WE TAKE DISTRIBUTED SIMULATION TRAINING PERSONALLY

2018 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

- Revenues increased by 16% to $5.03 million (2017: $4.34 million)
- Gross margin increases to 81% (2017: 78%)
- Operating loss decreased by 21% to $0.76 million (2017: $0.96 million)
- Adjusted operating loss (excluding doubtful debt provision) decreased by 68% to $0.31 million (2017: $0.96 million)
- Net loss increased by 6% to $1.01 million (2017: $0.95 million)
- Adjusted net loss (excluding doubtful debt provision) decrease by 41% to $0.56 million (2017: $0.95 million)
- Basic and diluted loss per share of $0.02 (2017: loss per share $0.02)
- Cash, cash equivalent, short term investment and deposits of $6.00 million as at 31 December 2018 (2017: $7.79 million)
- Trade receivables increased by 47% to $2.57 million (2017: $1.75 million)

Operational Highlights

- SimiGon has continued to illustrate its ability to capture new business and significantly expand product capabilities in core defence-related market:
  - ➢ Awarded additional maintenance and support services contract for the sixteen T-6A Level 5 Flight Training Devices ("FTDs") with the United States Air Force ("USAF");
  - ➢ Multiple contracts to provide USAF with Virtual Reality ("VR") Aircraft Technician De-icing Simulation Based Training;
  - ➢ Secured additional work scope for Lockheed Martin's UK Military Flight Training System ("UKMFTS");
- Continued to support major military flight training programmes including:
  - ➢ The USAF Air Education and Training Command Undergraduate Remotely Piloted Aircraft Training ("URT");
  - ➢ Completion of major development and delivery milestones in support of Lockheed Martin's UKMFTS program;
  - ➢ Provide software and services as part of long-term relationship with a strategic European customer.

- Completed multiple delivery milestones for the $2 million Israeli Air Force ("IAF") F-16 Maintenance Trainer Program (IAF F16 Maintenance Trainer) contract announced in June 2016.
- Released SIMbox version 5.7 in August 2018, providing many new platform capabilities including expanded Virtual Reality (VR) support and significant "under-the-hood" performance upgrades.
- Awarded $1.1 million dollar contract with the IAF for T-6A aircrew training devices.
- Expanded its long-term relationship with an existing European customer (the "Customer") and has signed a contract valued at $0.92 million for the use of SIMbox in the additional programs across the Customer's organization.

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 expected to grow significantly over the next decade due to the combination of new training requirements, emerging technologies and the proven cost savings delivered through advanced training technology.

The Military Simulation and Virtual Training market, SimiGon's traditional core market, will reach US$128.5 billion over the forecast period of 2018-2028. The civilian, Smart Education and Learning market, representing new expansion opportunities for SimiGon, is expected to reach $423.2 billion by 2025, a compound growth rate of 15.2%. The simulation-based learning segment is anticipated to exhibit the highest growth due as it enables corporations and academic institutions to create realistic training in a controlled environment before they start work in the field, in high stakes, operational environments. This market includes Simulation, eLearning, Virtual Instructor, Collaborative, Adaptive and Blended learning, all core technology components of SimiGon's training solutions.
Commercial training, particularly with Virtual Reality (VR) and Mixed Reality (MR) capabilities, value technology-based solutions that reduce costs, similar to the ongoing Government training trend.

Well trained operators are required throughout military and civilian organizations. There are no flights without sufficient and properly trained aircrew, including pilots, technicians and maintainers. Cross-domain training with a scalable delivery platform with a common, core open system architecture capable of meeting the vast range requirements of each skillset is highly desirable. No simulator can fully replicate the pilot's sensation of a night landing on a fast moving aircraft carrier; oil drilling on a deep sea rig; providing maintenance service on a military or civilian flight line; rapidly de-icing a military or commercial aircraft readying for taxi; immersive language training; or customer service training, a large body of research supports simulation based learning and training's significant usefulness for hard skills and soft skills jobs.

Through simulations of operating environments 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 generally 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, sustainable business is won 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 has several market plays that will lead to near term and long term 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.

HIGH SKILLS JOBS REQUIRE ADVANCED, PERSONALIZED TRAINING & SIMULATION (CONT.)

The Company's systems are globally recognized as a premium training technology for achieving proficiency in complex skills and operations for individual and collective training. The Company is building on the expertise it has in delivering advanced training solutions to develop near term and long term business in the Government sector.

The Company is also successfully expanding into new, targeted vertical markets such as maintenance training, commercial aviation training, oil and gas industry training and homeland security.

The defense and aerospace sector, according to BlackRock, "remains the purest way to play any change in defense spending outlook." Boeing estimates a worldwide requirement for 42,730 new jet airplanes, valued at $6.3 trillion, attributing this to evolving aviation product offerings and growth in emerging markets.

For the period of 2019-2033, the military fixed-wing aircraft market unit production forecast is 8,016 aircraft, valued at $578.6 billion. This segment is comprised of trainer aircraft, fighter aircraft, transport aircraft and special mission aircraft. 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.

Further market opportunities lie in the collaboration announced by the FAA and USAF, working together to ensure an aviation workforce for the future, and "address any barriers to people realizing their dreams of becoming a pilot or aircraft mechanic," said Dan Elwell acting FAA administrator. Brig. Gen. Mike Koscheski, USAF's Aircrew Crisis Task Force director, called the pilot shortage "a wicked problem. The problem is not only ever-changing, it fights back. You can't just fix one aspect. They're interrelated."

The Unmanned Aircraft Vehicles (UAV) market was valued at $20.71 billion in 2018. This segment is comprised of fixed wing, multi-rotor, single rotor and Hybrid Vertical Takeoff and Landing (VTOL) UAVs. The applications of UAVs continue to diversify and grow for military, commercial, homeland security, and consumers. The market is forecast to reach $52.3 billion by 2025, with a growth rate of 14.15% between 2018 to 2025.

Air carriers, such as Wing, a drone delivery spinoff of Google's Alphabet, are beginning to receive Government certifications to fly drones as a more cost-effective way of delivering small, high-value orders such as medicine. Diverse companies such as Amazon, UPS and Domino's, as well as traditional aerospace and defense companies, are investing significantly in this market.

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 2019 Current Market Outlook (CMO) states the worldwide commercial aircraft fleet of 22,500 in 2017. Boeing projects a demand for 42,000 new airplanes over the next 20 years, worth $6.3 trillion. This growth will place an extraordinary demand for new airline pilots and technicians. Boeing forecasts that by 2037 the aviation industry will need to supply more than two million new aviation personnel—635,000 commercial airline pilots, 622,000 maintenance technicians, and 858,000 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
- VR-enabled F-16 Maintenance Training Device
- VR-enabled F-16 Aircrew Training Device
- VR-enabled T-6A Desktop Training Device
- T-6A Level 5 Flight Training Device
- C-208 – Cessna Caravan Training Device
- Sensor Operator Training System
- UAS Training Device
- VR-enabled Driver Training System
- Air Traffic Control Training Device
- After Action Review/Playback System
- Simulation Development Environment
- Learning Management System
- Learning and Content Management System
- Image Generator

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

"The improvement in the operational results during the second part of year 2018, indicates that the fundamentals of the business remained strong"

Alistair Rae, Chairman

SimiGon has continued to deliver its new and ongoing strategic programs, meeting and exceeding customer expectations with innovative technologies. Throughout 2018, the Company continued its organic growth strategy, expanding into additional contracts within existing and new strategic programs.

The improvement in the operational results during the second part of year 2018, indicates that the fundamentals of the business remained strong, with recurring revenues and improvements attained across a number of strategic objectives.

I am also encouraged by the many business and Research & Development activities the Group is engaged in and which are expected to deliver long term growth.

SimiGon learning and training technologies and applications are unique and present significant value-add to its customers across defense and civilian markets. The various arenas, in which SimiGon is actively engaged, combined with the focus on advancing and leveraging its technologies to deliver growth in its established aviation market give the Board of Directors confidence in the Company's ability to build sustainable, long term growth.

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

Alistair Rae
Chairman

Chief Executive's Review

"We were able to report higher revenues for 2018 as compared to the prior year, together with an improved gross margin and a reduction at the operating loss level. Our true success is the strong foundation we created for future growth and return to profitability".

Amos Vizer, President & CEO

The Company has been executing its strategy to deliver program milestones of long-term strategic contracts and continue to develop tactical positioning in the market as a leading technology provider. We have entered 2019 with more clients, more partners, stronger technology and greater utilization of our SIMbox technology across more domains than any other year in our history. SimiGon's ability to identify new markets and their need for cost effective training is exemplified throughout the Period in several programs, such as the multiple SIMbox-based Virtual Reality Aircraft Deicing Simulator ("S-VADS") provided to the USAF.

Though 2018 was one of our strongest product delivery years, the on-going transition to a SaaS model impacted our financial performance as license revenue is now spread over 5-12 years. As mentioned on the Company's previous trading update, the impact of this migration to a SaaS model can be demonstrated by the fact that license revenue is reduced by 85% which in turn impact short term yet, I expect, will improve the long-term financial performance of the Company.

I am very proud of our team and our ability to adapt to changing market trends. Our growing footprint in the training and simulation industry is propelled by leading, game-changing technologies, diverse global partners, and the need for advanced training systems and positions the Company well to deliver improved financial performance in 2019 and beyond.

Sharing Personal Messages From Corporate Leadership (Cont.)

Overview

During the Period, the Company achieved successful delivery milestones of its strategic contracts. This includes milestones on the IAF F-16 Maintenance Trainer program, logistics support provided to the USAF under their T-6A program and additional work scope for the UK Military Flight Training System program.

Successful deliveries and advanced proven technology has led SimiGon to be contracted with strategic programs throughout the Period which has solidified SIMbox as the major training technology platform. This includes the contract signed with the IAF to provide them with T-6A training devices utilizing advanced VR capabilities to support advanced training needs, and the contract award from its key European customer for SIMbox Commercial off-the-shelf training and simulation development platform. In addition, SimiGon's ability to identify new markets and their requirements for cost effective personal training systems was further demonstrated during the Period when the Company was contracted to deliver a VR Aircraft De-icing Simulators to the USAF.

Over the past 24 months, the Company's strategic focus has been on three main areas:

Sustain the baseline - Continue to successfully deliver Distributed Learning Solutions to our core strategic partners worldwide. SimiGon, directly and through its partners, now has training sites in North America, Europe, Middle East and in the Asia Pacific markets.

Expand market reach - Expand the utilization of our SIMbox technology to multiple domains. This was successfully achieved by targeting several high opportunity markets such as maintenance training, commercial equipment operators training and research labs that utilize SIMbox as part of their research.

Strengthen our technology capabilities - Improve the technological capabilities of the SIMbox technology in order to enable the growth of the Company as detailed above. Beyond the expansion of our graphics engine, simulation and learning management system, we have added and delivered Virtual Reality solutions to multiple clients around the globe.

During the Period, revenue was $5.03 million (2017: $4.34 million) and loss before tax expenses of $0.78 million (2017: loss before income tax of $0.96 million). The key contributor to the reported operating loss is the recording of a doubtful debt provision in a total of $0.45 million related to a delay in payment from a particular customer in the civilian training market, as previously announced. Though discussions continue with that a customer and legal action has been initiated, the Company has now recorded a full (as opposed to partial) doubtful debt provision for the client's entire outstanding debt. Due to the removal of expected future revenues from this customer, our forward backlog order book has been revised from the previously announced $20 million to $14 million, which we expect to recognize over the next ten years.

The Company continues to maintain a strong balance sheet with liquid cash balances of $6 million as at 31 December 2018.

The Company's R&D has made major advances in simulation software development tools, Image Generation ("IG") capabilities, user performance and data analytics capabilities.

These SIMbox technology improvements serve to increase opportunities and market penetration across military and civilian training markets. The team has made major strides adapting the platform to new domains and better leverage of the Company's technology beyond the core defence market into commercial verticals and civilian / consumer applications. The Company is well positioned to take advantage of the fundamental shift in training through immersive experiences, including Virtual Reality, Augmented Reality and Mixed Reality.

SimiGon's technology is well suited to support the improved realism and depth perception expected from high fidelity Virtual Reality solutions as well as being integrated with our Learning Management System and virtual instructor to provide immediate training and learning value. SimiGon integrated VR capability delivers time and cost savings with a level of immersion formerly available only through far more expensive VR headsets and dome projection systems.

SimiGon's civilian training market opportunities range from maintenance, safety, energy and other industrial operations skills. The Company's efforts to grow vertical Government and Civilian training are pressing forward. The Company recognizes the growth potential in VR-leveraged, as well AR training solutions and is aggressively developing and marketing relevant solutions to support this fundamental shift in the training world.

The enterprise VR training market is forecasted to grow at CAGR 140% and expected to generate $216 million in 2018 and grow to $6.3 billion in 2022.

SimiGon's market position will improve for multiple reasons. Foremost, it serves virtually any domain. No less important, potential customers are seeking solutions supporting with user data tracking and analytics, high fidelity graphics, scalability and extensibility to support synchronous and asynchronous training. The Company already has these capabilities and is delivering advanced training solutions to the satisfaction of customers and partners. Third, SimiGon has a high customer retention rate, as clients turn to the Company to make additional deliveries in existing programs and support new programs.

The Company invests considerably to advance its technologies and improve user experience. The customer base, combined with the new technologies consistently being incorporated into our product releases, will meet and exceed customer requirements to improve our market share.

Operational Review

SimiGon's core technology, SIMbox, and support services were developed for large simulation training programmes for the Government and Commercial sectors. The Company is at the forefront of designing, developing, implementing and supporting advanced simulation and training solutions to accelerate learning reduce safety risks and save training and program development costs for its clients. By leveraging its robust and agile SIMbox ecosystem, SimiGon and its partners can deliver simulation based training content across unlimited domains and across the hardware spectrum, from tablets and laptops/PCs to high fidelity training devices.

SimiGon's strategic, simulation-based training solutions offer flexible licensing models with traditional software licensing or SaaS. SimiGon's technologies and capabilities provide significant added value to multiple sectors.

Markets:

The Company target markets as follows:

Aerospace and defence related industry

The Company's historical core market is the aerospace and defence arena, particularly military aviation, where the Company continues to cement its position as a preferred technology supplier for the world's largest military training programmes. The Company's track record of delivering on time and within budget has led to winning new military-related contracts around the world, as well as serving to further entrench the Company with existing customers into new programmes.

Civilian and Commercial vertical markets

The global smart education and learning market size is expected to reach $423.2 billion by 2025 at a 15.2% CAGR, offering extensive expansion opportunities for SimiGon.

Millennials and Generation Z users learning experience is transforming the training industry as students are exposed to digital devices from a young age. Adaptive learning, simulation-based learning, blended learning, and collaborative learning, all part of SimiGon products, have subsequently evolved to offer users enhanced learning methodologies and experiences.

The simulation-based learning segment is anticipated to grow the fastest, enabling professional organizations and educational institutions to virtually experience real world environments for trainees to practice, navigate, explore, and obtain more information through a virtual medium before they start working on real-life tasks.

Growing awareness among people and rising popularity of smart education are encouraging solution providers to invest in research and development for creating more reliable, better, and cost-effective solutions.

The Company is very excited by increased market opportunities occurring in the civilian and mass consumer training segments being supported with new technologies such as VR and AR.

Sharing Personal Messages From Corporate Leadership (Cont.)

As an Open System Architecture ("OSA") software framework, SimiGon's ability to integrate with new technologies makes it viable long-term training simulation software fully capable of leveraging the immersive training needs of the VR civilian markets. SimiGon software offers an advanced solution to organizations seeking to teach visual and interactive problem solving in far ranging markets such as civilian aviation, technician training, language training, customer service training and corporate leadership.

SimiGon's technology, experience and personnel, place it in a unique position to take advantage of the cultural shifts democratizing learning and training to reach the wider consumer market.

The Company's significant capabilities, proven in the defence sector, are being leveraged to pursue new civilian training contracts. Two examples of potential applications are aircraft maintenance training and aircraft deicing technician training.

In 2018, SimiGon has successfully made entries into the civilian Unmanned Aircraft Systems ("UAS") segment with a contract signed with the US Federal Aviation Administration ("FAA") announced in Jan 2018, to deliver SIMbox simulation development tools and training in support of the FAA's Advanced UAS Research Simulator ("AURS").
This contract demonstrated how SIMbox is an effective R&D toolset for design and development as well as an advanced training system platform.

The Company continues to further develop its disruptive, baseline, commercial off-the-shelf ("COTS") product with additional top layer application content and capabilities to reach more end users and vertical markets. Targeted verticals such as commercial aviation maintenance training, security training, language training and vocational training have common requirements to the defence-related industries the Company continues to target. Specifically, they are highly regulated, require complex and specialized skill training and have zero tolerance for error. SimiGon is seeking to increase market share and broaden the end user applications for its base line SIMbox software platform in new domains.

For marketing investments, the Company has increased digital and print advertising, social media efforts and added presence at industry exhibitions, with booths at four industry symposiums, including the 2018 Singapore Airshow, ITEC in Europe, IITSEC and TSIS in the US as well as participation in smaller industry demos for select customers. Showcasing the Group's newest developments to existing and potential partners and customers serve to increase the overall potential business net.

Business Model

SimiGon's strategy, in line with market requirements, is to focus on long-term, high value, stable 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 Group is focused on growing organically through its existing customer base, offering continuous product developments and services; leveraging its experience and IP developed from existing contracts as a Prime Contractor and Subcontractor to win new business and capture sales in established segments; and expanding its core technology's applicability for new market domains, directly and indirectly.

SimiGon's highly scalable, COTS technology training management system makes it an ideal solution to address new training domains with little customization required. New projects and markets continue to utilize the product infrastructure and developer tools to create the new application content; once developed, they are leveraged to target the wider market.

R&D

The Company's R&D investments are working to expand the Group's offering to ensure it stays a leading provider of advanced technologies. This allows SimiGon to identify prospects while maintaining a programme of solutions, upgrades and enhancements to expand business with existing clients and winning new customers.

SimiGon realized numerous R&D milestones in the financial year. The Group's Image Generator ("IG") has undergone a complete technology refresh and now supports higher fidelity training devices, providing industry leading user experiences, providing high resolution graphics and accurate environmental conditions.

The Company has also remained astride with its VR device support, as it has for more than twenty years. VR and AR remain a Company focus and further R&D investment on these efforts will positively impact the Company's growth potential and are central to remaining a viable technology option.

Significant contracts

New contracts

In February 2018 SimiGon was awarded with additional onsite support services for the sixteen T-6A Level 5 FTDs with the USAF. Under the Contract's period of performance of 28 months, SimiGon will provide warranty support for the additional six simulators delivered as part of the task order with Booz Allen in 2016, and further onsite hardware and software support for all of the SIMbox-based simulators, including the ten simulators delivered to the USAF between 2011-2012 and then upgraded on 2016. The Contract represents another milestone for SimiGon as it establishes a full CLS capability for the T-6A training devices. The simulators are used to provide thousands of training events annually for the USAF's URT program and it further demonstrates the market's recognition that SimiGon is capable of delivering support for the complete ecosystem, including software, hardware and onsite support.

In February 2018 the Company signed a contract with the US FAA to deliver the Company's SIMbox simulation software, SIMbox simulation development tools, and engineering services for the FAA's AURS. This was a follow-on order from the original contract announced in September 2017 and is worth approximately $120,000 and has been factored into management's expectations for fiscal year 2018. The AURS supports human factors research and safety research within the FAA's Aerospace Human Factors Research Division. SIMbox delivers the user interface for the operators in an aircraft simulation environment as well as a central repository for all components with the embedded configuration management capability.

In May 2018 SimiGon was contracted to provide VR simulation based training for USAF De-icing technicians. As part of the Contract, SimiGon will deliver its SIMbox-based VR aircraft de-icing training product. By incorporating fully immersive VR with SimiGon's de-icing simulation product, USAF technicians will receive simulation based training that includes scoring, Playback/After Action Review, feedback reports, as well as a multi-player training capability.

Aircraft de-icing is a high skills task requiring annual training of military and commercial personnel working in cold weather aviation. Ice adds significant weight to aircraft and having "clean aircraft" is critical to safe travel. SimiGon understands the importance for operators to undergo adequate training to ensure proper operations, as mistakes can result in significant aircraft damage and flight cancellations. The Directors estimates the De-Icing market to include more than 100,000 trainees per year in the civilian market. SimiGon's technology and business model is well suited for rapid product rollout to meet expected market demand and the Company is looking forward to successfully leveraging its aircraft de-icing training product for substantial business growth.

In September 2018, SimiGon was awarded with $1.1 million contract from the IAF to provide SIMbox-based T-6A Simulation Based Trainers to the IAF Flight Academy (the "Contract"). The Contract for the new trainers is a progression of SIMbox Ground Based Training Systems ("GBTS") for other platforms in the IAF inventory, including the M-346 Advanced Jet Trainer ("AJT"). This Contract solidifies SIMbox as the IAF's major training technology platform for its aircrew and maintainer academies.

The Contract includes the procurement of SIMbox-based T-6A training devices in a fully immersive, VR environment. Up to 4 systems will be delivered in the first phase, enabling students to train through personal stations on most of the aspects of their syllabus. The stations will include high resolution Common Database terrain and VR headsets to support advanced training of Aerobatic, Formation, Navigation and Circuit procedures, together with standard procedural and emergencies training. In the second phase, a Virtual Instructor and a self-paced syllabus using high fidelity 3D simulation will be delivered, providing accelerated, cost-effective training to the IAF cadets.

In December 2018, SimiGon further expanded its long-term relationship with a major existing European customer (the "Customer"). The contract award is for SimiGon to provide its SIMbox Commercial Off the Shelf training and simulation development platform and delivery environment for its new research & development lab at the Customer's facility (the "Contract"). The Customer will use SIMbox technology as the technology baseline for its ATC. Under the Contract, valued at $0.92 million, SimiGon has successfully increased the use of SIMbox in the additional programs across the Customer's organization. The expected revenue from this Contract was already factored into management's expectations for the years ended 31 December 2018 and 2019. SIMbox-based training solutions will be used to design, develop and implement advanced training for flight crew and maintenance staff, for basic, advanced and recurrent training. The SIMbox Training Management System will allow the ATC to deploy the content and monitor user performance. The embedded virtual instructor capability will ensure dynamic, highly interactive, personalized, cost-effective training solutions that reduce the cost of real flights, flight instructor hours and help prevent aviation mishaps.

SimiGon continued its successful delivery milestones for a $2 million contract announced in June 2016 to provide F-16 maintenance simulation based training systems to the IAF's technician school in Haifa, Israel. This contract, in the maintenance training domain, is a new, lucrative vertical for SimiGon and will provide us with the experience and credentials to leverage for similar new business opportunities in other regions and other sectors.

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

Ongoing USAF contracts for the continued maintenance and support for SIMbox-based T-6A FTD demonstrates the long term relationship with this strategic customer. Check-6 Inc., one of the leading providers of training solutions to the energy and mining industries, is another example of SimiGon's ability to help companies achieve new growth. Throughout this contract, SimiGon has successfully executed on its agreed deliverables. This relationship continues to yield long term business prospects. The Company is optimistic that additional agreements will be executed to extend this relationship. The Company continues to support a major existing European customer the Company has been supplying with software and services since 2009. The customer is operating SimiGon training solutions in four different training centers daily and has very positive customer reviews. SimiGon is certain that this relationship will continue and lead to additional future orders.

Share buy-back programme

On 1 December 2017 the Company put in place an irrevocable, non-discretionary programme for the repurchase of up to $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 $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, a total of 535,571 shares have been bought back.

Sharing Personal Messages From Corporate Leadership (Cont.)

Financial Performance

Revenue for the year ended 31 December 2018 was $5.03 million, compared to $4.34 million in 2017.

29% of SimiGon's revenues came from North America (2017: 40%), 69% from Europe, Middle East, South America and Australia (2017: 42%) and 2% from the Far East (2017: 18%).

Gross profit for the year ended 31 December 2018 was $4.06 million, as compared to $3.36 million for the year ended 31 December 2017. Accordingly, gross margins increase to 81% for the year ended 31 December 2018 as compared to 78% for the year ended 31 December 2017.

Total operating expenses for the year ended 31 December 2018 increased by 12% to $4.82 million as compared to $4.32 million for the year ended 31 December 2017, mainly as a result of increase in R&D expenses and doubtful debt provision in a total amount of $0.45 million recorded in year 2018. Research and development expenses for year ended 31 December 2018 increased by 12% to $2.34 million as compared to $2.09 million for the year ended 31 December 2017 mainly due to salary expenses. Marketing expenses for the year ended 31 December 2018 decreased by 13% to $1.02 million as compared to $1.17 million for the year ended 31 December 2017 mainly due to sales commissions and salary expenses. General and administration expenses for the year ended 31 December 2018 increased by 38% to $1.46 million as compared to $1.06 million the year ended 31 December 2017 mainly due to provision for doubtful debts recorded in year 2018 of $0.45 million.

Operating loss for the year ended 31 December 2018 was $0.76 million, as compared to $0.96 million for the year ended 31 December 2017. Operating loss excluding doubtful debt provision decreased by 68% to $0.31 million as compared to year 2017 ($0.96 million).

The Company has recorded non cash tax expense of $0.24 million for the year ended 31 December 2018 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, net loss for the fiscal year of $1.01 million (2017: net loss of $0.95 million). The net loss excluding doubtful debt provision, decrease by 41% to $0.56 million as compared to year 2017 ($0.95 million).

Net basic and diluted loss per share was to $0.02 for the year ended 31 December 2018 as compared to net basic and diluted earnings per share of $0.02 for the year ended 31 December 2017.

As at 31 December 2018 the Company had liquid cash of $6.00 million as compared to $7.79 million as at 31 December 2017. Trade receivables net increased by 47% to $2.57 million compared to $1.75 million for the year ended 31 December 2017, mainly as a result of work completed as part of the IAF F16 Maintenance Trainer long-term program. A total of $0.64 million of the year end trade receivables balance has been collected since the year end.

Outlook

SimiGon's impressive past and ongoing performance of developing and delivering cost effective technologies and solutions for the simulation and training market remains solid and due to its latest developments is in fact trending higher. Combined with strong economic growth and the focus on ensuring sufficiently trained maintainers to support military and civilian shortages and essential investments in training applications for millennials and Generation Z, the Company looks forward to meeting the challenges and capturing the growth foreseen by shareholders. Among the Company's advantages is its ability to scale rapidly to support new contracts and deliver in its vision and business strategy. SimiGon's push to reach new verticals and customers is steadfast.

By increasing SaaS-based contracts for more recurring revenue and better long term visibility, together with intensive R&D investment and business development efforts on multiple market opportunities, the Company expects to quickly resume cash flow positive activities and profitability.

Amos Vizer
President & CEO

SHARING PERSONAL MESSAGES FROM CORPORATE LEADERSHIP (CONT.)

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

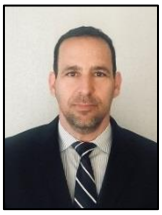
Mr. Manea joined the Company as its finance controller in June 2008, managing its financial aspects including financial reporting, corporation accounting and tax preparation, budget and forecasting and risk management. He has more than seven years of accounting and management experience and before joining 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.

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.

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.

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.

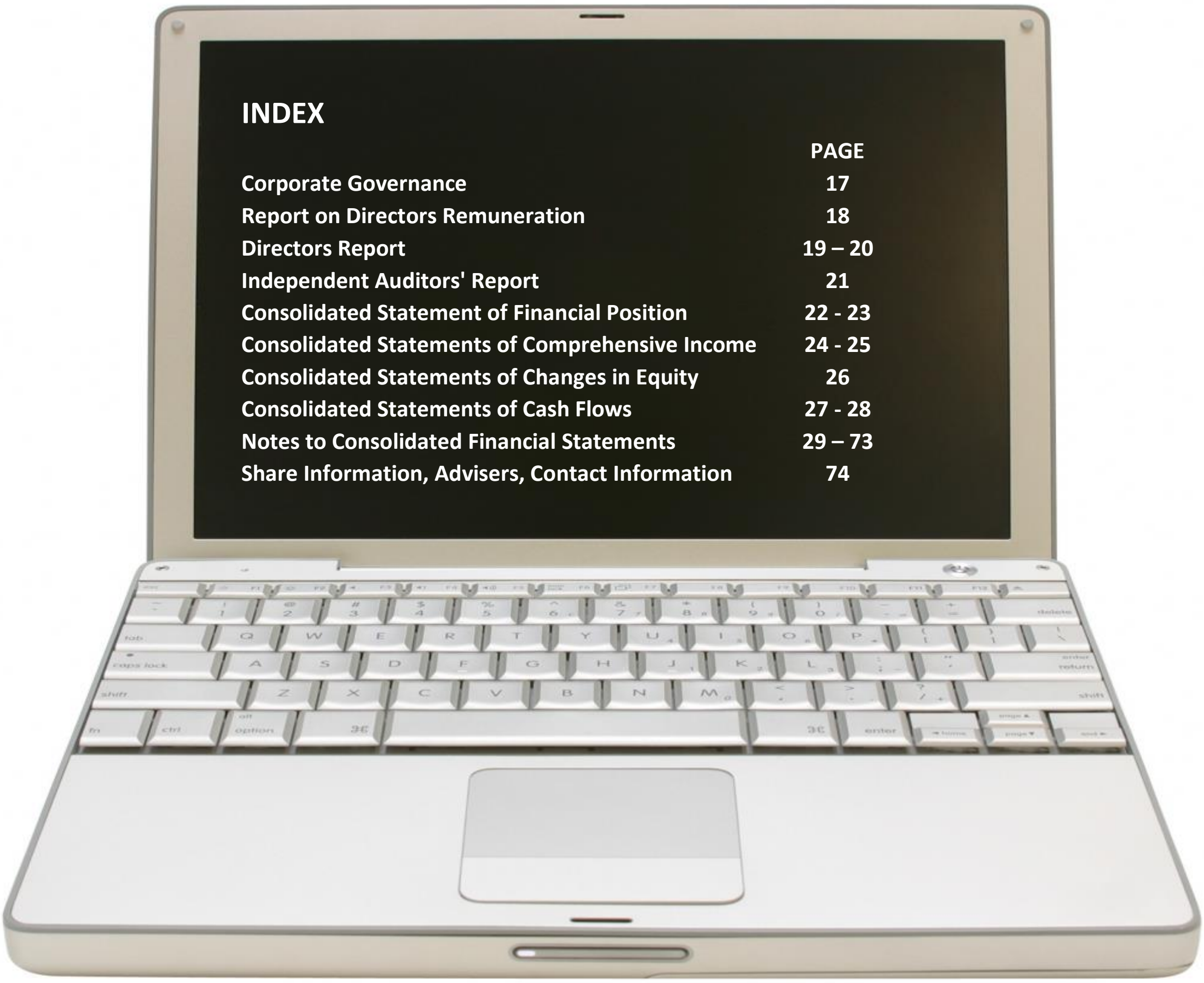
Koby Ben Yakar, VP Programs
Koby, has a distinguished record as an experienced manager with extensive technical skills and knowledge. Mr. Ben Yakar has led a wide range of projects with cross-functional teams, including serving as SimiGon's Information Technology team leader and overseeing the architecture, 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, 2018
(U.S. Dollars in Thousands)



CORPORATE GOVERNANCE FOR THE PERIOD ENDED 31 DECEMBER 2018

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 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 2018	**Total 2017**
Executive	**$**	**$**
Ami Vizer *	414,412	412,789
Efraim Manea **	148,455	148,651
Non-Executive		
Alistair Rae	47,350	45,827
Eitan Cohen	-	25,300
Omer C. Eyal ***	-	-
Mr. Ran Pappo	26,400	26,400
Deborah M. Bitman	26,400	26,400
Total	663,017	685,367

* Year 2018 does not include $39,165 paid in respect of vacation days, additional $28,721 paid in respect of severance allocation transfer and additional $39,165 paid in respect to health insurance.

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 2018 does not include the reimbursement of $49,200, paid in respect to Mr. Efraim Manea relocation costs for his work at the Company's subsidiary in USA.

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.

*** On a Board meeting held September 20, 2018, Mr. Omer Eyal informed the Board that he is respectfully declined any payment for his service to SimiGon as a director and that he has elected to make his membership under the Company's Board of Directors and Audit Committee as unpaid volunteer positions.

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 2018.

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, 2018 the total numbers of Ordinary Shares Issued were 50,858,618 (net of 535,571 Ordinary shares held in treasury).

Share Options

As of 31 December 2018, the outstanding balance of options granted to certain employees of SimiGon is approximately 1.5 percent of the Company’s issued and outstanding shares (net of treasury shares) at an average exercise price of $0.247. 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. 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 2018 were as follows.

Directors	Number of Ordinary Shares Capital	Percentage of Ordinary Shares *	Shares to be issued
Alistair Rae	227,249	0.45	-
Ami Vizer	11,365,489	22.34	125,338 **)
Efraim Manea	284,346	0.56	32,564 **)

*) Calculated based on a total amount of 50,858,618 Ordinary Shares (net of 535,571 Ordinary shares held in treasury).

**) 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 2018 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	22.35%
Jeffrey Braun	6,543,039	12.87%
Herald Investment Management Ltd.	5,050,000	9.93%
Axxion S.A.	3,500,000	6.88%
Green Venture Capital Ltd.	3,067,848	6.03%
G.Poran Holding Ltd.	2,273,444	4.47%
Shroder- euroclear nominees limited	1,711,070	3.36%
Paul Hill and Immediate family	1,595,500	3.14%

*) Calculated based on a total amount of 50,858,618 Ordinary Shares (net of 535,571 Ordinary shares held in treasury).

Auditors

Kost Forer Gabbay & Kasierer
(A member of Ernst & Young Global)
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Tel Aviv Israel 67067

Kost Forer Gabbay & Kasierer
144 Menachem Begin St.
Tel-Aviv 6492102, Israel

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ey.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

SIMIGON LTD.

We have audited the accompanying consolidated financial statements of SimiGon Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2018, 2017 and 2016, 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, 2018 and 2017, and the results of its operations and its cash flows for the each of the years ended December 31, 2018, 2017 and 2016, in accordance with International Financial Reporting Standards as adopted by the European Union.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
April 26, 2019

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2018	December 31, 2017
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		3,143	4,868
Short-term bank deposit		1,014	1,010
Short-term investments	3	1,845	1,912
Short-term restricted cash	5	278	337
Trade receivables, net	4	2,571	1,748
Other accounts receivable and prepaid expenses		93	149
Total current assets		8,944	10,024
NON-CURRENT ASSETS:			
Restricted cash	5	559	337
Long-term prepaid expenses		32	34
Deferred tax	12	-	226
Property, plant and equipment	6	66	94
Goodwill and intangible asset	7	1,068	1,068
Total non-current assets		1,725	1,759
Total assets		10,669	11,783

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2018	December 31, 2017
		U.S. dollars in thousands	
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Trade payables		159	133
Deferred revenues		327	401
Other accounts payable and accrued expenses	8	691	675
Total current liabilities		1,177	1,209
NON-CURRENT LIABILITIES:			
Employee benefit liabilities	9	287	289
Other non-current liabilities	13a	712	704
Total non-current liabilities		999	993
Total liabilities		2,176	2,202
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	10		
Share capital		125	125
Additional paid-in capital		16,647	16,639
Treasury shares		(105)	-
Accumulated deficit		(8,174)	(7,177)
Total equity attributable to equity holders of the Company		8,493	9,587
Non-controlling interests		-	(6)
Total equity		8,493	9,581
Total liabilities and equity		10,669	11,783

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

April 26, 2019			
Date of approval of the financial statements	Alistair Rae Non-Executive Chairman of the Board of Directors	Ami Vizer Chief Executive Officer and Director	Efraim Manea Chief Financial Officer and Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2018	2017	2016
		U.S. dollars in thousands (except share and per share amounts)		
Revenues	15	5,029	4,335	6,018
Cost of revenues	14a	973	975	1,882
Gross profit		4,056	3,360	4,136
Operating expenses:				
Research and development	14b	2,335	2,092	1,714
Selling and marketing	14c	1,019	1,170	1,092
General and administrative	14d	1,462	1,056	1,107
Total operating expenses		4,816	4,318	3,913
Operating profit (loss)		(760)	(958)	223
Finance income	14e	134	126	172
Finance expenses	14f	157	125	103
Income (loss) before income taxes		(783)	(957)	292
Income tax benefit (expense)	12	(224)	3	69
Net income (loss)		(1,007)	(954)	361

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	2018	2017	2016
		Year ended December 31,		
		U.S. dollars in thousands (except share and per share amounts)		
Net income (loss)		(1,007)	(954)	361
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Remeasurement gain (loss) from defined benefit plan		16	(11)	(2)
Total comprehensive income (loss)		(991)	(965)	359
Net income (loss) attributable to:				
Equity holders of the Company		(1,013)	(952)	365
Non-controlling interests		6	(2)	(4)
		(1,007)	(954)	361
Total comprehensive income (loss) attributable to:				
Equity holders of the Company		(997)	(963)	363
Non-controlling interests		6	(2)	(4)
		(991)	(965)	359
Net basic and diluted earnings (loss) per share attributable to equity holders of the Company in U.S. dollars		(0.02)	(0.02)	0.01
Weighted average number of shares used in computing basic earnings per share (in thousands)	16	51,259	51,444	51,097
Weighted average number of shares used in computing diluted earnings per share (in thousands)	16	51,259	51,444	51,319

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**	**Treasury shares**	**Accumulated deficit**	**Total**	**Non-controlling interests**	**Total equity**
		U .S. dollars in thousands (except share amounts)						
Balance as of January 1, 2016	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, 2017	51,394,189	125	16,629	-	(6,144)	10,610	(4)	10,606
Total comprehensive 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
Total comprehensive loss	-	-	-	-	(997)	(997)	6	(991)
Purchase of Treasury shares **(see** Note 10 (f)	(535,571)	-	-	(105)	-	(105)	-	(105)
Share-based compensation	-	-	8	-	-	8	-	8
Balance as of December 31, 2018	50,858,618	125	16,647	(105)	(8,174)	8,493	-	8,493

*) 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,		
	2018	2017	2016
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income (loss)	(1,007)	(954)	361
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	46	55	87
Deferred tax	226	(3)	(64)
Finance expenses (income), net	64	(36)	(71)
Share-based compensation	8	10	65
Change in employee benefit liabilities, net	15	57	28
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(823)	1,171	796
Decrease (increase) in other accounts receivable and prepaid expenses (including long-term)	59	(105)	18
Increase (decrease) in trade payables	26	35	(25)
Increase (decrease) in deferred revenues	(74)	(195)	22
Increase (decrease) in other accounts payable and accrued expenses	-	5	(167)
	(453)	994	689
Net cash provided by (used in) operating activities	(1,460)	40	1,050

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2018	2017	2016
	U.S. dollars in thousands		
Cash flows from investing activities:			
Increase in restricted cash	(164)	(300)	-
Increase in short-term bank deposits	-	-	(1,001)
Increase in long-term deposits	(2)	-	(26)
Purchase of property, plant and equipment	(16)	(34)	(66)
Net cash used in investing activities	(182)	(334)	(1,093)
Cash flows from financing activities:			
Proceeds from share issuance	-	-	*) -
Dividend distribution	-	(70)	(306)
Purchase of treasury shares	(105)	-	-
Receipt of refundable grants	22	11	25
Net cash used in financing activities	(83)	(59)	(281)
Decrease in cash and cash equivalents	(1,725)	(353)	(324)
Cash and cash equivalents at beginning of year	4,868	5,221	5,545
Cash and cash equivalents at end of year	3,143	4,868	5,221
(a) Supplemental disclosure of non-cash financing activities:			
Receivable in respect of issuance of shares	-	-	1
Issuance of shares in respect of 2014 annual bonus to directors and employees	-	-	38

*) 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 (accounting policy applied until December 31, 2017):

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:

As described in Note 2(x)(2) regarding the initial adoption of IFRS 9, "Financial Instruments" ("the Standard"), the Company elected to adopt the provisions of the Standard retrospectively without restatement of comparative data.

The accounting policy for financial instruments applied until December 31, 2017, is as follows:

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value.

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.

The accounting policy for financial instruments applied commencing from January 1, 2018, is as follows:

1. Financial assets:

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:

- The Company's business model for managing financial assets; and

- The contractual cash flow terms of the financial asset.

a) Debt instruments are measured at amortized cost when:

The Company's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

b) Equity instruments and other financial assets held for trading:

Investments in equity instruments do not meet the above criteria and accordingly are measured at fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Other financial assets held for trading such as derivatives, including embedded derivatives separated from the host contract, are measured at fair value through profit or loss unless they are designated as effective hedging instruments.

In respect of certain equity instruments that are not held for trading, on the date of initial recognition, the Company made an irrevocable election to present subsequent changes in fair value in other comprehensive income which changes would have otherwise been recorded in profit or loss. These changes will not be reclassified to profit or loss in the future, even when the investment is disposed of.

Dividends from investments in equity instruments are recognized in profit or loss when the right to receive the dividends is established.

2. Impairment of financial assets:

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss.
The Company has short-term financial assets such as trade receivables in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses. An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset.

3. Financial liabilities:

Financial liabilities measured at amortized cost:

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method.

4. Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The useful life of the Technology is 10 years.

l. Research and development:

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

m. Impairment of non-financial assets:

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

The following criteria are applied in assessing impairment of 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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 IFRS 9, "Financial Instruments". 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 rate and recorded in profit or loss in accordance with the provisions of IFRS 9.

Royalty payments are treated as a reduction of the liability.

o. Revenue recognition:

As described in Note 2x regarding the initial adoption of IFRS 15, "Revenue from Contracts with Customers" ("the Standard"), the Company elected to adopt the provisions of the Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data.

The accounting policy for revenue recognition applied until December 31, 2017, is as follows:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. When the Company acts as an agent and is not exposed to the risks and rewards associated with the transaction, revenues are presented on a net basis. Revenues are measured at the fair value of the consideration less any trade discounts, volume rebates and returns.

Following are the specific revenue recognition criteria which must be met before revenue

Revenues from software arrangements:

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 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 stage of completion cannot be determined reliably, revenues are recognized on a straight-line basis over the agreement period.

Software arrangements generally contain multiple sale 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.

Revenue from software licensing arrangements:

The Company recognizes revenue from software licensing transactions at a point in time when the Company provides the customer a right to use the Company's intellectual property as it exists at the point in time at which the license is granted to the customer. The Company recognizes revenue from software licensing transactions over time when the Company provides the customer a right to access the Company's intellectual property throughout the license period.

Revenues from software arrangements:

The accounting policy for revenue recognition applied commencing from January 1, 2018, is as follows: The accounting policy for revenue recognition applied commencing from January 1, 2018, is as follows:

Revenue recognition:

Revenue from contracts with customers is recognized when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In determining the amount of revenue from contracts with customers, the Company evaluates whether it is a principal or an agent in the arrangement. The Company is a principal when the Company controls the promised goods or services before transferring them to the customer. In these circumstances, the Company recognizes revenue for the gross amount of the consideration. When the Company is an agent, it recognizes revenue for the net amount of the consideration, after deducting the amount due to the principal.

Revenue from rendering of services:

Revenue from rendering of services is recognized over time, during the period the customer simultaneously receives and consumes the benefits

provided by the Company's performance. Revenue is recognized in the reporting periods in which the services are rendered. The Company charges its customers based on payment terms agreed upon in specific agreements. When payments are made before or after the service is performed, the Company recognizes the resulting contract asset or liability.

Revenue from customization contracts:

At contract inception, the Company identifies the customization work as a performance obligation. Since the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, the Company recognizes revenue over time.

The Company applies a cost-based input method for measuring the progress of performance obligations that are satisfied over time. The Company believes that the use of this input method, according to which revenue is recognized based on the inputs expended by the Company for fulfilling its performance obligations, best reflects the actual revenue earned. In applying this input method, the Company estimates the costs to complete contract performance in order to determine the amount of the revenue to be recognized. These estimated costs include the direct costs and the indirect costs that are directly attributable to a contract based on a reasonable allocation method. Moreover, in measuring the percentage of completion, the Company does not consider costs that do not contribute to the progress in satisfying performance obligations, such as (costs of uninstalled materials, etc.).

In certain circumstances, the Company is unable to measure the outcome of a contract, but the Company expects to recover the costs incurred in fulfilling the contract as of the reporting date. In such circumstances, the Company recognizes revenue to the extent of the costs incurred as of the reporting date until such time the outcome of the contract can be reasonably measured.

If a loss is anticipated from a contract, the loss is recognized in full regardless of the percentage of completion.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Contract balances:

The Company charges customers as the work progresses in accordance with the contractual terms. Amounts billed are classified as trade receivables in the statement of financial position. When revenues from performance of a contract are recognized in profit or loss before the customer is charged, these amounts are recorded as contract assets/income receivable.

Amounts received from customers in advance of performance by the Company are recorded as contract liabilities/deferred revenues from customers and recognized as revenue in profit or loss when the work is performed.

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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- 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. Changes in accounting policies - initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

1. Initial adoption of IFRS 15, "Revenue from Contracts with Customers":

The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("the new Standard") in May 2014. The new Standard 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 new Standard introduces a five-step model that applies 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 distinct performance obligations in the contract

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

Step 4: Allocate the transaction price to the distinct performance obligations on a relative stand-alone selling price basis using observable prices, if s available, or using estimates and assessments.

Step 5: Recognize revenue when a performance obligation is satisfied, either at a point in time or over time.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The new Standard has been applied for the first time in these financial statements. The Company elected to adopt the provisions of the new Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data. The Company recognizes any difference between the previous carrying amount and the carrying amount on the date of initial application of the new Standard as an adjustment to the opening balance of retained earnings (or another component of equity, as applicable).

The effect of the initial application of the new Standard on the Company's financial statements was immaterial.

2. Initial adoption of IFRS 9, "Financial Instruments":

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

The new Standard has been applied for the first time in these financial statements retrospectively without restatement of comparative data.

The effect of the initial adoption of the new Standard on the Company's financial statements was immaterial.

y. Disclosure of new standards in the period prior to their adoption <u>IFRS 16, "Leases"</u>

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- 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.

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.

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 does not expect any material impact on the financial staements.

NOTE 3:- SHORT-TERM INVESTMENTS

	December 31,	
	2018	**2017**
	U.S. dollars in thousands	
Financial assets classified as held for trading at fair value through profit or loss- Mutual Funds *)	1,845	1,912

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

NOTE 4: - TRADE RECEIVABLES

	December 31, 2018	December 31, 2017
	U.S. dollars in thousands	
Trade receivables (1)	2,571	1,748
(1) Net of allowance for doubtful debts	705	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					
Year 2018 (before allowance for bad debts)	2,289	-	16	27	681	3,013
Allowance for bad debts	-	-	-	-	442	442
Year 2018 (After allowance for bad debts)	2,289	-	16	27	239	2,571
2017(After allowance for bad debts)	1,060	-	25	110	553	1,748

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 was held through a deposit bearing annual interest of 0.05%. On October 30, 2018 the Performance Bond has come to an end and expired.

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 to secure deliveries and receiving payments from the customer. On June 2018 the Performance Bond has been canceled and was replaced with a Performance Bond issued in October 30, 2018 in a total amount of $ 521 thousand. The Performance Bond was held through a deposit bearing annual interest of 0.55% and its balance as of December 31, 2018 amounted to $ 521 thousand.

   On December 12, 2018 an additional Performance Bond was issued in a total amount of $ 22 thousand to secure deliveries and receiving payments from the customer. The Performance Bond was held through a deposit bearing annual interest of 0.56% and its balance as of December 31, 2018 amounted to $ 22 thousand.

NOTE 5:- RESTRICTED CASH (Cont.)

c. As part of the regulatory approval received for a $1.1 million contract with the Israeli Air Force, on September 20, 2018 the Company issued a Performance Bond deposit in a total amount of $ 256 thousand to secure deliveries and receiving payments from the customer. The Performance Bond was held through a deposit bearing annual interest of 0.48% and its balance as of December 31, 2018 amounted to $ 256 thousand.

d. 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.

e. As part of its premises lease agreement, the Company is obligated to secure a deposit in the amount of $ 23 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, 2017	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
Disposal during the year	(10)	-	-	(10)
Acquisitions during the year	13	3	-	16
Balance as of December 31, 2018	781	216	97	1,094
Accumulated depreciation:				
Balance as of January 1, 2017	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
Disposal during the year	(10)	-	-	(10)
Depreciation during the year	22	14	8	44
Balance as of December 31, 2018	757	195	76	1,028
Depreciated cost as of December 31, 2018	24	21	21	66
Depreciated cost as of December 31, 2017	33	32	29	94

NOTE 7:- GOODWILL AND INTANGIBLE ASSET

	Carrying amount as of December 31, 2018	2017
	U.S. dollars in thousands	
Goodwill *)	1,068	1,068
Technology **)	-	-
Total	1,068	1,068

*) 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 the date of the approval of the financial statements, 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 and 2016, the Company recorded amortization in the amount of $ 4 thousand and $ 50 thousand, respectively, which was recorded in cost of revenues.

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2018	2017
	U.S. dollars in thousands	
Employees and payroll accruals	422	417
Accrued expenses	269	258
	691	675

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.

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

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

	Year ended December 31,		
	2018	2017	2016
	U.S dollars in thousands		
Expenses in respect of defined contribution plans under Section 14 to the Severance Pay Law, 1963	126	145	128

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

	2018	2017	2016
Current service cost	56	53	47
Interest cost	10	9	8
Exchange rate	(22)	26	3
Total expense included in profit or loss	44	88	58

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

Composition:

	2018	2017	2016
Balance at January 1	289	222	192
Interest cost	10	9	8
Exchange rate	(23)	26	3
Current service cost	56	53	47
Benefits paid	(29)	(32)	(30)
Remeasurement loss (gain)	(16)	11	2
Balance at December 31	287	289	222

d. The actuarial assumptions used are as follows:

	2018	2017	2016
Discount rate	4.05%	3.59%	4.05%
Future salary increases	3.57%	3.63%	3.60%
Average expected remaining working years	7.42	7.47	7.85
Remeasurement gain (loss) in respect of defined benefit plan	17	(11)	(2)

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, 2018, 2017 and 2016	December 31, 2018	December 31, 2017	December 31, 2016
	Authorized	Issued and outstanding		
	Number of shares			
Ordinary shares of NIS 0.01 par value each	100,000,000	50,858,618 (*)	51,394,189	51,394,189

(*) Net of 535,571 Ordinary shares held in treasury

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, 2018, an aggregate of 2,463,829 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.

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.

NOTE 10:- EQUITY (Cont.)

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 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 2018, 2017 and 2016 is as follows:

	Year ended December 31,					
	2018		2017		2016	
	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	824,333	$ 0.265	907,833	$ 0.372	1,386,507	$ 0.416
Granted	-	-	170,000	$ 0.236	35,000	$ 0.241
Exercised	-	-	-	-	(301,035)	$ 0.003
Expired	(40,000)	$ 0.605	(40,000)	$ 1.716	(25,000)	$ 0.250
Forfeited	-	-	(213,500)	$ 0.428	(187,639)	$ 1.276
Outstanding at end of year	784,333	$ 0.247	824,333	$ 0.265	907,833	$ 0.372
Exercisable options	618,497	$ 0.250	523,607	$ 0.312	733,769	$ 0.307

The options outstanding as of December 31, 2018, have been separated into ranges of exercise price as follows:

Exercise price	Options outstanding as of December 31, 2018	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2018
$ 0.002 - $ 0.25	473,333	2.35	312,497
$ 0.335 - $ 1.2	351,000	2.75	306,000
	784,333		618,497

NOTE 10:- EQUITY (Cont.)

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.

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").

NOTE 10:- EQUITY (Cont.)

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:

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

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

3. 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;

4. 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 ;

5. 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

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

A summary of the Company's purchasing through finnCap Ltd (acting as the Company's broker) of its Ordinary Shares for 2018 is as follows:

Date	Number of Ordinary Shares Repurchased	Price per Ordinary Share of 0.01 NIS	Purchase amount (in thousand)	total number of Ordinary Shares outstanding after the Repurchase
March 2, 2018	225,000	$ 0.212	47	51,169,189
June 6, 2018	30,000	$ 0.229	6	51,139,189
August 17, 2018	100,000	$ 0.203	18	51,039,189
September 7, 2018	117,000	$ 0.212	21	50,922,189
October 10, 2018	63,571	$ 0.212	13	50,858,618
	535,571		105	

The Repurchased shares, along with any other Ordinary Shares purchased by the Company pursuant to the Programme, will be held in treasury.

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, 2018, 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. The Joint Venture never commenced operations and on March 7, 2019, a request of dissolution of the Joint Venture has been submitted.

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, 2018, 2017 and 2016, the Company had accumulated losses for Israeli tax purposes of approximately $ 2.6 million, $ 1.9 million and $ 0.6 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, 2018, 2017 and 2016, the federal tax loss carryforwards of the U.S. subsidiaries amounted to approximately $4.3 million, $ 5.1 million and $ 5.3 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, 2018, 2017 and 2016, the tax loss carryforwards of the Singaporean subsidiary amounted to approximately $87 thousand, $ 81 thousand and $ 61 thousand, respectively, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

As of December 31, 2018, 2017 and 2016, the tax loss carryforward of the Colombian subsidiary amounted to approximately $ 35 thousand, $38 thousand and $ 32 thousand, respectively, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

As of December 31, 2018, no deferred tax assets have been recorded in respect of carryforward operating losses in due the uncertainty as to their realization.

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 23% in 2018.

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.

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 2018, 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 expense recorded in profit or loss is the derecognition of prior years' deferred tax benefits due to the uncertainty as to their realization. In 2017, the main reconciling item is carryforward tax losses for which no deferred taxes were provided. In 2016, 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.

   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, 2018, the Company received a total amount of $ 254 thousand.

   The Company shall make repayments to KORIL, based on gross sales derived from the gross invoiced sales value of the products, processes, inventions, technology, discoveries, improvements, modifications, methods, software, specifications, or any form of technical information developed or arising from the proposal (gross sales). Such payments shall be repaid in U.S. dollars at the rate of 2.5% of the first year's gross sales until 100% of the conditional grant and other sums have been repaid.

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

The total non-current liability for the years ended December 31, 2018 and 2017 was $ 192 thousand and $ 189 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, 2018, 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, 2018 and 2017 was $ 413 thousand and $ 421 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, 2018 and 2017 was $ 66 thousand and $ 67 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, 2018, the Company received a total amount of $ 57 thousand.

   The total non-current liability for the year ended December 31, 2018 and 2017 was $ 41 thousand and $ 27 thousand, respectively.

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 July 2021.
   On January 2019 Company has leased additional motor vehicles under cancelable operating lease agreements of which the latest expire in January 2022.

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
2019	251
2020	216
2021	17
	483

The total expense for the years ended December 31, 2018, 2017 and 2016 was $257 thousand, $ 281 thousand and $ 273 thousand, respectively.

5. OCS liabilities

	OCS Liability U.S. dollars in thousands	
Balance as of December 31, 2017	704	732
Grants received in 2018	22	11
Income Receivables	(2)	-
Time value	(12)	(39)
Balance as of December 31, 2018	691	704

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

		Year ended December 31,		
		2018	**2017**	**2016**
		U.S. dollars in thousands		
a.	Cost of revenues:			
	Salaries and related benefits	581	689	857
	Lease and office maintenance	74	101	148
	Travel expenses	111	69	149
	Depreciation and amortization	12	22	67
	Share-based compensation	1	1	7
	Subcontractors	194	94	654
		973	975	1,882
b.	Research and development expenses:			
	Salaries and related benefits	2,092	1,892	1,567
	Lease and office maintenance	246	219	181
	Depreciation and amortization	21	22	11
	Share-based compensation	4	2	6
	Government grants	(28)	(43)	(51)
		2,335	2,092	1,714
c.	Selling and marketing expenses:			
	Salaries and related benefits	852	948	905
	Lease and office maintenance	47	50	49
	Advertising and sales promotion	45	38	40
	Travel expenses	66	61	66
	Depreciation and amortization	7	7	5
	Share-based compensation	2	2	23
	Commission	-	64	4
		1,019	1,170	1,092
d.	General and administrative expenses:			
	Salaries and related benefits	666	626	596
	Lease and office maintenance	33	28	56
	Travel expenses	13	34	19
	Professional fees and public company expenses	284	356	301
	Depreciation and amortization	5	4	4
	Share-based compensation	-	-	29
	Doubtful debt provision	446	-	80
	Other	15	8	22
		1,462	1,056	1,107

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

	Year ended December 31,		
	2018	2017	2016
	U.S. dollars in thousands		
e. Finance income:			
Exchange rate differences	128	56	53
Interest income from banks and short term investments	6	70	119
	134	126	172
f. Finance cost:			
Exchange rate differences	108	104	65
Government grants interest	32	13	36
Bank loans and fees	17	8	2
	157	125	103

NOTE 15:- REVENUES

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

a. Revenues:

	Year ended December 31,		
	2018	2017	2016
	U.S. dollars in thousands		
Software licenses	2,975	2,473	3,354
Customization	1,300	1,000	1,900
Recurring Maintenance & Support	656	862	728
Training	98	-	36
	5,029	4,335	6,018

NOTE 15:- REVENUES (Cont.)

b. Geographical information:

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

	Year ended December 31,		
	2018	**2017**	**2016**
	U.S. dollars in thousands		
North America	1,451	1,750	2,654
Asia Pacific	106	797	2,244
Rest of the world (1)	3,472	1,788	1,120
	5,029	4,335	6,018

(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,		
	2018	**2017**	**2016**
	U.S. dollars in thousands		
Asia Pacific and rest of the world	24	26	29
North America	1,110	1,136	1,154
	1,134	1,162	1,183

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,		
	2018	**2017**	**2016**
Customer A	23%	45%	32%
Customer B	13%	7%	6%
Customer C	18%	4%	9%
Customer D	-	16%	23%
Customer E	33%	10%	-
Customer F	1%	3%	14%

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,		
	2018	2017	2016
	U.S. dollars in thousands		
Net income (loss) for the year	(1,007)	(954)	361
Share data (in thousands):			
Weighted average number of Ordinary shares for computing basic earnings (loss) per share	*) 51,259	*) 51,444	51,097
Effect of dilution:			
Share options	(**)	(**)	222
Weighted average number of Ordinary shares adjusted for the effect of dilution	51,259	51,444	51,319

*) Weighted average number of shares includes shares in respect of the Company's obligation to issue approximately 157,902 Ordinary shares to two officers of the Company in lieu of cash bonus – see Note 10a5.

Weighted average number of shares is net of 535,571 Ordinary shares of the Company held in treasury under the Repurchase Programme as described in Note 10f.

**) 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,		
	2018	2017	2016
	U.S. dollars in thousands		
a. Expenses to related party of a shareholder:			
Cost of revenues *)	42	37	38
Research and development *)	6	15	10
Selling and marketing *)	17	15	9
General and administration *)	12	8	5
	77	75	62
b. Balances to related party of a shareholder:			
Other accounts receivable and prepaid expenses *)	-	3	3
	-	3	3

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

*) 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,		
	2018	2017	2016
	U.S. dollars in thousands		
b. Compensation of key management personnel of the Company:			
Non- Executive directors benefits	100	124	126
Employee benefits *)	1,540	1,574	1,627
Share-based payments **)	2	3	1
	1,642	1,701	1,754

*) Includes long-term employee benefits in the amount of $67 thousand, of $67 thousand and $ 67 thousand for the years ended December 31, 2017 and 2016, respectively.

Year 2018 include bonus provision to EVP Biasness Development in the amount of $ 7 thousand.

Year 2018 and year 2017 include bonus provision to VP R&D in the amount of $7 and $ 3 thousand, respectively.

Year 2018 and year 2017 include bonus provision to VP Products in the amount of $ 1 thousand and $8 thousands, respectively.

**) 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).

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

c. Balances with Directors and Officers:

The Company's liability balances to directors and officers as of December 31, 2018, 2017 and 2016 amount to $308 thousand, $ 333 thousand and $ 366 thousand; respectively, out of which, a total of $ 180 thousand, $ 208 thousand and $ 181 thousand is related to severance, vacation and recovery liabilities for key employees as of December 31, 2018, 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 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.

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

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 is reimbursing Mr. Efraim Manea for his children's education expenses as part of his relocation together with his family to work at the Company's subsidiary in USA.

In the annual meeting held on December 7, 2018, the shareholders approved an additional monthly compensation of $ 4,100 commencing August 1, 2017, to Mr. Efraim Manea, the Company's Chief Financial Officer who also serves as a director of the Company, for his relocation costs as part of his work for the Company’s subsidiary in the 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.

On January 27, 2010, the Board of Directors approved an increase of 10% in his salary effective January 1, 2010.

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

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

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

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

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

Further to the approval of the Company's Board of Directors from November 24, 2015, on February 9, 2016 the Company's subsidiary signed an office lease agreement for a period of 60 months commencing March 15, 2016, 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. The total office lease costs in year 2018 amounted to $77 thousand.

On April 14, 2016, the Board of Directors approved the grant of a one-time cash bonus to Mr. Ami Vizer, a director of the Company and its CEO with respect to fiscal year 2016 in accordance to the Company's Compensation Policy Plan mentioned above. The granted bonus is in the amount of up to $ 125 thousand, subject to revenues, net profit and share price criteria and milestones.

On April 6, 2017 the Company's board of directors approved that the bonus was to be granted in Ordinary Shares of the Company calculated based on the closing price on the day of announcement of the Company's financial results for 2016 instead of being payable in cash. The grant of bonus in Ordinary Shares of the Company will also be subject to the approval of the Company's shareholders. 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 2018 amounted to an annual salary of $ 358 thousand, annual social benefits of $ 45 thousand (12.5% 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 $ 38 thousand.

NOTE 18:- DIVIDEND DISTRIBUTION

a. 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).

b. 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.

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, 2018, 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.

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

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, 2018, cash and cash equivalents together with the Company's short-term bank deposits and short-term investments amounted to $ 6,002 thousand.

c. Liquidity risk:

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

December 31, 2018:

	Less than one year	Between 2 to 4 years	More than 4 years	Total
	U.S. dollars in thousands			
Government grants	27	155	560	742
Trade payables	159	-	-	159
Other accounts payable and accrued expenses	661	-	-	661
	847	155	560	1,562

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	548	726
Trade payables	133	-	-	133
Other accounts payable and accrued expenses	654	-	-	654
	809	156	548	1,513

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SHARE INFORMATION

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

ADVISERS

Nominated Adviser and Broker

finnCap
60 New Broad St
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Counsel of the Company

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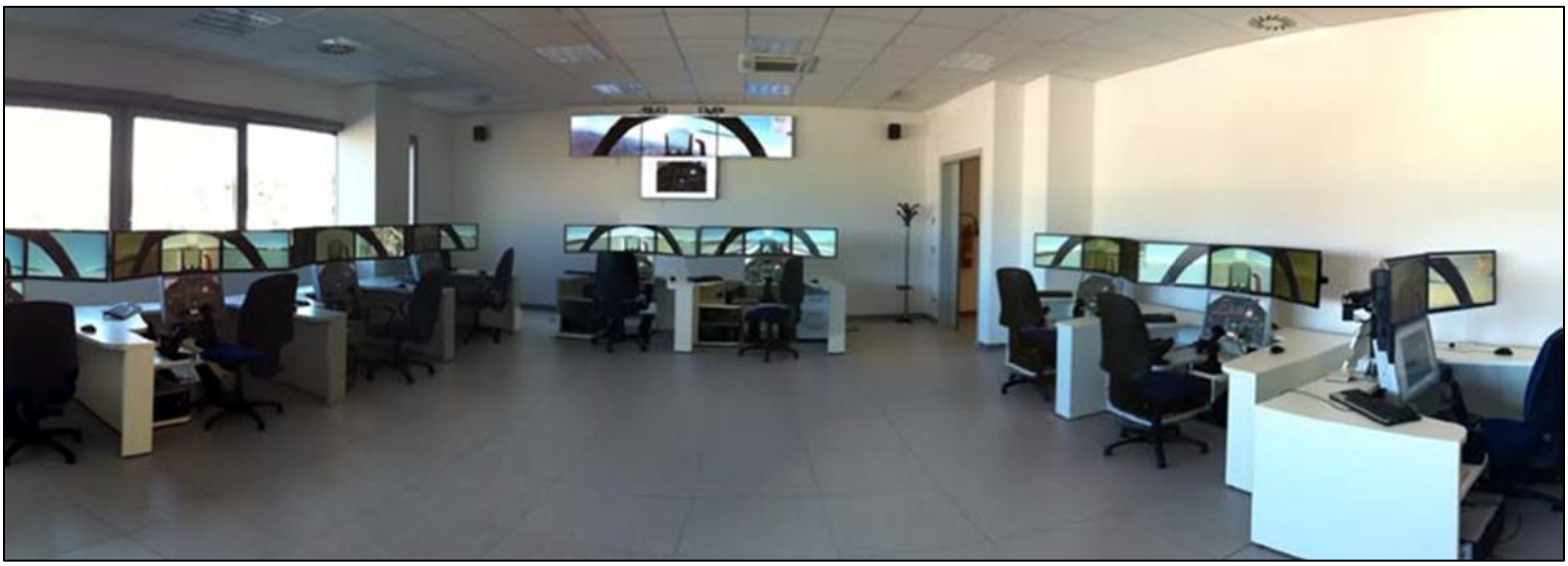

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