the platform for expansion into new domains in order to leverage the Company’s technology beyond the core defence market into commercial verticals and civilian / consumer applications and to be in line with a fundamental shift in training through immersive experiences, including Virtual Reality, Augmented Reality and Mixed Reality, rather than reading manuals.

In addition to its traditional licenses business, SimiGon’s Software as a Service (“SaaS”) based business model continued addressing the market with SaaS based contracts.

It is SimiGon's flexibility in being able to offer both business models that is a key differentiator in the market. SaaS based contracts now represent more than half of the business in terms of total revenue. The Company expects to maintain a consistent level of SaaS revenue in the near-term. The Company's base annual SaaS based contracts enhance SimiGon's recurring revenues, providing greater visibility and backlog as these are signed, unrecognized contracts supporting its growth.

SimiGon has been engaged in identifying new market opportunities in which it can deploy its advanced training and simulation technology solutions. Identified target markets include civilian driver training and civilian aviation. In addition, the company has continued to commercialise opportunities in other vertical civilian markets such as the oil and gas industry, maintenance training and construction equipment training. This provides the Company with an opportunity to pursue as a result of the fundamental shift in "learning by doing," supported by Simulation Based Training technologies, rather than user manuals.
Markets

Operational Review

The Company remains at the forefront to of design and application of highly technical simulation and training solutions. SimiGon's core technology platform, SIMbox, and associated services were developed to provide large simulation training programmes to governments and private sector organisations. By leveraging the highly agile, core SIMbox technology platform, simulation content of can be applied across multiple devices to create a learning environment for a range of domains.

SimiGon's strategic, simulation-based training programs are available in the traditional license fee business model or as SaaS. The Company's flexible business strategy allows it to address a broad range of training domains across various sectors.

Markets:

The Company characterizes its target markets as follows:

Military and defence related industry

The Company's track record of on-time and cost-effective solutions and deliveries in the military and defence industry has led to winning new military and non-military related contracts in different geographic territories, as well as add-on contracts with existing customers.

SimiGon has historically supplied large training and simulation environments for the US Government and friendly nations. Within this core market, the Company continues to cement its position as a preferred technology supplier for the premier military training programmes, such as the UKMFTS, IAF F16 Maintenance Trainer and the USAF T-6A FTD.

The Company is constantly working to position itself to win large military training mandates opportunities.

Civilian and Commercial vertical markets

The civilian, Smart Education and Learning market is expected to grow nearly 25% annually, from $193.24 billion in 2016 to $586.04 billion by 2021, representing new opportunities for SimiGon.

The Company has identified opportunities within the market as training techniques develop and begin to encompass more Virtual Reality, Mixed Reality and Augmented Reality. The emerging trend towards Simulation Based Training, led by dynamic Virtual Instructors is gaining momentum, with consumers demanding more immersive training in learning and training regimes.

SimiGon is taking advantage of this cultural and demographic shift - and opportunity – amid the wider consumer market with a mature and comprehensive market ready training solution. For example, the Company is using the Israeli Air Force F-16 maintenance contract announced on 20 June 2016 as a working case study of the benefits of its products to pursue civilian aviation maintenance training mandates.

Sharing Personal Messages From Corporate Leadership (Cont.)

The Company's disruptive, commercial off-the-shelf (COTS) technologies can be used to create top layer application content to deliver training environments in vertical commercial markets, including commercial aviation, homeland security, driver safety, medicine, energy. These targeted verticals share similar requirements to the defence-related industries in that they are highly regulated and require workers to be highly skilled and constantly developing and training. SimiGon is aggressively pursuing opportunities to grow market share and broaden the applications for its software offering in new domains.

Among the Company's advances in the civilian segment include a $0.1 million contract with the FAA to deliver its SIMbox simulation development tools and training in support of the FAA's advanced Unmanned Aircraft Systems Research Simulator ("AURS"). This contract is a significant milestone in SimiGon's expansion into civilian vertical markets and demonstrates the market's recognition of SIMbox as an effective R&D toolkit for design and development as well as an advanced training system platform. As announced on February 19, 2018, SimiGon has secured an additional contract with the FAA providing the Company's SIMbox simulation software, SIMbox simulation development tools, and engineering services for the FAA's AURS program.

Business Model

SimiGon's strategy, in line with market requirements, is to focus on long-term, high value, sticky SaaS 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.

With SaaS-based contracts, the recurring maintenance and support stream is already included in the contract terms. In addition, the Company maintains flexibility with its traditional perpetual license fee model where the Company is paid for software license and support, as well as providing turnkey solutions for customers and partners as a Prime contractor or Sub-contractor.

Growth Strategy

SimiGon's focus on business growth is to increase its footprint within the existing customer base through continuous product innovation and expand into new domains using the experience and technologies developed from its defence contracts.

SimiGon's highly scalable, robust COTS technology is ideally positioned to address new domains with minimal customization. New projects and markets utilize the existing product infrastructure and developer tools to create the new application content; once developed, it is leveraged to target the full market. The Company's platform has an extensive track record of success to support this effort.

The multiple market opportunities provided the Virtual Reality market which is estimated at more than $30 billion by Forbes excite the Company, as its training applications are already benefiting from its plug & play capability with various Virtual Reality headsets.

R&D

The Company's commitment to R&D is integral to growth, ensuring it remains at the forefront of new technologies. This allows the Company to pursue new opportunities while maintaining a business of solutions, upgrades and enhancements to deepen its relationship with existing clients and capture new customers.

SimiGon achieved numerous R&D milestones, including compatibility and support for Virtual Reality headsets. The Company sees the rise of Virtual Reality as integral to the provision of cost-effective, fully immersive training solutions, in the near future, and is well prepared to meet demand. Another major investment has been made in improving its graphic engine capabilities to support high resolution simulation models and terrain databases so high fidelity training devices can now be fully driven by SimiGon software and provide complete scalability across the hardware spectrum.

SHARING PERSONAL MESSAGES FROM CORPORATE LEADERSHIP (CONT.)

Always seeking ways to improve and better support training developers and end users, SimiGon has also turned its attention to enhancing its user interface, further differentiating SimiGon from the wider market.

On the marketing side, the Company has boosted marketing efforts and collateral, including the launch of a new corporate website along with improvements to its digital marketing capabilities. These have been designed to support the Group as it ramps up its campaigns to enter new markets and engage new customers as well as growing market presence in markets it already operates.

Significant contracts

New contracts

In November 2017, SimiGon received final regulatory approval for a $2 million purchase order received from the Israeli Air Force ("IAF") (initially announced on 20 June 2016). As reported in the Company's interim results on 25 September 2017, the approval processes in respect of the contract has been subject to ongoing procedural delays. The contract is for the provision of F-16 maintenance simulation based training systems to the IAF's technician school in Haifa. The client-server system will support 60 trainees annually and each trainee will have a personal workstation allowing them to learn avionics and front line maintenance with the support of a virtual instructor for a self-paced syllabus in a fully immersive, virtual environment.

SimiGon was awarded with a prime contract with the US FAA to deliver the SIMbox simulation development tools and training in support of the FAA's advanced Unmanned Aircraft Systems ("UAS") Research Simulator. This contract was a significant milestone in SimiGon's expansion into civilian vertical markets including civilian aviation and civilian UAS. It also establishes the FAA as a SIMbox Certified Organization ("SIMCO"), providing the FAA with an internal SIMbox development capability. This win also demonstrates the market's recognition of SIMbox as an effective R&D toolset for design and development as well as an advanced training system platform.

Long term contracts

The Company maintained its solid portfolio of long term partnerships developing further business and providing revenue visibility. Many of these partnerships are expected to continue with additional contracts through 2018 and beyond.

The support of SimiGon for UKMFTS as a technology and services provider to Lockheed Martin, has continued and now in its eighth year. The Company continues to deliver under this long term contract, exceeding partner and end user expectations of SimiGon's technologies and performance.

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

During 2017, SimiGon continued in its efforts to support this customer and expand this relationship. As a result, The Company was awarded on February 2018 with a 28 month contract amendment by the USAF for additional Contractor Logistics Support (CLS) services for SIMbox-based T-6A Level 5 FAA Compliant Flight Training Devices (FTD).

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

SimiGon’s relationship with a major existing European customer, which it has been supplying with software and services since 2009, continues to yield long term business. 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 continued its 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.

As announced by the Company on 5 July 2017, SimiGon had successful completed all systems delivery milestones and received the requisite client confirmations in relation to the $6.7 million contract announced in June 2013. The final solution provided to the customer offers the trainees with personalized, dynamic training lessons while utilizing SimiGon's Virtual Instructor technology. The successful collaboration with the customer has led to a more advanced training system being developed. The experience gained from this turnkey programme will be useful in marketing SIMbox training solution to other potential customers worldwide, extending SimiGon's market reach.

Share buy-back programme and Annual Dividend

On December 1, 2017 the Company put in place an irrevocable, non-discretionary programme for the repurchase of up to USD$106,000 (approximately £79,000) of its ordinary shares (the "Programme"). The Programme is 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 Programme will last until the end of the Company's general meeting in 2018 or until the full USD$106,000 has been utilized, whichever is the soonest. The Programme is conducted within the pre-set parameters and in accordance with the authority granted by the Company's shareholders to repurchase shares at its last general meeting held on 8 September 2017.

To date, pursuant to the Programme, 225,000 shares have been bought back on March 2, 2018 at the price per Ordinary Share of 15.218 pence. The Board does not intend to recommend the payment of a dividend.

Financial Performance

Revenue for the year ended 31 December 2017 was $4.34 million, compared to $6.02 million in 2016. 40% of SimiGon's revenues came from North America (2016: 44%), 42% from Europe, Middle East, South America and Australia (2016: 19%) and 18% from the Far East (2016: 37%).

Gross profit for the year ended 31 December 2017 was $3.36 million, as compared to $4.1 million for the year ended 31 December 2016. Accordingly, gross margins increased to 78% for the year ended 31 December 2017 as compared to 69% for the year ended 31 December 2016.

Net loss for the fiscal year of $0.95 million (2016: net profit of $0.36 million).

Total operating expenses for the year ended 31 December 2017 increased by 10% to $4.32 million as compared to $3.91 million for the year ended 31 December 2016.

Research and development expenses for year ended 31 December 2017 increased by 22% to $2.09 million as compared to $1.71 million for the year ended 31 December 2016, mainly due to increase salary expenses.

Marketing expenses for the year ended 31 December 2017 increased by 7% to $1.17 million as compared to $1.09 million for the year ended 31 December 2016 mainly due sales commissions and salary expenses.

General and administration expenses for the year ended 31 December 2017 decreased by 5% to $1.05 million as compared to $1.11 million the year ended 31 December 2016 mainly due provision for doubtful debts recorded in year 2016.

The Company has recorded a net income tax credit of $0.03 million for the year ended 31 December 2017 mainly as a result of 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 loss for the year ended 31 December 2017 amounted to $0.96 million, as compared to operating profit of $0.22 million for the year ended 31 December 2016.

Net basic and diluted loss per share decreased to $0.02 for the year ended 31 December 2017 as compared to net basic and diluted earnings per share $0.01 for the year ended 31 December 2016.

As at 31 December 2017 the Company had liquid cash of $7.79 million as compared to $8.14 million as at 31 December 2016 and trade receivables of $1.75 million compared to $2.92 million for the year ended 31 December 2016. $0.58 million of the year end trade receivables balance has been collected since the year end.

Outlook

SimiGon is well positioned in the simulation and training market for developing and delivering high tech solutions for the industry and has a business partners and customer foundation to propel the Company to its next stage of growth. As a provider of advanced training and simulation technologies and solutions, SimiGon is able to scale rapidly to support new growth as it continues to execute its business strategy.

SimiGon's exposure to new markets is progressing, bolstered by unrelenting marketing efforts and continued growth in the military training market. Increasing its SaaS based contracts, resulting in recurring revenues and better revenue visibility, together with its consistent investment in R&D, the Company expects to recover from the current period's results and gain positive momentum.

SimiGon has positive outlook for future prospects, underpinned by more than $20 million of contracted revenue over the next ten years FY2018 (including the contract signed with a particular customer in the civilian training market).

SimiGon's technology developments, together with its revenue streams, are the basis for the Board's belief in the Company's a strong foundation for profitability and revenue growth for many years to come.

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 (Until April 17, 2018)

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.

Omer C. Eyal, Non-Executive director (commencing April 17, 2018)

Mr. Eyal brings nearly 20 years of business advisory and entrepreneurial experience to the board. Mr. Eyal began his career as a corporate lawyer at global law firm Steptoe & Johnston LLP. He then went on to join UMA Solar LLC, a leading thermal and solar power distributor, as the company's COO and Legal Affairs Manager for 9 years. Following his exit from UMA Solar, Mr Eyal went on to become founder and CEO of TEVA Energy LLC, managing a team of experts in the development and distribution of renewable-energy solar solutions across North America and the Caribbean. Mr. Eyal spearheaded the merger of Superior Solar Systems LLC and TEVA Energy LLC to form TEVA Alternative Energy LLC of which he was appointed CEO and managing member. Mr. Eyal is a qualified D.C. lawyer holding a Judicial Doctorate from Georgetown University.

DISPLAYING PERSONAL COMMITMENT TO ORGANIZATIONAL SUCCESS (CONT.)

Management

Amos Vizer, President & CEO

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

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Hagai Pichovich - VP, Product Development

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, EVP, 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 Programs

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.

Ary Nussbaum, VP Business Development (Americas)

Mr. Nussbaum has served in multiple roles with the Company since joining in 2001 and was most recently Director, Business Development. He has built Government and Commercial business through partnerships and direct customer sales in complex business environments. His winning track record spearheading strategic programs in the US, Latin America, Asia, Australia and Europe, including SimiGon's largest single award program, is part of Mr. Nussbaum's skillset. He leads the Company's business development and sales efforts to capture existing and vertical markets in Government and Commercial training sectors in the US, Canada and Latin America. Mr. Nussbaum is an FAA certified pilot with an MBA from Bar Ilan University and a BA from William Paterson University.

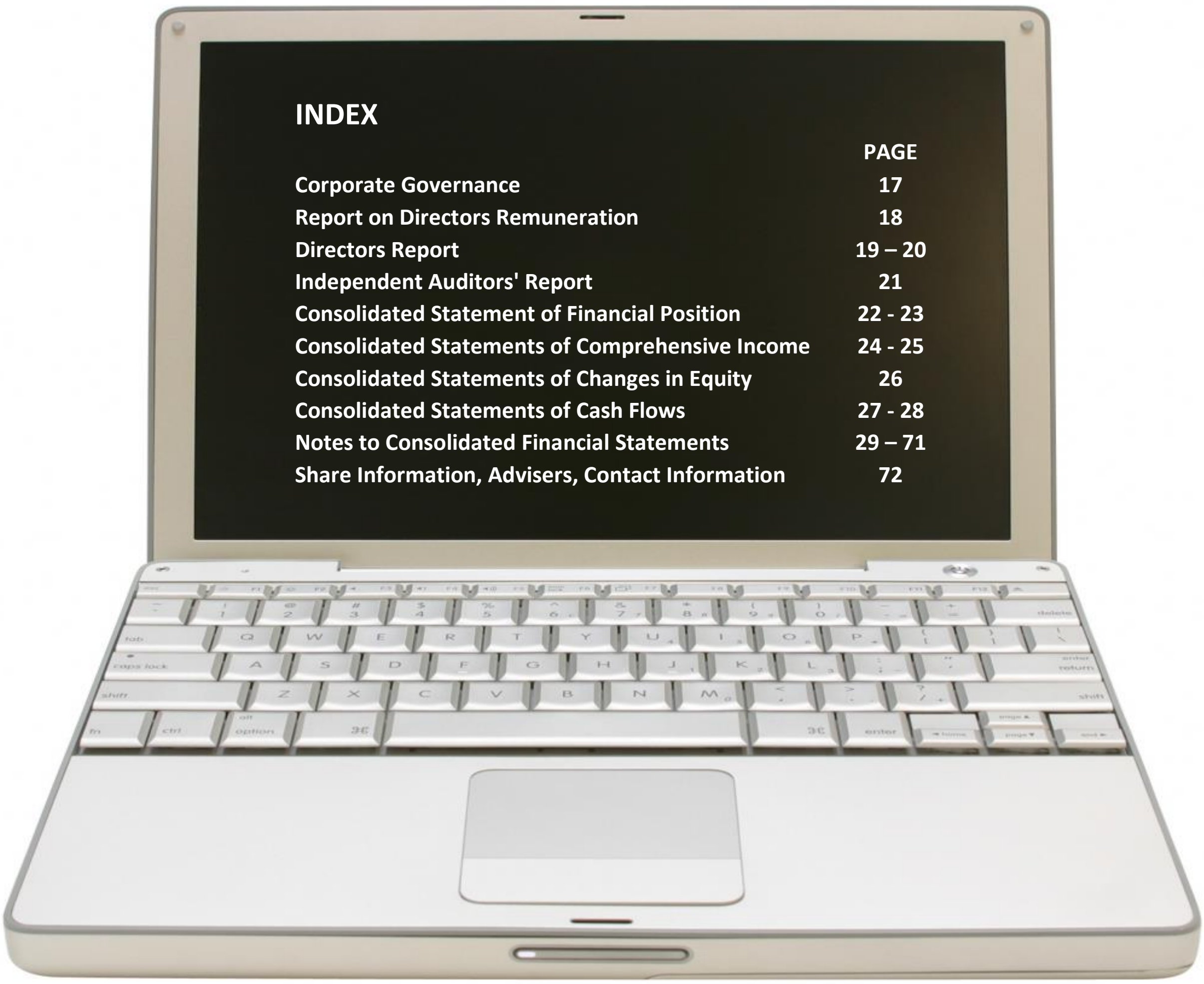
Merav Nahmani, Director of Human Resources

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, 2017

(U.S. Dollars in Thousands)



CORPORATE GOVERNANCE FOR THE PERIOD ENDED 31 DECEMBER 2017

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 (commencing April 2018 was replaced by Omer C. Eyal), Deborah M. Bitman and Ran Pappo 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, Deborah M. Bitman and Ran Pappo. 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 2017	Total 2016
Executive	**$**	**$**
Ami Vizer *	412,789	410,635
Efraim Manea **	148,651	141,140
Non-Executive		
Alistair Rae	45,827	46,807
Eitan Cohen	25,300	26,400
Mr. Ran Pappo	26,400	26,400
Deborah M. Bitman	26,400	26,400
Total	**685,367**	**677,782**

* Year 2017 does not include $41,776 paid in respect of vacation days, additional $28,721 paid in respect of severance allocation transfer and additional $34,065 paid in respect to health insurance.

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 to be granted as 125,338 Ordinary Shares of 0.01 par value of the Company (calculated based on the closing price on the day of announcement of the Company's financial results for 2016).

** Year 2017 does not include the reimbursement of $20,500, paid in respect to Mr. Efraim Manea relocation costs for his work at the Company's subsidiary in USA.

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.

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 2017.

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, 2017 the total numbers of Ordinary Shares Issued were 51,394,189.

Share Options

As of 31 December 2017, the outstanding balance of options granted to certain employees of SimiGon is approximately 1.6 percent of the Company's issued and outstanding shares at an average exercise price of $0.26. 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 an annual dividend 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 has been paid to the Company's shareholders with respect to 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 (Until April 17, 2018).
- 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.
- Mr. Omer C. Eyal was appointed a non-executive director on April 17, 2018.

Directors Interest in Shares and Share Options

The interest of directors in the issued share capital of the company at 31, December 2017 were as follows.

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

*) On September 8, 2017 the Company's shareholders approved the conversion of the 2016 annual cash bonuses approved by the Company's Board of Directors on April 14, 2016 in accordance to the Company's Compensation Policy Plan to Mr. Ami Vizer the Company's Chief Executive Officer and an executive director in a total amount of US £21,934 and to Mr. Efi Manea the Company's Chief Financial Officer and an executive director in a total amount of US £5,699, into 125,338 and 32,564 Ordinary Shares of 0.01 par value of the Company, respectively, such shares to be issued under the Company's Employees' Share Option Plans.

Substantial Shareholdings

At 31, December 2017 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 / A. Vizer Holding Ltd.	11,365,489	22.11%
Jeffrey Braun	6,543,039	12.73%
Herald Investment Management Ltd.	5,050,000	9.83%
Axxion S.A.	3,500,000	6.81%
Green Venture Capital Ltd.	3,067,848	5.97%
G.Poran Holding Ltd.	2,273,444	4.42%
Shroder- euroclear nominees limited	1,711,070	3.33%
Paul Hill and Immediate family	1,595,500	3.10%

Auditors

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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, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2017, 2016 and 2015, 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the each of the years ended December 31, 2017, 2016 and 2015, in accordance with International Financial Reporting Standards as adopted by the European Union.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
May 9, 2018

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2016
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		4,868	5,221
Short-term bank deposit		1,010	1,005
Short-term investments	3	1,912	1,913
Short-term restricted cash	5	337	-
Trade receivables, net	4	1,748	2,919
Other accounts receivable and prepaid expenses		149	61
Total current assets		10,024	11,119
NON-CURRENT ASSETS:			
Restricted cash	5	337	374
Long-term prepaid expenses		34	39
Deferred tax	12	226	223
Property, plant and equipment	6	94	111
Goodwill and intangible asset	7	1,068	1,072
Total non-current assets		1,759	1,819
Total assets		11,783	12,938

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2016
		U.S. dollars in thousands	
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Trade payables		133	98
Deferred revenues		401	558
Other accounts payable and accrued expenses	8	675	684
Total current liabilities		1,209	1,340
NON-CURRENT LIABILITIES:			
Long-term deferred revenues		-	38
Employee benefit liabilities	9	289	222
Other non-current liabilities	13a	704	732
Total non-current liabilities		993	992
Total liabilities		2,202	2,332
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	10		
Share capital		125	125
Additional paid-in capital		16,639	16,629
Accumulated deficit		(7,177)	(6,144)
Total equity attributable to equity holders of the Company		9,587	10,610
Non-controlling interests		(6)	(4)
Total equity		9,581	10,606
Total liabilities and equity		11,783	12,938

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

April 18, 2018			
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	2017	2016	2015
		Year ended December 31,		
		U.S. dollars in thousands (except share and per share amounts)		
Revenues	15	4,335	6,018	6,935
Cost of revenues	14a	975	1,882	1,534
Gross profit		3,360	4,136	5,401
Operating expenses:				
Research and development	14b	2,092	1,714	1,472
Selling and marketing	14c	1,170	1,092	1,245
General and administrative	14d	1,056	1,107	1,048
Total operating expenses		4,318	3,913	3,765
Operating profit (loss)		(958)	223	1,636
Finance income	14e	126	172	74
Finance expenses	14f	125	103	82
Income (loss) before income taxes		(957)	292	1,628
Income tax benefit	12	3	69	154
Net income (loss)		(954)	361	1,782

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	2017	2016	2015
		Year ended December 31,		
		U.S. dollars in thousands (except share and per share amounts)		
Net income (loss)		(954)	361	1,782
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Remeasurement gain (loss) from defined benefit plan		(11)	(2)	4
Total comprehensive income (loss)		(965)	359	1,786
Net income (loss) attributable to:				
Equity holders of the Company		(952)	365	1,782
Non-controlling interests		(2)	(4)	-
		(954)	361	1,782
Total comprehensive income (loss) attributable to:				
Equity holders of the Company		(963)	363	1,786
Non-controlling interests		(2)	(4)	-
		(965)	359	1,786
Net basic and diluted earnings (loss) per share attributable to equity holders of the Company in U.S. dollars		(0.02)	0.01	0.04
Weighted average number of shares used in computing basic earnings per share (in thousands)	16	51,444	51,097	50,683
Weighted average number of shares used in computing diluted earnings per share (in thousands)	16	51,444	51,319	50,818

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 January 1, 2015	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 a2)	285,000	1	107	-	108	-	108
Exercise of stock options (Note 10a1 till 10a4)	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 a2)	100,000	*) -	38	-	38	-	38
Exercise of stock options (Note 10a1)	301,035	1	-	-	1	-	1
Balance as of December 31, 2016	51,394,189	125	16,629	(6,144)	10,610	(4)	10,606
Total comprehensive income (loss)				(963)	(963)	(2)	(965)
Dividend distribution	-	-	-	(70)	(70)	-	(70)
Share-based compensation	-	-	10	-	10	-	10
Balance as of December 31, 2017	51,394,189	125	16,639	(7,177)	9,587	(6)	9,581

*) 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,		
	2017	2016	2015
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income (loss)	(954)	361	1,782
Adjustments to reconcile net income(loss) to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	55	87	88
Deferred tax	(3)	(64)	(159)
Finance income, net	(36)	(71)	(34)
Share-based compensation	10	65	65
Change in employee benefit liabilities, net	57	28	19
Changes in asset and liability items:			
Decrease (increase) in trade receivables	1,171	796	(3,209)
Decrease in other accounts receivable and prepaid expenses (including long-term)	(105)	18	11
Increase (decrease) in trade payables	35	(25)	(30)
Increase (decrease) in deferred revenues	(195)	22	(351)
Increase (decrease) in other accounts payable and accrued expenses	5	(167)	99
	994	689	(3,501)
Net cash provided by (used in) operating activities	40	1,050	(1,719)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
Cash flows from investing activities:			
Decrease in short-term investments	-	-	1,086
Increase in restricted cash	(300)	-	-
Increase in short-term bank deposits	-	(1,001)	-
Increase in long-term deposits	-	(26)	(2)
Purchase of property, plant and equipment	(34)	(66)	(16)
Net cash provided by (used in) investing activities	(334)	(1,093)	1,068
Cash flows from financing activities:			
Proceeds from share issuance	-	*) -	1
Exercise of stock options	-	-	5
Dividend distribution	(70)	(306)	(300)
Repayment of refundable grants	11	25	-
Net cash used in financing activities	(59)	(281)	(294)
Decrease in cash and cash equivalents	(353)	(324)	(945)
Cash and cash equivalents at beginning of year	5,221	5,545	6,490
Cash and cash equivalents at end of year	4,868	5,221	5,545
(a) Supplemental disclosure of non-cash financing activities:			
Receivable in respect of issuance of shares	-	1	2
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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following criteria are applied in assessing impairment of goodwill in respect of a 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, 2017 and 2016, 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

   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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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:

<u>IFRS 15, "Revenue from Contracts with Customers":</u>

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. 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 believes that the new Standard is not expected to have a material impact 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.

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

	OCS Liability
	U.S. dollars in thousands
Balance as of December 31, 2016	(732)
Grants received in 2017	(11)
Time value	39
Balance as of December 31, 2017	(704)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

IFRIC 23, "Uncertainty over Income Tax Treatments":

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the rules of recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement to reflect uncertainty involving income taxes in the financial statements and accounting for changes in facts and circumstances underlying the uncertainty.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Interpretation is to be applied in financial statements for annual periods beginning on January 1, 2019. Early adoption is permitted. Upon initial adoption, the Company will apply the Interpretation using one of two approaches:

(i) Full retrospective adoption, without restating comparative data, by recording the cumulative effect through the date of initial adoption in the opening balance of retained earnings.

(ii) Full retrospective adoption including restatement of comparative data.

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

NOTE 3:- SHORT-TERM INVESTMENTS

	December 31, 2017	December 31, 2016
	U.S. dollars in thousands	
Financial assets classified as held for trading at fair value through profit or loss- Mutual Funds *)	1,913	1,913

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

NOTE 4: - TRADE RECEIVABLES

	December 31, 2017	December 31, 2016
	U.S. dollars in thousands	
Trade receivables (1)	1,748	2,919
(1) Net of allowance for doubtful debts	259	259

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

The aging analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired < 30 days	30 - 60 days	60 - 90 day	> 90 days	Total
	U.S. dollars in thousands					
2017	1,060	-	25	110	553	1,748
2016	2,279	-	297	-	343	2,919

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 customer. The expiration date of the Performance Bond has been extended to October 30, 2018. The Performance Bond is held through a deposit that bears annual interest of 0.05% and its value as of December 31, 2017 amounted to $ 337 thousand.

b. As part of the regulatory approval received for a $2 million contract with the Israeli Air Force, on May 2, 2017 the Company issued a Performance Bond deposit in a total amount of $ 299 thousand.

NOTE 5:- RESTRICTED CASH (Cont.)

c. 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.

d. 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, 2016	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
Disposal during the year	(18)	(2)	-	(20)
Acquisitions during the year	26	2	6	34
Balance as of December 31, 2017	778	213	97	1,088
Accumulated depreciation:				
Balance as of January 1, 2016	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
Disposal during the year	(18)	(2)	-	(20)
Depreciation during the year	21	21	9	51
Balance as of December 31, 2017	745	181	68	994
Depreciated cost as of December 31, 2017	33	32	29	94
Depreciated cost as of December 31, 2016	28	51	32	111

NOTE 7:- GOODWILL AND INTANGIBLE ASSET

	Carrying amount as of December 31,	
	2017	2016
	U.S. dollars in thousands	
Technology **)	-	4
Goodwill *)	1,068	1,068
Total	1,068	1,072

*) 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, 2017, the recoverable amount determined using the fair value of the Company, based on the market price of its shares, exceeded the carrying amount of the Company's net assets (equity), and therefore, no provision for impairment was recorded.

**) During the years ended December 31, 2017, 2016 and 2015, the Company recorded amortization in the amount of $ 4 thousand, $ 50 thousand and $ 51 thousand, respectively, which was recorded in cost of revenues.

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2017	2016
	U.S. dollars in thousands	
Employees and payroll accruals	417	373
Accrued expenses	258	311
	675	684

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.

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

These contributions and contributions for benefits represent defined contribution plans.

	Year ended December 31,		
	2017	2016	2015
	U.S dollars in thousands		
Expenses in respect of defined contribution plans under Section 14 to the Severance Pay Law, 1963	145	128	123

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

Current service cost	53	47	46
Interest cost	9	8	7
Exchange rate	26	3	(1)
Total expense included in profit or loss	88	58	52

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

Composition:

Balance at January 1	222	192	178
Interest cost	9	8	7
Exchange rate	26	3	(1)
Current service cost	53	47	46
Benefits paid	(32)	(30)	(34)
Remeasurement loss (gain)	11	2	(4)
Balance at December 31	289	222	192

d. The actuarial assumptions used are as follows:

Discount rate	3.59%	4.05%	4.13%
Future salary increases	3.63%	3.60%	3.55%
Average expected remaining working years	7.47	7.85	7.57
Remeasurement gain (loss) in respect of defined benefit plan	(11)	(2)	4

NOTE 10:- EQUITY

a. Share issuance:

1. 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.

   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.

NOTE 10:- EQUITY (Cont.)

2. 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.

3. 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.

4. 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.

5. 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.

NOTE 10:- EQUITY (Cont.)

On September 8, 2017 the Company's shareholders approved the conversion of the 2016 annual cash bonuses approved by the Company's Board of Directors on April 14, 2016 in accordance with the Company's Compensation Policy Plan to Mr. Ami Vizer the Company's Chief Executive Officer and an executive director in a total amount of GBP £21,934 and to Mr. Efi Manea the Company's Chief Financial Officer and an executive director in a total amount of GBP £5,699, into the allotment of 125,338 and 32,564 Ordinary Shares of 0.01 par value of the Company, respectively, such shares to be issued under the Company's Employees' Share Option Plans.

As of the date of the approval of the financial statements, the shares have not been issued yet.

b. Composition of share capital:

	December 31, 2017, 2016 and 2015	December 31, 2017	December 31, 2016	December 31, 2015
	Authorized	Issued and outstanding		
	Number of shares			
Ordinary shares of NIS 0.01 par value each	100,000,000	51,394,189	51,394,189	50,993,154

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, 2017, an aggregate of 2,383,829 Ordinary shares of the Company are still available for future grant.

On April 14, 2016 the Board of Directors approved a total grant of 40,000 options to purchase Ordinary shares of the Company to 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.
Out of the total approval, the Company granted a total of 35,000 options.

NOTE 10:- EQUITY (Cont.)

On September 21, 2017 the Board of Directors approved a total grant of 170,000 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 $ 0.236.

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 (followed by a shareholders approval), 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.

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 the years ended December 31, 2017 and 2016: risk-free interest rate ranging from 0.87% - 2.24%; a dividend yield of 3%; expected volatility of 80%; and a weighted average expected life of the options of 6.25 years. The weighted average fair values of the options granted in 2017 and 2016 were $0.127 and $ 0.13, respectively.

A summary of the activity in options to employees, consultants, and directors (including the senior management, see d. below) for the years 2017, 2016 and 2015 is as follows:

	Year ended December 31,					
	2017		2016		2015	
	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	907,833	$ 0.372	1,386,507	$ 0.416	2,121,188	$ 0.297
Granted	170,000	$ 0.236	35,000	$ 0.241	-	-
Exercised	-	-	(301,035)	$ 0.003	(628,464)	$ 0.008
Expired	(40,000)	$ 1.716	(25,000)	$ 0.250	(22,050)	$ 0.6
Forfeited	(213,500)	$ 0.428	(187,639)	$ 1.276	(84,167)	$ 0.417
Outstanding at end of year	824,333	$ 0.265	907,833	$ 0.372	1,386,507	$ 0.416
Exercisable options	523,607	$ 0.312	733,769	$ 0.307	958,585	$ 0.393

NOTE 10:- EQUITY (Cont.)

The options outstanding as of December 31, 2017, have been separated into ranges of exercise price as follows:

Exercise price	Options outstanding as of December 31, 2017	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2017
$ 0.002 - $ 0.25	473,333	2.35	174,999
$ 0.335 - $ 1.2	351,000	2.75	348,608
	824,333		523,607

d. Options to the CEO and senior employees:

Further to note 10a1, (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

e. Shares to the CEO and senior employees:

Further to Note 10a1, (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.

NOTE 10:- EQUITY (Cont.)

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

f. Shares buyback Program:

On September 8, 2017, the Company's shareholders approved that the Company be generally and unconditionally authorised to make one or more irrevocable, non-discretionary market purchases of its own ordinary shares of 0.01 NIS each in the capital of the Company ("Ordinary Shares") (the "Repurchase Programme").
All purchases will be made by way of on-market purchases for the purposes of the rules of the London Stock Exchange through a certified broker, in accordance with the authority conferred by the Articles, the AIM Rules for Companies, this General Meeting and all other applicable rules and regulations, and will be made subject to the following limitations:

i. the absolute maximum value of Ordinary Shares acquired pursuant to the Repurchase Programme shall not, in aggregate, exceed GBP £800,000;

ii. there will be no minimum price which may be paid for an Ordinary Share;

iii. the maximum price which may be paid for an Ordinary Share is 110 percent of the average of the middle market quotations for an Ordinary Share (as derived from the Daily Official List) for the 5 business days immediately preceding the day on which the Ordinary Share is contracted to be purchased;

iv. the minimum and maximum prices per Ordinary Share referred to in sub-paragraphs (ii) and (iii) of this resolution are in each case exclusive of any expenses payable by the Company ;

v. any Ordinary Shares purchased under the Repurchase Programme will be held in treasury and will be notified to a Regulatory Information Service in accordance with the AIM Rules for Companies; and

vi. the authority conferred by this resolution shall expire at the end of the General Meeting in 2018 .

See Note 20 regarding repurchase of Ordinary shares in 2018

NOTE 11:- JOINT VENTURES

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, 2017, 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. As of the date of the approval of the financial statements as of December 31, 2017, the Joint Venture hasn’t started to operate, yet.

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.

NOTE 12:- INCOME TAXES (Cont.)

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).

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.

NOTE 12:- INCOME TAXES (Cont.)

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.

c. Carryforward losses:

Domestic:

As of December 31, 2017, 2016 and 2015, the Company had accumulated losses for Israeli tax purposes of approximately $ 1.9 million, $ 0.6 million and $ 0.5 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, 2017, 2016 and 2015, the federal tax loss carryforwards of the U.S. subsidiaries amounted to approximately $ 5.1 million, $ 5.3 million and $ 5.5 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, 2017, 2016 and 2015, the tax loss carryforwards of the Singaporean subsidiary amounted to approximately $ 81 thousands, $ 61 thousands and $ 59 thousands; respectively, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

As of December 31, 2017 and 2016, the tax loss carryforwards of the Colombian subsidiary amounted to approximately $ 38 thousands and $ 32 thousands; respectively, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

As of December 31, 2017, the total deferred tax assets amounted to $ 226 thousand in respect of certain carryforward operating losses in SimiGon Ltd and SimiGon Inc.

NOTE 12:- INCOME TAXES (Cont.)

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

Domestic:

The Israeli corporate income tax rate was 24% in 2017, 25% in 2016 and 26.5% in 2015.

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.

The deferred tax balance as of December 31, 2016, was 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 2017, the main reconciling item between the tax benefit assuming loss before taxes was taxed at the statutory tax rate of the Company, and the tax benefit recorded in profit or loss, is carryforward tax losses 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).

   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.

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

   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, 2017, the Company received a total amount of $ 254 thousand.

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

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, 2017 and 2016 was $ 189 thousand and $ 191 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.

   As of December 31, 2017, 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, 2017 and 2016 was $ 421 thousand and $ 425 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, 2017, 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).

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

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, 2017 and 2016 was \$ 67 thousand and \$ 71 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.

   As of December 31, 2017, the Company received a total amount of \$ 36 thousand. The total non-current liability for the year ended December 31, 2017 and 2016 was \$ 27 thousand and \$ 45 thousand, respectively.

6. During 2017, the total grants that the Company received from OCS projects amount to \$ 43 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 2020 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.

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

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

Year ended December 31,	U.S. dollars in thousands
2018	268
2019	269
2020	230
2021	17
	784

The total expense for the years ended December 31, 2017, 2016 and 2015 was $ 281 thousand, $ 273 thousand and $ 266 thousand, respectively.

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

		Year ended December 31,		
		2017	2016	2015
		U.S. dollars in thousands		
a.	Cost of revenues:			
	Salaries and related benefits	689	857	910
	Lease and office maintenance	101	148	148
	Travel expenses	69	149	185
	Depreciation and amortization	22	67	66
	Share-based compensation	1	7	13
	Subcontractors	94	654	212
		975	1,882	1,534
b.	Research and development expenses:			
	Salaries and related benefits	1,892	1,567	1,436
	Lease and office maintenance	219	181	173
	Depreciation and amortization	22	11	13
	Share-based compensation	2	6	12
	Other	-	-	(121)
	Government grants	(43)	(51)	(41)
		2,092	1,714	1,472
c.	Selling and marketing expenses:			
	Salaries and related benefits	948	905	1,006
	Lease and office maintenance	50	49	59
	Advertising and sales promotion	38	40	33
	Travel expenses	61	66	77
	Depreciation and amortization	7	5	6
	Share-based compensation	2	23	38
	Commission	64	4	26
		1,170	1,092	1,245
d.	General and administrative expenses:			
	Salaries and related benefits	626	596	648
	Lease and office maintenance	28	56	63
	Travel expenses	34	19	11
	Professional fees and public company expenses	356	301	394
	Depreciation and amortization	4	4	3
	Share-based compensation	*) -	29	2
	Doubtful debt provision	-	80	(78)
	Other	8	22	5
		1,056	1,107	1,048

*) Represents an amount lower than $ 1 thousand.

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

	Year ended December 31, 2017	2016	2015
	U.S. dollars in thousands		
e. Finance income:			
Exchange rate differences	56	53	67
Interest income from banks and short term investments	70	119	7
	126	172	74
f. Finance cost:			
Exchange rate differences	104	65	74
Government grants interest	13	36	4
Bank loans and fees	8	2	4
	125	103	82

NOTE 15:- REVENUES

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

a. Revenues:

	Year ended December 31, 2017	2016	2015
	U.S. dollars in thousands		
Software licenses and customization	3,473	5,254	5,449
Recurring Maintenance & Support	862	728	1,460
Training	-	36	26
	4,335	6,018	6,935

NOTE 15:- REVENUES (Cont.)

b. Geographical information:

Revenues classified by geographical destinations based on the end-users location:

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
North America	1,750	2,654	3,884
Asia Pacific	797	2,244	1,172
Rest of the world (1)	1,788	1,120	1,879
	4,335	6,018	6,935

(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,		
	2017	2016	2015
	U.S. dollars in thousands		
Asia Pacific and rest of the world	26	29	30
North America	1,136	1,154	1,174
	1,162	1,183	1,204

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,		
	2017	2016	2015
Customer A	45%	32%	21%
Customer B	7%	6%	29%
Customer C	3%	2%	11%
Customer D	3%	14%	16%
Customer E	16%	23%	-
Customer F	10%	-	-

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,		
	2017	2016	2015
	U.S. dollars in thousands		
Net income (loss) for the year	(952)	365	1,782
Share data (in thousands):			
Weighted average number of Ordinary shares for computing basic earnings (loss) per share	51,444(*	51,097	50,683
Effect of dilution:			
Share options	(**)	222	135
Weighted average number of Ordinary shares adjusted for the effect of dilution	51,444	51,319	50,818

*) 2017 – Weighted average number of shares includes 50 thousand shares in respect of the Company's obligation to issue approximately 158 thousand Ordinary shares to two officers of the Company in lieu of cash bonus – see Note 10a5

**) 2017 – All share options are excluded from the calculation of diluted earnings per share because their effect on the calculation is antidilutive.

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
a. Expenses to related party of a shareholder:			
Cost of revenues *)	37	38	-
Research and development *)	15	10	-
Selling and marketing *)	15	9	-
General and administration *)	8	5	-
	75	62	-

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

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
b. Balances to related party of a shareholder:			
Other accounts receivable and prepaid expenses *)	3	3	-
	3	3	-

*) 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.

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
c. Compensation of key management personnel of the Company:			
Non- Executive directors benefits	124	126	133
Employee benefits *)	1,574	1,627	1,621
Share-based payments **)	3	1	41
	1,701	1,754	1,795

*) Includes long-term employee benefits in the amount of $24 thousand, $ 11 thousand and $ 8 thousand for the years ended December 31, 2017, 2016 and 2015, respectively.

Year 2017 includes bonus provision to VP R&D in the amount of $ 3 thousand, respectively.

Year 2017 and year 2016 include bonus provision to VP Products in the amount of $ 8 thousand and 6 thousands, respectively.

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).

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

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

**) Year 2016 includes bonus 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 2016 includes bonus 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 include share-based compensation of $ 28 thousand, due to the Share Bonus Plan as described under Note 10e, in respect to the CEO.

c. Balances with Directors and Officers:

The Company’s liability balances directors and officers as of December 31, 2017 and 2016 amount to $ 333 thousand and $ 366 thousand; respectively, out of which, a total of $ 208 thousand and $ 181 thousand is related to severance, vacation and recovery liabilities for key employees as of December 31, 2017 and 2016; 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 re-approved 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.

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

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.

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. For the year ended December 31, 2016, the Company recorded share based compensation of $ 9 thousand in respect of its CEO annual bonus for year 2016.

On September 8, 2017 the Company’s shareholders approved the conversion of the 2016 annual cash bonuses to Mr. Efi Manea the Company's Chief Financial Officer and an executive director in a total amount of GBP £5,699, into the allotment of 32,564 Ordinary Shares of 0.01 par value of the Company, such shares to be issued under the Company's Employees' Share Option Plans. As of the date of the approval of the financial statements, the shares have not been issued yet.

Commencing August 1 2017, the Company has reimbursed Mr. Efraim Manea with a total of $21 thousand for his costs as part of his relocation for his work at the Company’s subsidiary in USA.

f. Significant agreements with shareholders:

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

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

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.

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.

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

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. For the year ended December 31, 2016, the Company recorded share based compensation of $ 37 thousand in respect of its CEO annual bonus for year 2016.

On September 8, 2017 the Company’s shareholders approved the conversion of the 2016 annual cash bonuses to Mr. Ami Vizer the Company's Chief Executive Officer and an executive director in a total amount of GBP £21,934, into the allotment of 125,338 Ordinary Shares of 0.01 par value of the Company, respectively, such shares to be issued under the Company's Employees' Share Option Plans. As of the date of the approval of the financial statements, the shares have not been issued yet.

Total salary including employer tax of Mr. Ami Vizer during year 2017 amounted to an annual salary of $ 358 thousand, annual social benefits of $ 45 thousand (12.5% out of his annual salary), expenses allowance and car insurance of $ 8 thousand, recovery fees of $ 1 thousand, severance pay of $ 29 thousand, vacation days of $ 39 thousand and health insurance of $ 34 thousand.

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).

d. In May 2017 the Company paid a dividend in an amount of $70 thousand ($ 0.136 cents per share, equating to approximately 19% of the Company's earnings per share and to approximately 19% of the Company's net income for the year ended December 31, 2016).

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.

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

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

Financial risks factors:

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

a. Foreign exchange risk:

The Company operates in a number of countries and is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the NIS. As of December 31, 2017, 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, 2017, cash and cash equivalents together with the Company's short-term bank deposits and short-term investments amounted to $ 7,790 thousand.

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

c. Liquidity risk:

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

December 31, 2017:

	Less than one year	Between 2 to 4 years	More than 4 years	Total
	U.S. dollars in thousands			
Government grants	22	156	585	764
Trade payables	133	-	-	133
Other accounts payable and accrued expenses	675	-	-	675
	830	156	585	1,571

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 20:- SUBSEQUENT EVENT

Further to Note 10(e), on March 2, 2018 , the Company purchased 225,000 ordinary shares of 0.01 NIS each in the capital of the Company ("Ordinary Shares") at the price per Ordinary Share of 15.218 pence ("Repurchase") through finnCap Ltd (acting as the Company's broker). The total cost of the purchase amounted to $47 thousand. The Repurchase shares, along with any other Ordinary Shares purchased by the Company pursuant to the Programme, will be held in treasury. Following the purchase of the Repurchase shares, the total number of voting rights in the Company is 51,169,189 Ordinary shares (excluding the 225,000 Ordinary Shares held in treasury).

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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

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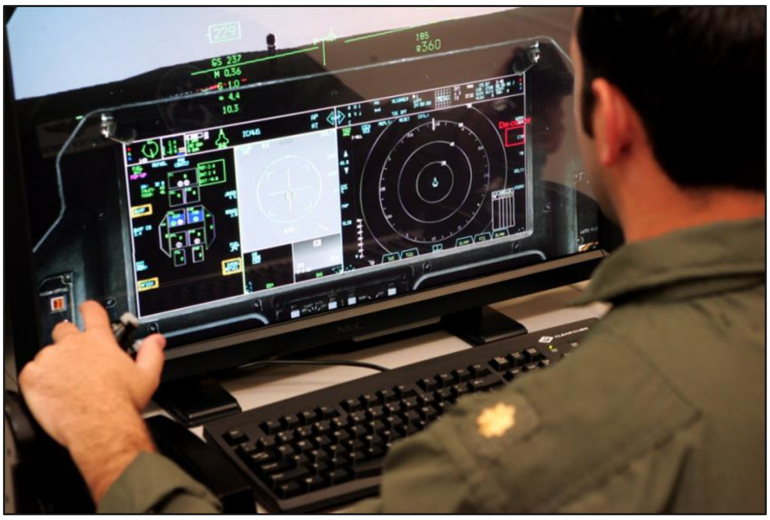

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