Annual Report & Financial Statements
For the Year Ended 31 December 2017

Ethernity Networks is a technology solutions provider that developed and delivered data processing technology used in high-end Carrier Ethernet applications across the telecom, mobile, security and data center markets. The company is currently working to accelerate commercialisation through the launch of its Smart NIC combined with virtualised software solutions, based on its validated data processing technology The Company's core technology, which is populated on programmable logic, enables delivering data offload functionality at the pace of software development, improves performance and reduces power consumption and latency, therefore facilitating the deployment of virtualization of networking functionality.

The Company is headquartered in Israel.

Contents

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

Statutory and Other Information

Directors	Graham Woolfman	*Independent Non-Executive Chairman*
	David Levi	*Chief Executive Officer*
	Mark Reichenberg	*Chief Financial Officer*
	Shavit Baruch	*VP Research & Development*
	Neil Rafferty	*Independent Non-Executive Director*
	Chen Saft-Feiglin	*Independent Non-Executive Director*
	Zohar Yinon	*Independent Non-Executive Director*
Secretary	Mark Reichenberg	
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Chairman's Statement

I am presenting our first annual report and accounts following Admission to AIM in June 2017. Over the past 15 years Ethernity has developed network processing technology and established itself as a recognised provider of innovative network processing technology to meet Telecom Equipment Manufactures demand in various markets.

The management's focus for the period since Admission to date has been on creating and developing the S&M and R&D infrastructure to support Ethernity's move from being a technology and Intellectual Property (IP) provider to become provider of a complete networking and SmartNIC solution that includes software infrastructure that can be ported on different servers and hardware platforms, targeting main stream tier 1 Original Equipment Manufacturers (OEM's) and Operator markets.

Although the Company successfully achieved its Admission at the mid-point in the year, the financial performance for 2017 did not meet expectations in relation to achieved revenue and operating profit for the whole year and therefore was disappointing, particularly as an established OEM customer stopped ordering unexpectedly due to the loss of their customer.

Revenues for 2017 were $1.52m (2016 $2.16m) with gross margins and operating profits of $1.30m (2016 $1.15m) and $152k (2016 $339k) respectively. The Company commenced a managed investment programme in the second half of the year utilising the proceeds from the funds raised upon Admission, investing approximately $1.95m (2016 $1.03m) in R&D and related expenditure, and by the year end recruiting an additional 23 personnel in engineering, and sales and marketing.

At the year end the Company`s cash balance available for working capital and investment for growth was $14.9m (2016 $394,241).

The nature of the Company's contracts with customers are such that crystallisation of revenues cannot be confirmed until a significant period following the year end, and this has led to a delay in publication of the Annual Report and Accounts.

Since the year end, Ethernity has continued with its investment programme focussed on product and service areas in support of customer relationships, developing sales and market opportunities, and building the Company infrastructure to support enhancement within the value chain it provides.

The funds raised from the share placing at Admission was transformational for the business in terms of providing the finance and resources to support the Company in building the infrastructure to meet its medium to long term growth plans.

The Board is conscious of the uncertainties over the shorter term time horizon in the securing of cornerstone customer orders, and the challenge this represents for the executive management in predicting when substantive revenues and related profits will be earned, including for the current financial year in particular. However, the Board is confident that market demand for the Company`s solutions continue to be well received and will translate to significant revenues in the years ahead.

The Company would not be able to achieve its success without the considerable efforts of our management and staff and I thank them for their hard work and commitment both in the last year and in the period leading to the admission to AIM.

Outlook

It is apparent that while 2018 will be a year of challenges to steadily develop customer partnerships and relationships, whilst delivering the required solutions based on the established network processing technology developed by the Company, this will lay the groundwork for the Company to achieve its goals for 2019 onward. The Company has adequate financial resources to meet this objective and the Board is confident of building value over the longer term for shareholders.

Graham Woolfman
Chairman

19 June 2018

Chief Executive's Statement

I am pleased to report that in the period since the Company's Admission to AIM in June 2017 we have expanded and developed our team with a focus on supporting the transition from being a provider of Intellectual Property (IP) to a product and services Solutions Provider.

We commenced discussions with a number of the major telecoms operators and Original Equipment Manufacturers (OEM's) in the latter half of 2017, which are ongoing, regarding our solutions and we continue to receive confirmation of their interest to utilise our products and solutions in their networks. In recent months, their feedback has been that the Company's offerings are unmatched by competitors in the market place, based on the market shift to the use of 'cloud infrastructure' at the network edge. Many of these discussions have advanced significantly having passed proof of concept and evaluation at the prospective partner level, including software companies, OEM's and server "White Box" manufactures and we strongly believe that these will lead to future long term engagements.

At the time of Admission, we set out the following objectives to be achieved over the short to medium term:

- Invest in extended Research & Development capabilities and Sales & Marketing activities to drive accelerated growth, with a focus on up-selling products as a complete solution into OEMs and Communication Service Providers and markets; This has involved increasing the Company's profile by greater participation at trade exhibitions, by becoming an active member of major open source industry initiatives and by increasing its customer support for Smart NIC (ACENIC).
- Develop security and offload engines in the cyber and other security environs; This involves developing programmable crypto engine software for IP SEC, MAC SEC and SSL offload environments. It will further involve the development of software in the abstraction layer between ENET networking engines and open software environments to allow accelerated network functions. As part of this plan, Ethernity already integrated crypto engine into its already rich, advanced Carrier Ethernet data path and utilised the ENET network processing engine for delivery of a complete IPSec solution.
- Secure and continue to monetarise the Company's core technology by continuing to develop IP and securing further patents to protect any future developments by our competitors. It is likely that future developed IP will include the development of next generation, higher data throughput solutions to support up to 200Gbps network processing capacity based on current technology and solutions.
- Work with strategic partners, including software companies and OEMs, to broaden the product or market opportunities available to the Company.

As referred to at the time of Admission, the shift in the market place for FPGA use in cloud appliances, driven by the key tech companies, is a sea change in the market opportunity and positioning of the Company.

However, the Company is dependent on the timing as to when operators implement their plans for deployment of cloud infrastructure for edge computing. We remain confident that even though such delays exist we will complete formal arrangements with prospective customers during and before the end of 2018 and that the long term goals of the Company will still be met.

During 2017 and since the year end the Company has substantially developed its R&D capabilities along with its local and international Sales and Marketing teams and has secured the services of a number of highly experienced staff. I am confident that our expanded team, which we continue to build, can achieve positive results in transactions and revenue.

The Company has undertaken a comprehensive marketing strategy now that most of the key sales resources are in place. This was further underscored by our success at the Mobile World Congress 2018, held in Barcelona earlier this year. The outcome of this has been the start of several significant strategic relationships with software partners to combine solutions as well as discussions with OEMs and Server companies around their need for our solutions.

Current Trading

Revenue in the year to date has continued to follow the trends of 2017 as the customer partnerships and relationships are developed and the NFV/SDN market delays are resulting in it taking longer than originally anticipated to adopt our accelerating solution based on our FPGA based SmartNIC.

The year has started with the bedding down in the first quarter of the infrastructures as detailed as part of our IPO plans. To the extent that the Company raised funds at a level higher than anticipated, this allowed us to expand our sales and marketing operation by participating in more events, along with the recruitment of key sales executives to support the anticipated Company growth.

While the building of the infrastructure that was undertaken will have a direct effect on our profitability for the 2018 financial year, this is in support of managements philosophy to build the Company in 2018 so as to achieve the future growth in line with the anticipated market growth from 2019 onwards.

We believe that investment in sales and marketing over the past nine months, together with investment in our R&D capacity to meet expected customer and market technology demands, leave us well placed to support future growth and, while being mindful of the risks posed by the prevailing dynamics and current delays in the macro market environment, we have a high level of confidence that we are the best positioned company in the market to deliver the future market requirements and demands.

The Company is in discussions with three potential Tier 1 OEMs at different stages of engagement for accelerating Virtual Broadband Gateway application, with a production plan for 2019, and mass deployment in 2020, together with other distributors and system integrators that will push the product into the market.

Furthermore, the SmartNIC completed massive tests with two leading White Box server companies to include the SmartNIC under their proposals

Furthermore, the Company is in talks with OEMs to secure orders for our next generation 100Gbps SmartNIC to be released in September of the current year for NFV offload and Security appliances. This coupled with the expectation of some imminent design wins from traditional and vertical markets, the Board remains confident about the future prospects for our business and in achieving our growth objectives as set out for the ensuing years

Outlook

The Company continues to focus on the development and delivery of its SmartNIC solutions and key agreements are under discussion for significant partnerships that will fuel growth. In parallel, the Company continues to drive new technologies and business for technology and IP licensing in other telecom markets, which include mobile, broadband, cable, wireless, together with vertical markets such as the avionics and automotive markets with the goal of generating additional revenues to support the main focus of the company.

Even given operator delays in the implementation of their chosen NFV solutions to which we are or will be a provider, the blend of the current Company offerings targeting existing markets, allows the Company to continue generating cash flow from its operations, thus maintaining a strong financial position. I remain extremely confident that Ethernity is the best placed solutions provider to meet the operator demands and that our long term goals will be met and exceeded, delivering our shareholders with exceptional returns.

David Levi
Chief Executive Officer

19 June 2018

Strategic and Financial Review

Ethernity Networks is a technology solutions provider that develops and delivers data processing technology used in high-end Carrier Ethernet applications across the telecom, mobile, security and data center markets. The company is currently working to accelerate commercialisation through the launch of its Smart NIC combined with virtualised software solutions, with the focus on Tier 1 OEMs. The Company's core technology, which is populated on programmable logic, enables delivering data offload functionality at the pace of software development, improves performance and reduces power consumption and latency, therefore facilitating the deployment of virtualisation of networking functionality.

Ethernity has to date designed and delivered its data processing technology into half a million systems in the Broadband Access, Mobile 4G Base Station, and general Carrier Ethernet markets, primarily to Tier 3 and 4 manufacturers. with proven technology, and as part of the next stage of its development, the Company has begun to intensify its focus on:

1. Tier 1 and 2 customers through the recruitment of two key sales executives with previous industry experience within Ethernity's competitors; and

2. Enhancing its average selling price by delivering a complete solution involving software applications and SmartNIC based on its existing validated technology

The Market

It is well known that the quantity of data created at a global level is growing exponentially. Frost & Sullivan predicts global data traffic will cross 100 ZB by 2025, around six times the level of 2015 (where 1 Zeta byte (ZB) = 1 trillion GB). In the context where much of the data created will be from emerging technologies such as IoT and Autonomous Cars (supporting an ever-increasing appetite for data-heavy processing), data must increasingly be processed closer to the source to reduce latency - a concept known as edge computing. The traditional model of adding more servers to the cloud to extend performance does not work for edge computing due to limited availability of space (real estate) and lower power budget availability than that which was available at the data center along with the push for lower cost capex at the edge of the network, resulting in a need for lower cost servers and unique and innovative offerings to serve the edge computing.

A solution clearly requires a new cloud architecture that consumes less real estate, less power and capital. As a result, Telcos are rapidly migrating to cloud architecture and virtualised systems given the need to deploy scalable platforms to deal with the massive growth of the volume of data and cope with the rapidly changing demands on network infrastructure.

The Company ports its patent-protected ENET technology on an FPGA based network interface card (Smart NIC) using Commercial Off the Shelf (COTS) Field-Programmable Gate Arrays (FPGA) to deliver All programmable Smart or intelligent network interface (SmartNIC), providing a highly competitive alternative to existing Smart NIC solutions based on proprietary multicore ASICs that contradicts the network virtualisation vision being the use of COST platforms and COTS components and elimination of hardware vendors lock ins. The main constrain on being proprietary requires the OEMs or end user (Communication Service Provider) to sync to the ASIC vendors own roadmap, which sometimes results in product discontinuation as happened with Microsemi ASICs, EZchip ASICs and other network processing ASIC vendors, due to the need to invest more than $10m for each fabrication of new proprietary ASIC. The 'smart' solution improves the efficiency of data flow (hardware acceleration) and introduces flexibility for future changes (programmability). By utilising Ethernity's telco-grade FPGA Smart NICs, service providers benefit from accelerated performance of a virtualised solution with complete programmability and with the ability to use multiple FPGA NIC solutions based on different Commercial Off the Shelf (COTS) FPGA platforms without the need to be committed to a single hardware vendor, as may be required in the case of other smart NIC's based on proprietary ASIC.

FPGAs are the natural hardware solution for NFV as they are flexible, quick to market, efficient, scalable, and come with different size options to serve different markets and solutions. FPGA platforms are being widely deployed in automotive, aerospace, industrial, storage, and networking systems. We expect adoption to accelerate as NFV/SDN penetration increases. Cisco's Global Cloud Index forecast expects SDN/NFV adoption to grow from accounting for 37% of data centre traffic to 50% in 2021.

The company's FPGA-based Smart NIC delivers on the vision of NFV: to establish open platforms that would enable the use of commercial off-the-shelf (COTS) servers instead of proprietary hardware platforms and delivering hardware acceleration required to operate virtualised software architecture on COTS FPGA platforms. The advantage of using NFV is preventing lock-in to closed ecosystems along with the option to adapt to changing requirements.

Achievements

In 2017 and since the year end, key operational achievements have included:

- The management team of the Company has been strategically expanded by the two key appointments in Sales during Q1 2018 as well as increasing the R&D capabilities of the Company by both employment of human resources and entering into contractual development alliances with development partners
- Enhancing our ENET solution to include IPSec. The Company has integrated a crypto engine into its already rich, advanced Carrier Ethernet (CE) data path and utilized the ENET network processing engine for delivery of a complete IPSec solution.
- Integration of the field-proven ENET4840z/99 with NG G.fast technology to improve transmission over existing copper cabling and symmetrical Gigabit access, however g.fast deployment has been delayed by operators due to delay in delivering the actual g.fast technology by the major components providers.
- The Company completed integration of its ENET flow processor and security technology into a Customer 5G wireless access base station, with potential revenue to flow from selling FPGA embedding the ENET technology during 2019
- The Company completed integration of its ENET flow processor and security technology into a Customer SD-WAN and vCPE platform with potential revenue to flow from selling FPGA embedding the ENET technology this second half of 2018.
- Successfully completed proof-of-concept of integration in several customer environments with our All-Programmable Intelligent NIC, which is anticipated to result in long term formal revenue generating arrangements.
- Demand for the Company's Smart NIC is materialising due to the growing trends of moving the cloud to the edge of the network, where Ethernity technology is aimed.
- There are other significant developments and achievements that have been realised to date, however due to applicable NDA's and the confidentiality relating to the parties we cannot disclose any additional information in this regard until such time as this information becomes public knowledge.

Financial Performance

The twelve months to 31 December 2017 represents the first full-year reporting period for the Company as a quoted company following Admission

The results for the year ended 31 December 2017 did not meet expectations for a number of reasons, some of which will nonetheless result in long-term benefits to the Company.

In summary, gross non-GAAP revenues for 2017 of $1.722m (2016 $2.161m), non-GAAP gross margins of $1.508m (2016 $1.154m) and the net income before tax of $159,471 (2016 $250,821) was lower than expected and can be attributable amongst other things to;

- foreign exchange losses relating to translation differences at the end of the year of $127,790
- the reversal of a contracted revenue recognised in 2017 of $225,000 that was unpaid inside of the contract terms
- the provision for a doubtful debt of $38,685, and
- the effects of charging Share Based Compensation costs of $69,178 to expenses during the year

The Company discloses as non-GAAP revenue grant income received outside of the grant terms, and the recognition of amortisation costs as separate to operating costs, as the directors believe this sets out the financial performance clearly.

Revenues

In considering the trading results of the Company based on the IFRS presented Financial Statements, revenues for the twelve months ended 31 December 2017 declined by 29.7% to $1.519 million compared with $2.161 million for 2016, predominantly for the following reasons:

- A significant historic customer experienced contractual difficulty with their customer, resulting in a material decline in business with them during 2017 as compared to 2016 resulting in Revenues and gross margins of $268,000 and $142,000 respectively
- A significant historic customer changed their business relationship with the Company from component based business to royalty based

Strategic and Financial Review

business resulting in a gross revenue and gross margin decline of $630,000 and $334,000 respectively. While this impacted top line revenues materially, the gross margin percentage achieved via royalties is significantly higher.

- A contract with an existing 5G wireless Access OEM Customer that uses the Company's ENET network processing and security technology for its 5G base station, planned to embed the ENET technology into an ASIC for a wireless end point CPE device. The ASIC licensing contract was supposed to be signed by end of Q4 for an amount of $750k plus Royalties, with majority of the amount being recognised for 2017. The customer finally decided to revert to a previous proposal from Ethernity to utilise a low cost FPGA for this end point wireless CPE , the result of which will be higher revenues and profits for the Company in the long term
- A contract signed for $225,000 in December 2017 budgeted for and recognised in preliminary revenues was subsequently reversed from income for 2017 as the customer unexpectedly did not transfer payment post signature in terms of the contract payment terms by the end of Q1/18, which payment was a condition for revenue recognition. The customer has informed the Company that they intend to re-engage the Company and the contract again during the second half of 2018.
- Two additional contracts anticipated for 2017 were delayed to 2018 resulting in a loss of planned revenues of $250,000. Current discussions on these contracts are ongoing and the intention is that the scope of the contracts will be larger than originally thought.

The financial performance for 2017 did not meet expectations in relation to achieved revenue and operating profit for the whole year and therefore was disappointing

Margins

Whilst revenue declined in the period under review, the comparable gross margin and net profitability on revenue for the year increased from $1,154m to $1,304m with the respective gross margins having increased from 53.4% to 85.9%. A further development in the year was the increase in revenue generated from design wins that generate approximately 100% margins.

Operating Costs

Operating costs increased primarily due to greater Sales & Marketing expenses, R&D expenses and the additional costs related to becoming a listed Company as was highlighted at the time of Admission as key areas for the use of funds We are pleased to confirm that despite delays in recruitment, key positions in Sales and Marketing have been filled by excellent recruits and the building of R&D resources is now also on track. While these lead to a decline in pretax profit for the year of 36.42%, the Company has, along with the expansion in the first quarter of 2018, established the infrastructure to enable it to achieve the goals of 2019 and beyond.

Key financial results

IFRS based	US Dollar Audited For the year ended 31 December 2017	2016
Revenues	1,518,661	2,161,366
Gross Margin	1,304,222	1,154,269
Gross Margin %	*85.88%*	*53.40%*
Operating Profit	152,219	338,501
Financing costs (income)	-7,252	87,680
Profit before tax	159,471	250,821
Tax benefit	–	550,000
Net comprehensive income for the year	159,471	800,821
Basic earnings per ordinary share	**0.01**	**0.04**
Diluted earnings per ordinary share	**0.01**	**0.03**
Weighted average number of ordinary shares for basic earnings per share	**25,397,245**	**18,078,500**

Management EBITDA and Non-GAAP unaudited financial information

The directors believe it beneficial to present the financial information on an unaudited non-GAAP basis reconciled to the IFRS Audited Financial Statements as follows:

	US Dollars For the year ended 31 December 2017	2016
Total non-GAAP Revenue	**1,722,279**	**2,161,366**
– Revenue per IFRS Income Statement	*1,518,661*	*2,161,366*
– Other Income – EU project additional Revenue	*203,618*	*0*
Non-GAAP Gross Profit	**1,507,840**	**1,154,269**
Gross Profit %	*87.55%*	*53.40%*
Non-GAAP R&D Expenses	**99,714**	**187,435**
Non-GAAP G&A Expenses	**527,418**	**304,318**
Non-GAAP S&M Expenses	**531,724**	**276,681**
EBITDA	**348,984**	**385,835**

Balance Sheet

The balance sheet strength of the Company remains sound with substantial cash reserves in place to meet the expansion requirements of the business.

The net cash utilised in operating activities for the year is $437,249, however following the IPO, cash reserves have increased from $335,723 at the end of 2016 to $14,950,578 as of 31 December 2017. Short and long term borrowings and loans have been reduced from $786,672 to $7,522 while working capital management remains tightly controlled.

The directors are satisfied that the cash resources are more than sufficient to meet the long term plans of the Company.

David Levi
Chief Executive Officer

19 June 2018

Mark Reichenberg
Chief Financial Officer

19 June 2018

Board of Directors

Graham Woolfman FCA (Non-Executive Chairman)

Graham Woolfman joined the Company as an Independent Non-executive Director and Chairman with effect from Admission. Graham is a Fellow of the Institute of Chartered Accountants in England and Wales, and previously a Partner and head of Corporate Finance at Levy Gee. He has over 25 years' experience advising and supporting growth businesses and was a founder Director of Gateway VCT plc. Graham is currently the Managing Director of Intrust Corporate Finance Limited, and a non-executive director of Filta Group Holdings plc quoted on AIM, and Catalyst Housing Group, a substantial Public Interest Entity (PIE).

David Levi (Chief Executive Officer)

David has over 25 years in the telecom industry, with vast technical and business experience in ATM, voice, TDM, SONET/SDH, Ethernet and PON. Prior to founding Ethernity, David was the founder of Broadlight, a semiconductor company that developed BPON and GPON components and was acquired by Broadcom (BRCM) for $230 million. David invented the GPON protocol with two US patents registered in his name. Prior to this, David worked as Director of Product Marketing at ECI Telecom in the Broadband Access division, and Senior Product Line Manager at RAD, responsible for $50 million product line sales, a product manager at Tadiran 36 Communication, sales manager at Dynamode Ltd, and served as a Systems Engineer and project manager in the Israeli Defence Forces.

Mark Reichenberg CA(SA) (Chief Financial Officer)

Mark is a qualified Chartered Accountant from South Africa. Mark Reichenberg joined the Company in December 2016 as an advisor and consultant to the IPO process and was appointed CFO of the Company in March 2017, joining the board with effect from Admission. Previously Mark held the position of VP Business Development and Corporate Affairs Officer of the Magnolia Silver Jewellery Group Limited, was the CFO of GLV International Ltd, and prior to that, held the position of Group Financial Director of Total Client Services Ltd, a company listed on the Johannesburg Stock Exchange. Mark has held various senior financial director positions in retail, wholesale and logistics. Mark holds a B. Acc degree from the University of the Witwatersrand (WITS) in South Africa.

Shavit Baruch (VP Research and Development)

Shavit has over 25 years of experience in the telecom and datacom industry, with vast technical experience in ATM, Ethernet and SONET/SDH, both at components and system level. Prior to Ethernity Networks, Shavit served as Chief Architect at Native Networks, a start-up company developing products for Metro Ethernet market. Prior to this, in 2002, Shavit established Crescendo Networks, a start-up company enhancing data centre applications performance. Prior to the venture at Crescendo, Shavit served as R&D Director at ECI Telecom, where he was in charge of development of all transmission cards for one of the world's most successful broadband systems. Earlier Shavit worked at Lannet Data Communication, acquired by AVAYA, designing, together with Galileo, Ethernet switch on silicon.

Neil Rafferty (Independent Non-Executive Director)

Neil Rafferty joined Ethernity as an Independent Non-executive Director with effect from Admission Neil has over 30 years experience in the telecoms and technology sectors holding a variety of senior executive positions. He has run businesses across Europe and was CEO of Easynet plc (listed on the London Stock Exchange before being acquired) Latterly he has been advising companies across a variety of sectors helping them implement growth strategies. Neil holds a BA (Hons) degree from Newcastle Polytechnic.

Chen Saft-Feiglin (Independent Non-Executive Director)

Chen Saft-Feiglin is a lawyer and notary admitted in Israel with more than 20 years of experience in commercial law, insolvency and recovery procedures, as well as many years of experience as a business and family mediator and family business consultant. Chen is the founder and owner of Chen Saft, People, Processes and Enterprises, providing consulting services for family firms and enterprises, mediation in commercial disputes, and divorce mediation. Previously, Chen was a partner at Saft Walsh Law Offices, a niche law practice handling corporate, M&A, insolvency, private client work and general representation of foreign clients (private and corporate) in Israel. Chen holds an LLB from Bar Ilan University and an MBA majoring in business and managerial psychology from the College of Management Academic Studies. Chen served as a Lieutenant in the Israel Defence Forces.

Zohar Yinon (Independent Non-Executive Director)

Zohar is currently the CEO of Bar Ilan University in Israel. Prior to that Zohar held the position of CEO of Hagihon Company Ltd, a position he held from September 2011 to January 2018. Previously, Zohar was the Chief Financial Officer of Israel Military Industries, Ltd. and VP Business Development in Granite Hacarmel Ltd. Zohar has held other roles in Israel's private and public sectors, including with companies traded on the Tel Aviv Stock Exchange. Zohar holds a B.A. in Economics and an MBA in Business Administration, both from Bar-Ilan University (Israel) and he has graduated in managerial programs of M&A and Corporate Governance from the Interdisciplinary Center ("IDC") in Herzliya. He is a member of the CTG global panel of experts evaluating new start-ups in the field of Clean-tech and has served as a board member in a wide range of companies including governmental, private, publicly listed and start-up companies. Zohar served as a Major in the Israel Defence Forces.

Corporate Governance Statement

Introduction

The Company refers to governance requirements in terms of Israel Companies Law as well as the "comply or explain" principles of the QCA Corporate Governance Code in the UK ("the Code") in order to ascertain best practice. The Company has not applied the Code and the information in this report does not explain how the Code has been applied.

The Directors and the Board

The composition of the board is as follows:

Graham Woolfman	Independent Non-Executive Chairman Chairman of the Nomination Committee (*Note that in terms of Israel Companies Law the Chairman is precluded from being a member of either the Audit or Remuneration Committees*)
David Levi	Chief Executive Officer Nomination Committee member
Mark Reichenberg	Chief Financial Officer
Shavit Baruch	Vice President R&D
Neil Rafferty	Independent Non-Executive Director Audit Committee member Remuneration Committee member Nomination Committee member
Chen Saft Feiglin	External Director Remuneration Committee Chairman Audit Committee member
Zohar Yinon	External Director Audit Committee Chairman Remuneration Committee member

Biographical details of all the Directors are set out on pages 10 and 11.

Board Meetings

The Board has regular scheduled full meetings and will meet at other times as necessary. The Board is responsible for strategic and major operational issues affecting the Company. The Board outlines the Company's policy, reviews financial performance, regulatory compliance, and monitors key performance indicators. All directors receive appropriate information on a timely basis to enable them to discharge their duties accordingly. The Board will consider any ad hoc matters of significance to the Company including corporate activity.

The Board of Directors on Admission of the Company to AIM comprised 3 Executive Directors and 2 Independent Non-Executive Directors, one of whom held the position of Chairman of the Board. Subsequent to an Extraordinary General Meeting of the Company's shareholders held on 15 November 2017, and additional 2 External Directors were appointed so as to comply with Israel Companies Law requirements.

The current constitution of the board of the company is:

- 2 Independent Non-Executive directors (one of whom acts as the Independent Non-Executive Chairman of the board)
- 2 External directors (independent and non-executive)
- 3 Executive directors

The Board of Directors met regularly post Admission by the Company to AIM and continues to do so on a regular basis based on a defined annual meeting timetable.

Attendance at meetings by members of the Board during the year ended 31 December 2017 (since Admission) was as follows:

Meeting type	**Board**	**Audit**	**Remuneration**	**Nomination**
Number of meetings	5	3	2	1
Graham Woolfman [i]	5	3 ((2)[vi] as invitee)	1	1
David Levi	5		2[vi]	1
Mark Reichenberg [ii]	5	3 [vi]	1 [vi]	
Shavit Baruch	5			
Neil Rafferty [iii]	5	3	2	1
Chen Saft-Feiglin [iv]	2[v]	1[v]	1[v]	
Zohar Yinon [v]	2[v]	1[v]	1[v]	

(i) Appointed on Admission 29 June 2017. Resigned as Chair of Audit and a member of the Remuneration Committee effective 15 November 2017 due to Israel Companies Law regulations

(ii) Appointed as Director on Admission 29 June 2017

(iii) Appointed on Admission 29 June 2017. Resigned as Chair of Remuneration Committee effective 15 November 2017 due to Israel Companies Law regulations

(iv) Appointed effective 15 November 2017

(v) Appointed effective 15 November 2017

(vi) Invitee

Re-election of Directors

In accordance with the Company's Articles the Directors are required to serve for a period of no less than three years from the date of appointment, or in the case of Admission, for 3 years from the date of Admission of the Company to AIM.

Remuneration Committee

The Remuneration Committee, which comprises the Independent Non-Executive and External Directors (excluding the Chairman) and by invitation the CEO (who may not participate in deliberations or recommendations of the Committee), is chaired by Ms. Chen Saft-Feiglin and has the responsibility for determining remuneration of Executive Directors and senior members of staff. This Committee makes decisions in consultation with the Chief Executive Officer and no director plays a part in any decision about their own remuneration. This Committee also reviews bonus and equity arrangements for the Company's senior employees (further details of Directors' remuneration are set out in Note 28C to the Financial Statements). In addition, the committee has the responsibility for supervising the Ethernity Israel Share Option Plan and the grant of options under its terms.

The remuneration of all Independent and External Directors is fixed; External Directors in terms of Israel Companies Law and the Independent Non-Executive Directors in terms of contracts signed applicable from Admission of the Company to AIM. Any variation in the future to rates of pay shall be determined by the applicable laws and governance and be brought to the Shareholders for amendment at an Extraordinary General Meeting.

During the year ended 31 December 2017, the remuneration Committee met on 2 occasions and confirmed the following;

- Approval of the continual basis of operation of the Company's Israel Share Option plan and allocation of delegated authority to David Levi for granting of options and the parameters applying thereto, and
- To confirm that the committee is satisfied with the Company's current remuneration policy, that the Company's current policy complies with the AIM regulations, and that the executive's compensation is in line with present policy.
- That Neil Rafferty be charged with formulating, in conjunction with the Company, a Compensation Policy during 2018.

Corporate Governance Statement

Audit Committee

The Audit Committee, which comprises the Independent Non-Executive and External Directors (excluding the Chairman), the Internal Auditor of the Company and by invitation the CFO (who may not participate in deliberations or recommendations of the Committee), is chaired by Zohar Yinon and has responsibilities which include the review of:

- The Company's internal control environment.
- Financial risks (including market risk in relation to the Company's market making activities).
- Financial statements, reports and announcements, including the Board's responsibility to present an annual report that is fair, balanced and understandable. The Audit Committee evidences this review in a report to the Board following its meeting with the auditors to discuss their Report to the Audit Committee and includes an assessment of the information provided in support of the Board's statement on going concern and on any significant issues and how those issues were addressed.
- Independence of auditors, including a review of the non-audit services provided and the level of such fees relative to the audit fee. The Audit Committee is satisfied that the independence of Fahn Kanne & Co. Grant Thornton Israel as auditors has not been impaired through the provision of non-audit services. A review is also carried out on the effectiveness of external audit.
- Ensuring the Company has a policy which allows any member of staff to raise, in confidence, any concern about possible impropriety in matters of financial reporting or other matters, and to ensure that suitable arrangements are in place for a proportionate independent investigation of such matters including any follow-up action required.

During the year ended 31 December 2017, the Audit Committee met on 3 occasions and confirmed the following:

- Approval of the Company half year results for the period ended 30 June 2017 and recommendation to the Board for adoption and publication thereof, and
- Recommendation for the appointment and acceptance of fee proposal for the 2017 year of Fahn Kanne & Co. Grant Thornton Israel and continuation as external auditors, and
- Approval of the resolutions and form of the Notice of the EGM held on 15 November 2017, and
- Instruction to proceed with the sourcing and appointment of an Internal Auditor of the Company as required in terms of Israel Companies Law.

Nominations Committee

There is no requirement for a Nomination Committee in terms of Israel Companies Law, however the Company decided to establish the same in terms of the Code and good governance.

The Committee's responsibilities include ensuring that the size and composition of the Board is appropriate for the needs of the Company including an assessment of the diversity profile, selecting the most suitable candidate or candidates for the Board and to oversee succession planning aspects for the Board.

This Committee is chaired by Graham Woolfman, who is not excluded by virtue of the fact that he is Chairman in terms of Israel Companies Law as such a body is neither recognised nor required in terms of Israel Companies Law.

The Nomination Committee met in September 2017 to review the process and candidates, as well as deliberate over the appointment of the External Directors as required by Israel Companies Law. The meeting concluded with the Nominations Committee recommending to the Board that at the November Board meeting, the Board approve the letters of appointment of Messrs. Chen Saft-Feiglin and Zohar Yinon as External Directors, subject to the approval of the Shareholders in and Extraordinary General Meeting (EGM) held on 15 November 2017. The appointments were approved at said EGM and were effective from 15 November 2017.

Internal Control

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Company. This has been in place throughout the year and up to the date of approval of the Financial Statements. The process is regularly reviewed by the Board. The Directors are responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Company's system of internal control includes appropriate levels of authorisation and segregation of duties. Financial information is presented to the Board regularly comprising management accounts and other financial data which allows for regular reviews of performance.

Insurance

The Company maintains appropriate insurance cover in respect of litigation against the Directors and Officers of the Company.

Directors Report

The Directors present their Annual Report and audited Financial Statements for the financial year ended 31 December 2017.

Principal Activities

Ethernity Networks is a technology solutions provider that develops and delivers data processing technology used in high-end Carrier Ethernet applications across the telecom, mobile, security and data center markets. The Company's core technology, which is populated on programmable logic, enables delivering data offload functionality at the pace of software development, improves performance and reduces power consumption and latency, therefore facilitating the deployment of virtualization of networking functionality.

The Company is headquartered in Israel.

Results and Dividends

The Consolidated Statement of Comprehensive Income for the year is set out on page •. No dividend is proposed for the year.

Risk Management

The Company's policies for managing risk arising from activities are set out in Note 26 of the Financial Statements.

Directors

The current Directors of the Company are:

Graham Woolfman *Independent Non-Executive Chairman (Appointed 29 June 2017)*

David Levi *Chief Executive Officer*

Mark Reichenberg *Chief Financial Officer (Appointed as Director on 29 June 2017)*

Shavit Baruch *VP R&D*

Neil Rafferty *Independent Non-Executive Director (Appointed 29 June 2017)*

Chen Saft-Feiglin *External Director* (Appointed 15 November 2017)*

Zohar Yinon External Director* *(Appointed 15 November 2017)*

* An independent director appointed as an External Director in terms of Israel Companies Law

In fulfilment of Israel Companies Law requirements for the appointment of the requisite External Directors Chen Saft-Feiglin and Zohar Yinon were approved at a General Meeting of the Shareholders held on 15 November 2017 and subsequently appointed to the Board as Non-Executive Directors

Directors' Interests

The interests of current Directors in shares and options are disclosed in the Directors' Remuneration Report set out in Note 28C and 28D of the financial statements.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report (including Director's Report and Strategic Report) and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the Israel and the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditor's Report to the Shareholders of Ethernity Networks Limited

Grant Thornton

To the Shareholders of
Ethernity Networks Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Ethernity Networks Ltd. (the "Company"), which comprise the Statements of financial position as at 31 December 2017 and 2016 and the Statements of comprehensive income, the Statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2017 and 2016 and its financial performance and its cash flows for each of the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Israel, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

	Description of Key Audit Matter and why a matter of most significance in the audit	Description of Auditor's Response
Intangible assets	The intangible assets include development costs that are directly attributable to a project's development phase, provided they met the recognition requirements in accordance with International Accounting Standard (IAS) 38 'Intangible Assets'. As such, there is inherent risk that intangible assets may be improperly capitalized. Also, such intangible assets not yet available for use are required to be tested for impairment irrespective of whether there is any indication of impairment. Both the capitalization and impairment of intangible assets involve significant management judgement and therefore identified capitalization and impairment of intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement	Our audit work included, but was not restricted to: In 2017, in order to gain the required level of assurance, we performed substantive audit procedures relating to the capitalization of the intangible assets. We specifically tested that those capitalized development costs met the required criteria as outlined by IAS 38, as further described in Note 2J to the Company's financial statements. We also assessed the recoverability of these assets by reviewing management's estimation of the value in use. Such evaluation includes assessment of evidence obtained from various areas of the audit including cash flows forecasts related to the capitalized intangible assets, business plans and the compliance with the requirements of IAS 36, impairment of assets.
Deferred tax assets	The extent to which deferred tax assets can be recognized is based on management assessment of the probability that future taxable income will be available against which the tax loss carry-forwards and the deductible temporary differences can be utilized. This involves significant management judgement and therefore identified valuation of deferred tax assets as a significant risk, which was one of the most significant assessed risks of material misstatement	Our audit work included, but was not restricted to: We evaluated and tested the recognition and measurement of the deferred tax assets and the underlying assumptions in management's forecasted future taxable income and the need to recognize valuation allowance. Such evaluation includes assessment of evidence obtained from various areas of the audit including cash flows forecasts, business plans and our knowledge of the business. We also assessed the adequacy of the Company's disclosures in Note 24 to the financial statements to ensure these were in accordance with IAS 12 'Income tax'.

Independent Auditor's Report to the Shareholders of Ethernity Networks Limited

Other information included in the Company's 2017 Annual Report

Other information consists of the information included in the Company's 2017 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the board of directors for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to

modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the year ended 31 December 2017 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Nir Yenni.

FAHN KANNE & CO. GRANT THORNTON ISRAEL
Tel-Aviv, Israel, 18 June 2018

Statement of Financial Position

For the year ended 31 December 2017

	Notes	US dollars 31 December 2017	2016
ASSETS			
Current			
Cash and cash equivalents	4	**3,881,106**	335,723
Other short-term financial assets	5	**11,069,472**	58,518
Trade receivables	6	**513,965**	268,309
Other current assets		**438,265**	28,725
Current assets		**15,902,808**	691,275
Non-current			
Property and equipment	8	**155,840**	69,939
Deferred tax assets	24	**800,000**	800,000
Intangible asset	9	**3,170,553**	1,305,898
Non-current assets		**4,126,393**	2,175,837
Total assets		**20,029,201**	2,867,112
LIABILITIES AND EQUITY			
Current			
Short Term Borrowings	10	**–**	160,256
Trade payables		**225,087**	121,960
Other current liabilities	11	**931,771**	1,191,291
Shareholders loans	12	**–**	527,568
Warrants liability, at fair value	12	**15,770**	43,309
Current liabilities		**1,172,628**	2,044,384
Non-current			
OCS royalty liability	13	**–**	47,391
Long Term Borrowings	14	**7,522**	98,848
Non-current liabilities		**7,522**	146,239
Total liabilities		**1,180,150**	2,190,623
Equity			
Share capital		**8,028**	4,958
Share premium		**23,356,078**	5,629,272
Other components of equity		**615,322**	332,107
Accumulated deficit		**(5,130,377)**	(5,289,848)
Total equity		**18,849,051**	676,489
Total liabilities and equity		**20,029,201**	2,867,112

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

Statements of Comprehensive Income
As at 31 December 2017

	Notes	US dollars For the Year ended 31 December 2017	2016
Revenue	18	**1,518,661**	2,161,366
Cost of sales		**214,439**	1,007,097
Gross profit		**1,304,222**	1,154,269
Research and development expenses	19	**215,778**	221,873
General and administrative expenses	20	**591,903**	317,214
Marketing expenses	21	**556,588**	276,681
Other income	22	**(212,266)**	–
Operating profit		**152,219**	338,501
Financing costs (income)	23	**(7,252)**	87,680
Profit before tax		**159,471**	250,821
Tax benefit	24	–	550,000
Net comprehensive income for the year		**159,471**	800,821
Basic earnings per ordinary share	25	**0.01**	0.04(*)
Diluted earnings per ordinary share	**25**	**0.01**	0.03(*)
Weighted average number of ordinary shares for basic earning per share		**25,397,245**	18,078,500
Weighted average number of ordinary shares for Diluted earning per share		**27,979,097**	20,072,110

(*) See Note 16.A.

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

Statements of Changes in Equity

For the year ended 31 December 2016

	Number of shares		Amounts in US dollars					
			Share Capital					
	Ordinary shares	Preferred shares	Oridinary shares	Preferred shares	Share premium	Other components of equity	Accumulated deficit	Total equity
Balance at 1 January 2016	**18,078,500**	**3,725,400**	**4,111**	**847**	**5,629,272**	**290,874**	**(6,090,669)**	**(165,565)**
LEmployee share-based compensation	–	–	–	–	–	41,233	–	41,233
Net comprehensive income for the year	–	–	–	–	–	–	800,821	800,821
Balance at 31 December 2016	**18,078,500**	**3,725,400**	**4,111**	**847**	**5,629,272**	**332,107**	**(5,289,848)**	**676,489**
Conversion of preferred shares into ordinary shares	,725,400	(3,725,400)	847	(847)	–	–	–	–
Employee share-based compensation	–	–	–	–	24,619	162,101	–	186,720
Net proceeds from issuing ordinary shares	10,714,286	–	3,070	–	17,823,301	–	–	17,826,371
Warrants issued to service provider in connection with issuance of ordinary shares	–	–	–	–	(121,114)	121,114	–	–
Net comprehensive income for the year	–	–	–	–	–	–	159,471	159,471
Balance at 31 December 2017	**32,518,186**	**–**	**8,028**	**–**	**23,356,078**	**615,322**	**(5,130,377)**	**18,849,051**

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

Statements of Cash Flows

For the year ended 31 December 2017

	2017	2016
Operating activities		
Profit before tax	**159,471**	800,82
Non-cash adjustments		
Depreciation of property and equipment	**20,171**	16,796
Capital gain from sale of vehicle	**(8,648)**	–
Share-based compensation	**69,178**	41,233
Amortisation of intangible assets	**116,064**	34,438
Amortisation of liabilities	**(13,792)**	11,706
Deferred tax	**–**	(550,000)
Net changes in working capital		
Increase in trade receivables	**(245,656)**	(106,033)
Decrease in inventories	**–**	64,147
Decrease (increase) in other current assets	**(409,540)**	86,663
Increase (decrease) in trade payables	**103,127**	(284,193)
Increase (decrease) in other liabilities	**(227,624)**	196,585
Net cash provided by (used in) operating activities	**(437,249)**	**312,163**
Investing activities		
Increase of other short-term financial assets	**(11,010,954)**	(58,518)
Purchase of property and equipment	**(126,423)**	(20,354)
Proceeds from sale of vehicle	**28,999**	–
Amounts carried to intangible assets	**(1,958,997)**	(1,033,389)
Participating grants in intangible assets	**95,820**	313,175
Net cash used in investing activities	**(12,971,555)**	**(799,086)**
Financing activities		
Repayment of OCS liability	**(93,034)**	(35,670)
Proceeds from (repayment of) short term borrowings	**(128,969)**	26,379
Proceeds from (repayment of) long term borrowings	**–**	101,868
Repayment of long term borrowings	**(122,613)**	–
Receipt (repayment) of shareholder loans	**(527,568)**	526,634
Proceeds allocated to warrants liability	**–**	43,309
Net proceeds from issuing ordinary shares	**17,826,371**	–
Net cash provided by (used in) financing activities	**16,954,187**	**662,520**
Net change in cash and cash equivalents	**3,545,383**	175,597
Cash and cash equivalents, beginning of year	**335,723**	160,126
Cash and cash equivalents, end of year	**3,881,106**	335,723
Supplementary information on financing activities:		
Interest paid during the year	**21,918**	13,543
Interest received during the year	**69,472**	–

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

Notes to the Financial Statements

For the year ended 31 December 2017

1 NATURE OF OPERATIONS

ETHERNITY NETWORKS LTD. (hereinafter: the "Company"), was incorporated in Israel on the 15th of December 2003 as Neracore Ltd. The Company changed its name to ETHERNITY NETWORKS LTD. on the 10th of August 2004.

The Company develops and delivers high-end network processing technology for Carrier Ethernet switching, including broadband access, mobile backhaul, Carrier Ethernet demarcation and data centres. The Company's customers are situated throughout the world.

In June 2017 the Company completed an Initial Public Offering ("IPO") together with being admitted to trading on the AIM Stock Exchange and issued 10,714,286 ordinary shares at a price of GBP 1.40 per share, for a total consideration of approximately $19,444,000 (GBP 15,000,000) before underwriting and issuance expenses. Total net proceeds from the issuance amounted to approximately $17,800,000.

2 SUMMARY OF ACCOUNTING POLICIES

The following accounting policies have been consistently applied in the preparation and presentation of these financial statements for all of the periods presented, unless otherwise stated. In 2017, new standards and amendments became effective but they had no material effect on the financial statements.

A. Basis of presentation of the financial statements and statement of compliance with IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial information has been prepared on the historical cost basis.

The Company has elected to present profit or loss items using the function of expense method. Additional information regarding the nature of the expenses is included in the notes to the financial statements.

The financial statements for the year ended 31 December 2017 (including comparative amounts) were approved and authorised for issue by the board of directors on 18 June 2018.

B. Use of significant accounting estimates and assumptions and judgements

The preparation of financial statements in conformity with IFRS requires management to make accounting estimates and assessments that involve use of judgment and that affect the amounts of assets and liabilities presented in the financial statements, the disclosure of contingent assets and liabilities at the dates of the financial statements, the amounts of revenues and expenses during the reporting periods and the accounting policies adopted by the Company. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Regarding significant judgements and estimate uncertainties, see Note 3.

C. Functional and presentation currency

The Company prepares its financial statements on the basis of the principal currency and economic environment in which it operates (hereinafter - the "functional currency").

The Company's financial statements are presented in US dollars ("US$") which constitutes the functional currency of the Company and the presentation currency of the Company.

D. Foreign currency transactions and balances

Specifically identifiable transactions denominated in foreign currency are recorded upon initial recognition at the exchange rates prevailing on the date of the transaction. Exchange rate differences deriving from the settlement of monetary items, at exchange rates that are different than those used in the initial recording during the period, or than those reported in previous financial statements, are recognised in the statement of comprehensive income in the year of settlement of the monetary item. Other profit or loss items are translated at average exchange rates for the relevant financial year.

Assets and liabilities denominated in or linked to foreign currency are presented on the basis of the representative rate of exchange as of the date of the statement of financial position (spot exchange rate as published by the Bank of Israel).

Exchange rate differentials are recognized in the financial statements when incurred, as part of financing expenses or financing income, as applicable.

	2017	2016
New Israeli Shekel (“NIS”)	**0.288**	0.260
EURO	**1.200**	1.052
Sterling	**1.350**	1.229

E. Cash and cash equivalents

Cash and cash equivalents include cash on hand, call deposits and highly liquid investments, including short-term bank deposits (with original maturity dates of up to three months from the date of deposit), that are subject to an insignificant risk of changes in their fair value and which do not have restrictions as to what it may be used for.

F. Property and equipment

Property and equipment items are presented at cost, less accumulated depreciation and net of accrued impairment losses. Cost includes, in addition to the acquisition cost, all of the costs that can be directly attributed to the bringing of the item to the location and condition necessary for the item to operate in accordance with the intentions of management.

The residual value, useful life span and depreciation method of fixed asset items are tested at least at the end of the fiscal year and any changes are treated as changes in accounting estimate.

Depreciation is calculated on the straight-line method, based on the estimated useful life of the fixed asset item or of the distinguishable component, at annual depreciation rates as follows:

	%
Computers	33
Testing equipment	10-33
Vehicles	15
Furniture and equipment	6-15
Leasehold improvements	10

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including any extension option held by the Group and intended to be exercised) and the expected life of the improvement.

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 derecognised. An asset is derecognised on disposal or when no further economic benefits are expected from its use.

G. Allowance for doubtful accounts

Notes to the Financial Statements continued

For the year ended 31 December 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.

H. Basic and diluted earnings per share

Basic and diluted earnings per share is computed by dividing the income for the period applicable to Ordinary Shares by the weighted average number of shares of Ordinary Shares outstanding during the period. Securities that may participate in dividends with the Ordinary Shares (such as the Preferred Shares) are included in the computation of basic earnings per share using the two class method.

In computing diluted earnings per share, basic earnings per share are adjusted to reflect the potential dilution that could occur upon the exercise of options or warrants issued or granted using the "treasury stock method" and upon the conversion of Preferred Shares using the "if-converted method", if the effect of each of such financial instruments is dilutive.

I. Severance pay liability

The Company's liability for severance pay pursuant Israel's Severance Pay Law is based on the last monthly salary of the employee multiplied by the number of years of employment, as of the date of severance.

Pursuant to section 14 of Severance Pay Law, which covers the Company's employees, 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 statement of comprehensive income.

J. Research and development expenses

Expenditures on the research phase of projects to develop new products and processes are recognised as an expense as incurred.

Development activities involve a plan or a design for the production of new or substantially improved products and processes. Development costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Company intends to and has sufficient resources to complete the project
- the Company has the ability to use or sell the developed asset
- the developed asset will generate probable future economic benefits. Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs.

An intangible asset that was capitalized but not available for use, is not amortized and is subject to impairment testing once a year or more frequently if indications exist that there may be a decline in the value of the asset until the date on which it becomes available for use.

The amortization of an intangible asset begins when the asset is available for use, i.e., it is in the location and condition needed for it to operate in the manner intended by management. The development asset is amortized on the straight-line method, over its estimated useful life, which is estimated to be ten years.

The useful life and the amortization method of each of the intangible assets with finite lives are reviewed at least at each financial year end. If the expected useful life of an asset differs from the previous estimate, the amortization period is changed accordingly. Such change is accounted for as a change in accounting estimate in accordance with IAS 8.

K. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item (such as research and development of an intangible asset not eligible for capitalization under the criteria described in 2j above), it is recognised as 'other income' on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset (such as development expenses that were recognized as an intangible asset), it is recognised a deduction of the related asset.

Grants from the Israeli Office of the Chief Scientist of the Ministry of Economy (hereinafter – the "OCS") in respect of research and development projects are accounted for as forgivable loans according to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

Grants received from the OCS are recognized as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The fair value is calculated using a discount rate that reflects a market rate of interest at the date of initial recognition. The difference between the amount received and the fair value on the date of receiving the grant is recognized as a deduction from the cost of the related asset or as other income as applicable (see note 2. J. above).

The amount of the liability is re-examined each period, and any changes in the present value of the cash flows discounted at the original interest rate of the grant are recognized in profit or loss.

The difference between the amount received and the fair value on the date of receiving the grant is recognized as a deduction of research and development expenses.

Grants which do not include an obligation to pay royalties are recognised as a deduction of the related asset or as other income as applicable (See Note 22).

L. Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets are classified into the following categories upon initial recognition:

- Loans and receivables
- Financial assets at fair value through profit or loss (FVTPL)
- Held-to-maturity (HTM) investments
- Available-for-sale (AFS) financial assets

Notes to the Financial Statements continued

For the year ended 31 December 2017

All financial assets except for those at FVTPL are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in the statement of comprehensive income are presented within financing expenses or financing income (except for impairment of trade receivables which is presented within general and administrative expenses).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade receivables and most other short term financial assets and receivables fall into this category of financial instruments. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which hedge accounting requirements apply. Assets in this category are measured at fair value with profits or losses recognised in the statement of comprehensive income. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

During the reported period the Company did not have any assets held for trading no derivative financial assets and no assets were voluntarily classified to FVTPL category.

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include borrowings, trade payables, other payables, OCS royalty liability and derivative financial instruments. Financial liabilities are measured subsequently at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with profits or losses recognised in the statement of comprehensive income (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instruments fair value that are reported in the statement of comprehensive income, are included within finance costs or finance income.

Derivative financial instruments

Derivative financial instruments (including embedded derivatives that were separated from the host contract - see Note 12) are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

The Company did not designate derivatives as hedging instruments in the periods presented in these financial statements.

Derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for- trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

M. Share-based compensation

Share-based compensation transactions that are settled by equity instruments that were executed with employees or others who render similar services, are measured at the date of the grant, based on the fair value of the granted equity instrument. This amount is recorded as an expense in profit or loss with a corresponding credit to equity, over the period during which the entitlement to exercise or to receive the equity instruments vests.

For purposes of estimating the fair value of the granted equity instruments, the Company takes into consideration conditions which are not vesting conditions (or vesting conditions that are performance conditions which constitute market conditions). Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, an estimate is made of the number of instruments expected to vest. Grants that are contingent upon vesting conditions (including performance conditions that are not market conditions) which are not ultimately met are not recognized as an expense. A change in estimate regarding prior periods is recognized in the statement of comprehensive income over the vesting period.

Share-based payment transactions settled by equity instruments executed with other service providers are measured at the date the services were received, based on the estimated fair value of the services or goods received, unless their value cannot be reliably estimated. In such a case, the transaction is measured by estimating the fair value of the granted equity instruments. This amount is carried as an expense or is capitalized to the cost of an asset, based on the nature of the transaction. Share based compensation amounts related to grants that were forfeited, are reclassified to Share Premium.

N. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market. In the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its best use or by selling it to another market participant that would use the asset in its best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. Maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

- Level 1 – unadjusted quoted prices are available in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.
- Level 2 – pricing inputs are other than quoted prices in active markets that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
- Level 3 – pricing inputs are unobservable for the non-financial asset or liability and only used when there is little, if any, market activity for the non-financial asset or liability at the measurement date. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 inputs are considered as the lowest priority within the fair value hierarchy. The valuation of the short-term liability relating to the warrants and options issued, falls under this category.

Notes to the Financial Statements continued

For the year ended 31 December 2017

O. Off-set of financial instruments

Financial instruments and financial liabilities are presented in the statements of financial position at their net value if the Company has a legal and enforceable right of offset and the Company intends on settling the asset and the liability on a net basis or simultaneously.

P. Transactions with controlling shareholders

Transactions with controlling shareholders are recognized at fair value. Any difference between the fair value and the original terms of the transaction, represent capital contribution or dividend, as applicable and accordingly, carried to equity.

Q. Revenue recognition

The Company generates revenues mainly from sales of programmable devices ("FPGA") that embed intellectual property ("IP") developed by the Company, or IP developed by the Company together with software application tools, to assist its customers to design their own systems based on the Company IP.

Revenues are measured in accordance with the fair value of the consideration received or receivable in respect of sales supplied in the ordinary course of business, net of returns, rebates and discounts.

Sales of goods

Revenues from programmable devices are recognized when all of the following conditions are met:

- The Company has transferred the significant risks and rewards of ownership of the goods to the purchasers. Such condition is usually met on delivery of the goods, however, when a sales contract gives the customer the right, for a specified period after delivery, to accept or reject goods, revenue recognition does not occur until the earlier of customer acceptance and expiry of the acceptance period;
- The Company does not retain continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of the revenues can be measured reliably. The amount of the revenue is not considered as being reliably measured until all the conditions relating to the transaction are met. The Company bases its estimates on past experience, considering the type of customer, type of transaction and special details of each arrangement;
- It is probable that the economic benefits that are 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.

Contracts with milestone payments

Certain contracts with major customers are structured to provide the Company with payment upon the achievement of certain predefined milestones which might include development of new product offerings or new features of existing products such as programmable devices ("design tools").

If payments under the contract are dependent upon the achievement of certain milestones, the revenue is not recognised until the relevant milestone has been achieved (as agreed between the Company and the customer), provided that the contract does not provide cancellation rights to the customer that would require the repayment of any amounts received.

Amounts received prior to achieving a predefined milestone, including up-front payments, are deferred and presented as deferred revenues until the achievement of the related milestone.

Amounts received under contracts that allow the customer, for a specified period after delivery, acceptance or cancellation rights, are deferred and presented as deferred revenues until the earlier of, the customer formal acceptance, or, the expiry of the acceptance or cancellation period. As at 31 December 2017 no amounts were required to be presented as deferred revenues.

Contract costs are recognised in the period in which they are incurred.

Multiple element transactions

In certain instances, the Company enters into an agreement to sell programmable devices together with the development of new product offerings or new features of existing products ("design tools").

In those cases, the Company allocates the consideration received to the different elements and the revenues are recognised in respect of each element separately. Accordingly, revenue allocated to design tools elements are recognised upon achievement of milestones as described above. Revenue allocated to programmable devices elements are recognised upon delivery, after all of the above criteria (under sale of goods) are met. An element constitutes a separate accounting unit if and only if it has a separate value to the customer. Revenue from each element is recognised when the criteria for revenue recognition have been met (as described above) and only to the extent of the consideration that is not contingent upon the completion or performance of future services in the contract.

Revenue from royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant transaction with the customer. Such revenues are recognised provided the amount of the revenues can be measured reliably and it is considered probable that the economic benefits that are associated with the transaction will flow through to the Company. Royalties are received on the sales of third parties that are based on IP developed by the Company. Royalties are calculated from royalty reports delivered to the Company on a quarterly basis.

R. Income taxes

Taxes on income in the statement of comprehensive income comprise current and deferred taxes. Current or deferred taxes are recognised in the statement of comprehensive income, except to the extent that the tax arises from items which are recognised directly in other comprehensive income or in equity. In such cases, the tax effect is also recognised in the relevant item.

Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the liability method in respect of temporary differences between amounts included in the financial statements and amounts taken into consideration for tax purpose.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax assets are presented in the statement of financial position as non-current assets.

S. Operating cycle

The normal operating cycle of the Company is a twelve month period ending in December of each year.

T. Impairment testing of other intangible assets and property and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognised for the amount by which the asset's (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use,

Notes to the Financial Statements continued

For the year ended 31 December 2017

management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

Impairment losses for cash-generating units is charged pro rata to the other assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount. As of December 31, 2017 and 2016 no impairment was recorded.

U. Ordinary shares

Ordinary shares issued by the Company which do not meet the definition of financial liability or financial asset, were recognized as part of equity on the basis of the consideration received in respect thereof, net of costs attributed directly to the issue.

V. Equity and reserves

Share capital represents the nominal par value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

W. Provisions, contingent assets and contingent liabilities

Provisions for legal disputes, onerous contracts or other claims are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

X. New and revised standards that are effective for annual periods beginning on or after 1 January 2017

The Company has not adopted any new standards or amendments that have a significant impact on the Company's results or financial position.

Y. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective and have not been adopted early by the Company. Information on those expected to be relevant to the Company's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Company's financial statements.

IFRS 9 'Financial Instruments'

The new Standard for financial instruments (IFRS 9) replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

Management has identified the following areas that are expected to be most impacted by the application of IFRS 9:

- The classification and measurement of the Company's financial assets - Management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects that the majority of financial assets held by the Company will be eligible to be accounted for at amortised cost as in accordance with the current IFRS. Accordingly, the Company does not expect the new guidance to affect the classification and measurement of these financial assets.
- The impairment of financial assets applying the expected credit loss model - This will apply to the Company's trade receivables and other short term investments in debt-type assets currently classified as 'Loans and Receivables. For contract assets that will arise from IFRS 15 and trade receivables, the Company considers to apply a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Company will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Management intends to adopt the Standard retrospectively, recognising the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings on the initial date of application. Under this method, IFRS 15 will only be applied to contracts that are incomplete as at 1 January 2018.

The Company intends to adopt IFRS 15 as of January 1, 2018. The Company evaluated the impact of IFRS 15 on its revenue streams and selling contracts, if any, and on its financial reporting and disclosures and on the business processes, controls and systems. Based on such evaluation, management believes that the adoption of IFRS 15 will not have a significant impact on its consolidated financial statements.

Notes to the Financial Statements continued

For the year ended 31 December 2017

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability to pay rentals. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. At this stage, the Company does not intend to adopt the standard before its effective date. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, the following actions will have to be completed before the standard will become effective:

- performing a full review of all agreements to assess whether any additional contracts will become lease contracts under IFRS 16's new definition of a lease.
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated).
- Deciding which of the practical expedients to adopt.
- assessing current disclosures with respect to for current lease agreements (see Note 15.C).
- determining which optional accounting simplifications are available and whether to apply them.
- considering the IT system requirements.
- assessing the additional disclosures that might be required.

3 SIGNIFICANT MANAGEMENT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgement

- Capitalisation of internally developed intangible assets

Distinguishing the research and development phases of a new or substantially improved customised research and development project and determining whether the recognition requirements for the capitalisation of development costs are met, requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired. In addition, an intangible asset that was capitalised but not available for use is required to be tested for impairment once a year (see Note 9).

- Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions (see Notes 24.B. and 24.C.).

Estimation uncertainty

- Impairment of non-financial assets

In assessing impairment of non-financial assets (primarily, internally developed intangible assets – see Note 9), management estimates the recoverable amount of each asset or cash generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

- Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets (including capitalized development expenses recognized as an intangible asset) at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain intangible assets (see Notes 9 and 10).

- Fair value measurement of employees' options and warrants valuation

Management uses valuation techniques to determine the fair value of financial instruments (such as employees' options under share based compensation and warrants) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Notes 12 and 17).

4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	US dollars 31 December	
	2017	2016
In Sterling	**403,307**	226,687
In U.S. Dollar	**3,301,745**	1,350
In Euro	**16,626**	71,876
In New Israeli Shekel	**159,428**	35,810
	3,881,106	335,723

5 OTHER SHORT-TERM FINANCIAL ASSETS

As at 31 December 2017, this consisted of two short term 12 month deposits of $9,000,000 and of $2,000,000 earning annual interest rates of 1.75% and 1.04% respectively.

6 TRADE RECEIVABLES

Trade and other receivables consist of the following:

	US dollars 31 December	
	2017	2016
Trade receivables	**372,536**	222,339
Unbilled revenue	**180,114**	45,970
Less: provision for doubtful accounts	**(38,685)**	–
Total receivables	**513,965**	268,309

All amounts are short-term. The net carrying value of these receivables is considered a reasonable approximation of fair value. All of the Company's trade and other receivables have been reviewed for indicators of impairment.

Notes to the Financial Statements continued

For the year ended 31 December 2017

7 OTHER CURRENT ASSETS

The balance as at 31 December 2017 includes an amount of approximately $300,000 receivable as a grant from the European Union.

8 PROPERTY AND EQUIPMENT

Details of the Company's property and equipment are as follows

	US dollars					
	Testing equipment	Computers	Furniture and equipment	Vehicles	Leasehold improvements	Total
Gross carrying amount						
Balance 1 January 2017	33,445	104,794	43,124	47,743	–	229,106
Additions	–	108,450	4,525	–	13,448	126,423
Disposals	–	–	–	(47,743)	–	(47,743)
Balance 31 December 2017	33,445	213,244	47,649	–	13,448	307,786
Depreciation						
Balance 1 January 2017	(17,678)	(97,191)	(16,924)	(27,374)	–	(159,167)
Depreciation	(5,203)	(10,861)	(3,929)	(18)	(160)	(20,171)
Disposals	–	–	–	27,392	–	27,392
Balance 31 December 2017	(22,881)	(108,052)	(20,853)	–	(160)	(151,946)
Carrying amount						
31 December 2017	**10,564**	**105,192**	**26,796**	**–**	**13,288**	**155,840**

	US dollars				
	Testing equipment	Computers	Furniture and equipment	Vehicles	Total
Gross carrying amount					
Balance 1 January 2016	18,386	99,875	42,748	47,743	208,752
Additions	15,059	4,919	376	–	20,354
Balance 31 December 2016	33,445	104,794	43,124	47,743	229,106
Depreciation					
Balance 1 January 2016	(17,124)	(91,954)	(13,080)	(20,213)	(142,371)
Depreciation	(554)	(5,237)	(3,844)	(7,161)	(16,796)
Balance 31 December 2016	(17,678)	(97,191)	(16,924)	(27,374)	(159,167)
Carrying amount					
31 December 2016	**15,767**	**7,603**	**26,200**	**20,369**	**69,939**

9 INTANGIBLE ASSET

Details of the Company's intangible asset is as follows:

	US dollars Total
Gross carrying amount	
Balance 1 January 2017	1,344,849
Additions (*)	2,076,539
Deduction of government grant	(95,820)
Balance 31 December 2017	3,325,568
Amortization	
Balance 1 January 2017	38,951
Amortization	116,064
Balance 31 December 2017	155,015
Carrying amount 31 December 2017	**3,170,553**

(*) The additions include $117,542 of share based compensation.

	US dollars Total
Gross carrying amount	
Balance 1 January 2016	624,635
Additions	1,033,389
Deduction of government grant	(313,175)
Balance 31 December 2016	1,344,849
Amortization	
Balance 1 January 2016	4,513
Amortization	34,438
Balance 31 December 2016	38,951
Carrying amount 31 December 2016	**1,305,898**

As described in Note 2.J. applicable development costs are capitalised and are amortised over the period of expected benefit from such costs, which is estimated at ten years.

Notes to the Financial Statements continued

For the year ended 31 December 2017

10 SHORT-TERM BORROWINGS

Borrowings include the following financial liabilities:

	Annual% Interest rate[1]	US dollars 31 December	
	2016	**2017**	2016
Bank borrowings [2]	5.6%	**–**	128,969
Current maturities of long-term liabilities (see Note 14)		**–**	31,287
Total short-term borrowings		**–**	**160,256**

(1) The loans bore variable interest of 5.6%. The above interest rate is the weighted average rate as of 31 December 2016.

(2) The Company has an unused credit facility of 500,000 NIS (approx. $145,000).

11 OTHER CURRENT LIABILITIES

Other short-term liabilities consist of:

	US dollars 31 December	
	2017	2016
Salaries, wages and related costs	**195,269**	181,972
Provision for vacation	**111,630**	126,762
Current portion of OCS royalty liability (see Note 13)	**20,120**	52,016
Accrued expenses and other	**203,610**	89,289
Related parties (see Note 28.A)	**401,142**	741,252
Total other short-term liabilities	**931,771**	1,191,291

12 SHAREHOLDERS LOANS

Short-term liabilities to shareholders consist of:

	US dollars 31 December	
	2017	2016
Shareholder loans [1] [2]	**–**	527,568
Total other short-term liabilities	**931,771**	1,191,291

(1) The CEO lent funds to the Company to finance the Company's working capital. The loan bore 6% interest until January 2017 and thereafter increased to 8%. The loan was fully repaid in 2017.

(2) In November 2016, some of the shareholders advanced to the Company short-term loans totaling $270,000 to finance the costs of admission to the AIM exchange ("Admission"). Upon the Admission, the Company repaid $297,000 to these shareholders in full repayment of their short-term loans. In addition, upon the Admission on 29 June 2017, each of these above-mentioned shareholders were granted twelve month warrants to purchase $270,000 of ordinary shares with an exercise price equaling the price that shares were issued to the public in connection with the admission, being GBP 1.40. The warrants represent an embedded derivative (equity kicker) since the economic characteristics and risks of such an equity-based return are not closely related to the economic characteristics of the host shareholders loan. Accordingly, upon receipt of the loan, the Company recognised the warrants as a derivative liability at its fair value using the following assumptions: The probability of the admission was determined by management as a likelihood of 90%, volatility of 41.3%, expected term of one year, interest rate of 0.79% and accordingly was valued at $43,300. The remaining consideration received by the Company was allocated to the shareholder loan (the host) as of 31 December 2016. The initial fair value of the warrants was valued at $43,300 and was shown as a separate short-term derivative liability. The balance of these shareholder loans were accordingly initially recorded at the amortized value of $226,700 (net of the discount of $43,300). The difference between the amount recorded and the amount expected to be repaid to the shareholders is recorded in profit and loss over the expected period of the loan. As at 31 December 2017, the warrants had less than 6 months until expiry and as the share price was lower than the exercise price of the warrants, the warrant liability was valued at a lower value, being approximately $15,800. The change in the fair value of this warrant liability was included as part of finance expenses in 2017.

13 OCS ROYALTY LIABILITY

	US dollars 31 December	
	2017	2016
Balance at 1 January	**99,407**	123,371
Royalties paid	**(93,034)**	(35,670)
Amounts recorded in profit or loss	**13,747**	11,706
Balance at 31 December	**20,120**	99,407
Less: short-term component included in Other Liabilities	**(20,120)**	(52,016)
Long-term royalty liability	**–**	47,391

As described in Note 2.K., the Company received research and development grants from the Office of the Chief Scientist in Israel ("OCS") of approximately $3,050,000 and undertook to pay royalties of approximately 3.5% of revenues derived from research and development projects that were financed by these grants up to 100% of the amounts received. The amounts shown in the statement of financial position are management's best estimate of the long-term liabilities from royalties that will be payable on OCS funded technologies before such technologies are discontinued by the end of 2018. The short-term portion of such royalty liability is included in Other Short-Term Liabilities. This royalty liability has been amortised at a 7.9% interest rate, with the financing component recorded in Finance costs. As at 31 December 2017, the Company has repaid approximately $490,000 of these grants, in the form of royalties. The maximum amount of royalties that would be payable, if the Company had unlimited revenue attracting royalty obligations, would be approximately $2,700,000 at 31 December 2017.

14 LONG-TERM BORROWINGS

Long-term liabilities consist of:

	Annual% Interest rate[1]	US dollars 31 December	
	2016	**2017**	2016
Bank borrowings [1]	4.60%	**7,522**	130,135
Current maturities		**–**	(31,287)
Total long-term borrowings		**7,522**	**98,848**

[1] The balance at 31 December 2016 is primarily comprised of a loan received in 2016 from the Fund for Medium-Sized Businesses, through a bank, amounting to $120,376, of which 75% is guaranteed by the State of Israel. The loan bore interest of 4.3%. The loan was repayable (principal and interest) in 60 monthly instalments ending in February 2021. During 2017 this loan was fully repaid and the lien on a bank deposit was subsequently removed (See Note 5).

Notes to the Financial Statements continued

For the year ended 31 December 2017

15 COMMITMENTS AND CONTINGENT LIABILITIES

A. During the years 2005 through 2012, the Company received grants from the OCS (Israeli Office of the Chief Scientist) totaling approximately $3 million, to support the Company's various research and development programs. The Company is required to pay royalties to the OCS at a rate of 3.5%, of the Company revenue up to an amount equal to the grants received, plus interest from the date of the grant. The total amount including interest is approximately $2.7 million. Such contingent obligation has no expiration date. See Note 13 for more details.

B. In 2011 the Company granted to the bank, an unlimited lien on trade receivables from a specific customer. The amounts receivable from this customer at 31 December were:

	US dollars	
	2017	2016
	–	67,083

C. In January 2009, the Company signed a one year lease agreement for the usage of 470 sq. m. as its primary offices, in the Industrial area of Lod, Israel. The lease was renewed for short periods and in November 2011, the lease was extended until March 2016 at which time it was renewed for an additional year at a monthly commitment of approximately $6,800. In March 2017, the lease was again renewed for another 12 months at the same monthly commitment.

As of December 2017, the Company committed to a three year lease agreement and moved its primary offices to another location in the Industrial area of Lod, Israel. At the termination of the lease, the Company has an option to renew it for a further two years. In addition the Company signed two other one year lease agreements for a total of 26 parking bays, with an option to extend them for another year. The approximate Company commitments regarding these leases (denominated in New Israeli Shekels) are:

	NIS	USD
2018	619,000	179,000
2019	543,000	157,000
2020	505,000	146,000

D. Effective September 2016, the Company signed a marketing consultancy agreement for the sale of its products in North America. The monthly fee of $5,000 is in addition to a commission payable to the consultant for revenues generated through the consultant. The commissions start at 20% of revenues up until annual revenues of $1 million and thereafter the commission rate reduces to 6% and then once $4.3 million of annual revenues have been reached the rate reduces to 2%. The consultant also received 20,000 stock options vesting over 4 years and exercisable at $2.00 per option (see Note 17.A). The agreement may be terminated by either side on 30 days' notice.

16 EQUITY

A. Details regarding share capital and number of shares at 31 December 2017 and at 31 December 2016 are:

	US dollars 31 December	
	2017	2016
Preferred shares of NIS 0.001 par value	**–**	847
Ordinary shares of NIS 0.001 par value	**8,028**	4,111
Total share capital	**8,028**	4,958

Number of shares at 31 December 2016:

	Authorized	Issued and paid-in
Preferred shares of NIS 0.001 par value	**9,719,300**	3,725,400
Ordinary shares of NIS 0.001 par value	**40,280,700**	18,078,500
	50,000,000	21,803,900

Number of shares at 31 December 2017:

	Authorized	Issued and paid-in
Preferred shares of NIS 0.001 par value	**9,719,300**	–
Ordinary shares of NIS 0.001 par value	**40,280,700**	32,518,186
	50,000,000	32,518,186

In the first half of 2017, prior to the IPO, the Company effected a 10:1 share split of all its authorized and issued, ordinary and preferred shares. The par value of the Company's shares reduced from NIS 0.01 to NIS 0.001. In addition, the number of all options and warrants granted prior to the share split, increased tenfold and the exercise price reduced by 90%. All share amounts in these financial statements have been adjusted to reflect this 10:1 share split.

B. Description of the rights attached to the Ordinary Shares

All ordinary shares have equal rights including voting rights, rights to dividends and to distributions upon liquidation. They confer their holder the rights to receive notices, attend and vote at general meetings.

C. Other components of equity include the following:

- Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuance of shares are deducted from the share premium, net of any related income tax benefit.
- Capital reserve includes the value of equity-settled share-based payments provided to employees and third parties.

D. Description of the rights attached to the Preferred Shares

During 2005, 2006 and 2012, the Company issued Series A Preferred Shares of NIS 0.01 par value to strategic shareholders. The issue price of the preferred shares is $3.29 per share. Prior to conversion of the preferred shares into ordinary shares upon the consummation of the IPO in June 2017, the rights of the preferred shares were:

Dividend preference

Notes to the Financial Statements continued

For the year ended 31 December 2017

Preferred shares carry a dividend preference up to $3.29 per share. After this amount per preferred share has been distributed, the dividend preference ceases and the preferred shares will participate pro rata with the ordinary shares in receipt of any additional dividends on an as-converted basis. The $3.29 per preferred share distributed will be paid out 80% to the preferred shareholders and 20% to the Company founders. The dividend preference may be waived in whole or part by a majority of the preferred shareholders together with the mutual consent of the two founders.

Conversion into ordinary shares

Preferred shareholders could convert their shares at any time into fully paid ordinary shares on a 1 for 1 basis. The preferred shares automatically converted into ordinary shares upon the consummation of the IPO. If prior to the IPO, the Company issued shares at a price below $3.29, then the preferred shares could have been convertible at a greater than a 1 for 1 basis according to the anti-dilutive formula described in the Articles of Association.

Voting rights

The preferred shares may generally vote together with the ordinary shares of the Company (and not as a separate class) in all shareholders meetings, with each preferred share having the number of votes as if then converted into ordinary shares ("on an as-converted basis").

Liquidation rights

Preferred shares carry a liquidation preference up to $3.29 per share upon actual liquidation or upon a M&A transaction. After this amount per preferred share has been paid, the liquidation preference is cancelled and the preferred shares will participate in the balance of the liquidation distributions, pro rata with the ordinary shares on an as-converted basis. The $3.29 per preferred share distributed will be paid out 80% to the preferred shareholders and 20% to the Company founders. This liquidation preference may be waived in whole or part by a majority of the preferred shareholders together with the mutual consent of the two founders. All such deemed liquidation events are subject to the approval of the Board of Directors of the Company.

E. IPO – Admission to the AIM exchange in London

On 29 June 2017 the Company completed an IPO together with being admitted to trading on the AIM Stock Exchange and issued 10,714,286 ordinary shares at a price of GBP 1.40 per share, for a total consideration of approximately $19,444,000 (GBP 15,000,000) before underwriting and issuance expenses. Total net proceeds from the issuance amounted to approximately $17,800,000. Concurrent with the IPO, all the preferred shares were mandatorily converted into ordinary shares on a 1:1 basis, as mentioned in Note 16.D. The Company trades on the AIM Stock Exchange under the symbol "ENET".

Immediately after the IPO the Company issued certain prior shareholders, one year warrants to purchase up to 148,778 shares of the Company at an exercise price of GBP 1.40 (see Note 12). At the same time, the Company also issued five-year options to the IPO broker to purchase up to 162,591 shares of the Company at an exercise price of GBP 1.40 (see Note 17.D.)

17 SHARE-BASED COMPENSATION

A. In 2013 the Company's Board of Directors approved a share option plan for the grant of options without consideration, to employees, service providers, officers and directors of the Company. The options are exercisable into the Company's ordinary shares of NIS 0.01 par value. The exercise price and vesting period for each grantee of options is determined by the Company's Board of Directors and specified in such grantee's option agreement. In accordance with Section 102 of the Israel tax code, the Israeli resident grantees' options, are held by a trustee. The options are not cashless (they need to be paid for) and expire upon the expiration date determined by the Board of Directors. The expiration date may be brought forward, upon the termination of grantee's employment or services to the Company. Options do not vest after the termination of employment or services to the Company. Options are not entitled to dividends.

The following table summarises the salient details and values regarding the options granted to employees (all amounts are in US Dollars unless otherwise indicated):

	1 Oct 2016	15 Oct 2016	5 Mar 2017	15 Mar 2017
Number of options granted	20,000	200,000	109,000	40,000
Recipients of the options	employee	consultant	employee	employee
Approximate fair value at grant date:				
Total benefit	5,894	54,392	102,369	24,690
Per option benefit	0.29	0.27	0.94	0.62
Assumptions used in computing value:				
Risk-free interest rate	1.39%	1.54%	2.50%	2.50%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	44%	44%	46%	46%
Expected term (in years)	2	2	10	10
Expensed amount recorded for year ended:				
31 December 2016	3,263	29,833	–	–
31 December 2017	209	1,641	44,105	–
Capitalised amount recorded for year ended:				
31 December 2017	–	–	–	11,295

	9 Jul 2017	10 Jul 2017	8 Aug 2017	6 Sep 2017	24 Sep 2017
Number of options granted	210,000	30,000	80,000	30,000	30,000
Recipients of the options	employee	employee	employee	employee	employee
Approximate fair value at grant date:					
Total benefit	335,982	42,637	111,498	40,957	38,389
Per option benefit	1.60	1.42	1.39	1.37	1.28
Assumptions used in computing value:					
Risk-free interest rate	2.39%	2.38%	2.29%	2.07%	2.26%
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	40%	40%	40%	40%	40%
Expected term (in years)	10	10	10	10	10
Expensed amount recorded for year ended:					
31 December 2017	–	–	23,223	–	–
Capitalised amount recorded for year ended:					
31 December 2017	84,360	10,645	–	6,831	5,422

The value of these options at 31 December 2017 which have yet to be recorded as expenses, amount to $538,951.

Notes to the Financial Statements continued

For the year ended 31 December 2017

B. The following table presents a summary of the status of the option grants by the Company as of 31 December, 2017 and 2016:

	Number	Weighted average exercise price (US$)
Year ended 31 December 2017		
Balance outstanding at beginning of year	2,626,920	0.11
Granted	529,000	1.27
Exercised	–	–
Forfeited	–	–
Balance outstanding at end of the year	3,155,920	0.30
Balance exercisable at the end of the year	2,375,420	

	Number	Weighted average exercise price (US$)
Year ended 31 December 2016		
Balance outstanding at beginning of year	2,446,920	0.10
Granted	220,000	0.20
Exercised	–	–
Forfeited	(40,000)	0.10
Balance outstanding at end of the year	2,626,920	0.11
Balance exercisable at the end of the year	2,268,420	

C. The following table summarizes information about options outstanding at 31 December 2017:

Excercise price	Outstanding at 31 December 2017	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Excercisable at 31 December 2017	Weighted average remaining contractual life (years)
$0.10	2,406,920	5.7	0.10	2,320,420	5.6
$0.20	329,000	9.2	0.20	55,000	9.2
£1.05	40,000	9.2	1.28	–	–
£1.05	210,000	9.5	1.36	–	–
£1.43	30,000	9.5	1.84	–	–
£1.41	80,000	9.6	1.84	–	–
£1.40	30,000	9.7	1.83	–	–
£1.40	30,000	9.7	1.89	–	–
	3,155,920			2,375,420	

The following table summarizes information about options outstanding at 31 December 2016:

Excercise price	Outstanding at 31 December 2016	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Excercisable at 31 December 2016	Weighted average remaining contractual life (years)
$0.10	2,406,920	6.7	0.10	2,268,420	6.6
$0.20	220,000	9.8	0.20	–	–
	2,626,920			2,268,420	

The fair value of options granted to employees was determined at of the date of each grant. The fair value of the options granted are expensed in the profit and loss, except for those allocated to capitalised research and development costs.

D. Options issued to the IPO broker

Upon the IPO consummation (see Note 16.E.) the Company issued five-year options to the IPO broker to purchase up to 162,591 shares of the Company at an exercise price of GBP 1.40. These options were valued at approximately $121,000 with the Black Scholes option model, using the assumptions of a risk free rate of 1.82% and volatility of 46%. The options may only be exercised after 28 June 2018. As described in Note 2.U., costs incurred in raising equity finance is applied as a reduction from those equity sale proceeds and is recorded in Other Components of Equity.

18 REVENUE

	US dollars Year ended 31 December	
	2017	2016
Sales	**1,236,335**	1,883,095
Royalties	**282,326**	278,271
Total revenue	**1,518,661**	2,161,366

19 RESEARCH AND DEVELOPMENT EXPENSES

	US dollars Year ended 31 December	
	2017	2016
Employee remuneration, related costs and subcontractors (*)	**44,126**	106,762
Maintenance of software and computers	**24,983**	66,005
Insurance and other expenses	**30,605**	14,668
Amortization	**116,064**	34,438
Total research and development expenses	**215,778**	221,873
* Including share based compensation of	**–**	8,137

Notes to the Financial Statements continued

For the year ended 31 December 2017

20 GENERAL AND ADMINISTRATIVE EXPENSES

	US dollars Year ended 31 December 2017	2016
Employee remuneration and related costs (*)	**113,440**	104,475
Professional fees	**251,848**	61,212
Rentals and maintenance	**166,087**	140,003
Depreciation	**20,153**	9,633
Travel expenses	**3,117**	1,891
Doubtful debts	**37,258**	–
Total general and administrative expenses	**591,903**	317,214
* Including share based compensation of	**44,314**	3,263

21 MARKETING EXPENSES

	US dollars Year ended 31 December 2017	2016
Employee remuneration and related costs (*)	**158,429**	143,770
Marketing expenses	**320,252**	102,054
Travel expenses	**77,907**	30,857
Total marketing expenses	**556,588**	276,681
* Including share based compensation of	**24,864**	29,833

22 OTHER INCOME

As described in Note 2.K, when the grant is related to an expense item, it is recognised as other income. An amount of US$203,618 relating to the grant has been included in Other Income for the year ended 31 December 2017.

23 FINANCING COSTS (INCOME

	US dollars Year ended 31 December 2017	2016
Bank fees and interest	**54,264**	56,159
Interest and revaluation of embedded derivative on shareholder loans	**31,463**	16,428
Interest received	**(69,472)**	–
Exchange rate differences	**(23,507)**	15,093
Total financing costs (income)	**(7,252)**	87,680

24 TAX BENEFIT

A. The Company is assessed for income tax in Israel - its country of incorporation. The Israeli corporate tax rates for the relevant years are:

	%
2015	26.5
2016	25.0
2017	24.0
2018	23.0

B. As of 31 December 2017, the Company has carry-forward losses for Israeli income tax purposes of approximately $5 million. According to the revised management's estimation of the Company's future taxable profits, management continues to consider if possible that future taxable profits would be available against which the tax losses

C. Deferred taxes

	US dollars Year ended 31 December		
	Origination and reversal of temporary differences	Utilisation of previously recognised tax loss carry-forwards	Total Deferred tax expense
Balance at 1 January 2016	195,134	54,866	250,000
Additions	(8,362)	558,362	550,000
Balance at 31 December 2016	186,772	613,228	800,000
Balance at 31 December 2017	**186,772**	**613,228**	**800,000**

25 BASIC AND DILUTED EARNINGS PER ORDINARY SHARE

A. The earnings and the weighted average number of shares used in computing basic earnings per ordinary share, are as follows:

	US dollars Year ended 31 December	
	2017	2016
Profit for the year	**159,471**	800,821
Less: Profit attributed to preferred shares	**10,702**	136,828
Profit for the year attributable to ordinary shareholders	**148,769**	663,993

	Number of shares Year ended 31 December	
	2017	2016
Weighted average number of ordinary shares used in the computation of basic earnings per ordinary share	**25,397,245**	18,078,500

Notes to the Financial Statements continued

For the year ended 31 December 2017

B. The earnings and the weighted average number of shares used in computing diluted earnings per ordinary share, are as follows:

	US dollars Year ended 31 December	
	2017	2016
Profit for the year	**159,471**	800,821
Less: Profit attributed to preferred shares	**10,702**	136,828
Profit for the year attributable to ordinary shareholders	**148,769**	663,993

	Number of shares Year ended 31 December	
	2017	2016
Weighted average number of ordinary shares	**25,397,245**	18,078,500
Weighted average number of free shares from share options	**2,581,852**	1,993,610
Weighted average number of ordinary shares used in the computation of diluted earnings per ordinary share	**27,979,097**	20,072,110

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. Financial risk management risk

The activity of the Company exposes it to a variety of financial risks and market risks. The Company re-assesses the financial risks in each period and makes appropriate decisions regarding such risks. The risks are managed by Company Management which identifies, assesses and hedges against the risks.

- Exposure to changes in exchange rates

The Company is exposed to risks relating to changes in the exchange rate of the NIS and other currencies versus the U.S. dollar (which constitutes the Company's functional currency). Most of the revenues of the Company are expected to be denominated in US dollars, while the substantial majority of its expenses are in shekels (mainly payroll expenses). Therefore a change in the exchange rates may have an impact on the results of operations of the Company.

			US dollars 31 December 2017		
	NIS	**GBP**	**Euro**	**US $**	**Total**
Assets					
Cash and cash equivalents	159,428	403,307	16,626	3,301,745	3,881,106
Other short-term financial assets	–	–	–	11,069,472	11,069,472
Trade receivables	85,114	–	32,606	396,245	513,965
Other current assets	1,731	–	299,438	–	301,169
	246,273	403,307	348,670	14,767,462	15,765,712
Liabilities					
Trade payables	212,789	–	–	12,298	225,087
Other liabilities	911,651	–	–	20,120	931,771
Warrants liability, at fair value	–	–	–	15,770	15,770
Long term borrowings	7,522	–	–	–	7,522
	1,131,962	-	-	48,188	1,180,150
	(885,689)	403,307	348,670	14,719,274	14,585,562

			US dollars 31 December 2016		
	NIS	GBP	Euro	US $	Total
Assets					
Cash and cash equivalents	35,810	226,687	71,876	1,350	335,723
Other short-term financial assets	58,518	–	–	–	58,518
Trade receivables	67,083	–	22,180	179,046	268,309
Other current assets	6,326	–	–	–	6,326
	167,737	226,687	94,056	180,396	668,876
Liabilities					
Short term borrowings	150,215	–	–	10,041	160,256
Trade payables	121,960	–	–	–	121,960
Other liabilities	1,139,275	–	–	52,016	1,191,291
Shareholders loans	292,463	–	–	235,105	527,568
Warrants liability, at fair value	–	–	–	43,309	43,309
OCS royalty liability	–	–	–	47,391	47,391
Long term borrowings	98,848	–	–	–	98,848
	1,802,761	–	–	387,862	2,190,623
	(1,635,024)	226,687	94,056	(207,466)	(1,521,747)

Notes to the Financial Statements continued

For the year ended 31 December 2017

- Sensitivity to changes in exchange rates of the NIS and other currencies to the US dollar

	US dollars Sensitivity to changes in exchange rates of the non US dollar currencies to the US dollar				
	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor Increase at the rate of		Book value 31 December	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor Decrease at the rate of	
	10%	5%	2017	5%	10%
Cash and cash equivalents	(57,936)	(28,968)	579,361	28,968	57,936
Trade receivables	(11,772)	(5,886)	117,720	5,886	11,772
Other current assets	(30,117)	(15,058)	301,169	15,058	30,117
Trade payables	21,279	10,639	(212,789)	(10,639)	(21,279)
Other liabilities	91,165	45,583	(911,651)	(45,583)	(91,165)
Long term borrowings	752	376	(7,522)	(376)	(752)
Total	**13,371**	**6,686**	**(133,712)**	**(6,686)**	**(13,371)**

	US dollars Sensitivity to changes in exchange rates of the non US dollar currencies to the US dollar				
	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor Increase at the rate of		Book value 31 December	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor Decrease at the rate of	
	10%	5%	2016	5%	10%
Cash and cash equivalents	(33,437)	(16,719)	334,373	16,719	33,437
Other short-term financial assets	(5,852)	(2,926)	58,518	2,926	5,852
Trade receivables	(8,926)	(4,463)	89,263	4,463	8,926
Other current assets	(633)	(316)	6,326	316	633
Borrowings	15,022	7,511	(150,215)	(7,511)	(15,022)
Trade payables	12,196	6,098	(121,960)	(6,098)	(12,196)
Other liabilities	113,928	56,964	(1,139,275)	(56,964)	(113,928)
Shareholders loans	29,246	14,623	(292,463)	(14,623)	(29,246)
Long term borrowings	9,885	4,942	(98,848)	(4,942)	(9,885)
Total	**131,429**	**65,714**	**(1,314,281)**	**(65,714)**	**(131,429)**

- Credit risk

All of the cash and cash equivalents and other short-term financial assets as of 31 December 2017 are deposited with one of the major banks in Israel.

Trade receivables as of 31 December 2017 are from customers in Israel, the U.S., Asia and countries of the European Union, including a few major customers. The Company performs ongoing reviews of the credit granted to customers and the possibility of loss therefrom and includes an adequate allowance for specific accounts whose collection is doubtful.

- Liquidity risk

The Company financed its activities from its operations, Shareholders' loans and short and long-term borrowings from the bank. Subsequent to the IPO in June 2017, the Company has large cash resources to finance and expand its operations.

B. Fair value of financial instruments

General

The financial instruments of the Company include mainly trade receivables and debit balances, credit from banking institutions and others, trade payables and credit balances, OCS liability, warrant liability at fair value and balances from transactions with shareholders.

The principal methods and assumptions used in calculating the estimated fair value of the financial instruments are as follows:

Financial instruments included in current asset items

These instruments (trade receivables and debit balances) are of a current nature and, therefore, the balances as of 31 December, 2017 and 2016 approximate fair value.

Financial instruments included in current liability items

These instruments (credit from banking institutions and others, trade payables and credit balances, suppliers and service providers and balances from transactions with shareholders) - in view of the current nature of such instruments, the balances as of 31 December, 2017 and 2016 approximate fair value.

C. Capital management

The objectives of the Company's policy are to maintain its ability to continue operating as a going concern with a goal of providing the shareholders with a return on their investment and to maintain a beneficial equity structure with a goal of reducing the costs of capital. The Company may take different steps toward the goal of preserving or adapting its equity structure, including a return of equity to the shareholders and/or the issuance of new shares for purposes of paying debts and for purposes of continuing the research and development activity conducted by the Company. For the purpose of the Company's capital management, capital includes the issued capital, preference shares, share premium and all other equity reserves attributable to the equity holders of the Company.

27 SEGMENT REPORTING

The Company has implemented the principles of IFRS 8, in respect of reporting segmented activities. In terms of IFRS 8, the management has determined that the Company has a single area of business, being the development and delivery of high end network processing technology.

Notes to the Financial Statements continued

For the year ended 31 December 2017

The Company's revenues from customers are divided into the following geographical areas:

	US dollars Year ended 31 December	
	2017	2016
Asia	**66,439**	423,015
Europe	**580,772**	404,218
Israel	**397,464**	1,124,133
United States	**473,987**	210,000
	1,518,662	2,161,366

	% Year ended 31 December	
	2017	2016
Asia	**4.4%**	19.6%
Europe	**38.2%**	18.7%
Israel	**26.2%**	52.0%
United States	**31.2%**	9.7%
	100.0%	100.0%

Revenue from customers in the company's domicile, Israel, as well as its major market, the Unites States, Asia and Europe, have been identified on the basis of the customer's geographical locations.

The Company's revenues from major customers as a percentage of total revenue was:

	% Year ended 31 December	
	2017	2016
Customer A	**22%**	44%
Customer B	**19%**	0%
Customer C	**12%**	0%
Customer D	**10%**	0%
Customer E	**9%**	19%
	100.0%	100.0%
	72%	63%

28 RELATED PARTIES

A. Founders

In accordance with the employment agreements of the two founders of the Company, Mr. David Levi and Mr. Baruch Shavit, both are entitled to an annual bonus of 5% of the Company's revenue for the years 2012-2015, if the Company has positive cash flow from operations. This is in addition to their salaries and share based compensation.

The two founders of the Company were together entitled to 20% of the dividend preference payable to preferred shareholders, as described in Note 16.D above.

In April 2017, the employment agreement of the two founders of the Company was amended, in terms of which each of them is entitled to a performance bonus of 5% of the Company's annual profit before tax. For each year. the bonus shall be capped at $250,000 each.

B. Chief Financial Officer

In March 2017 the Company appointed Mark Reichenberg as CFO of the Company at 35% of a full time basis, at a monthly cost to the Company of approximately $4,750. Upon admission to AIM, his time commitment and salary doubled. Either side may terminate the employment upon 30 days' notice. Mr. Reichenberg also received 109,000 ESOP options, vesting over four years, exercisable at $0.20 per option and with an expiration date in March 2027. Mr. Reichenberg was appointed as a director on 29 June 2017.

C. Directors' remuneration for the year ended 31 December 2017

		US dollars			
Name	Position	Salary and benefits	Annual bonus	Share based compensation	Total
Graham Woolfman [1][3]	Non Executive Chairman	20,109	–	–	20,109
David Levi	Chief Executive Officer	224,840	8,860	–	233,700
Mark Reichenberg [1]	Chief Financial Officer	80,879	–	44,105	124,984
Shavit Baruch	VP Research & Development	224,843	8,860	–	233,703
Neil Rafferty [1][3]	Non Executive Director	16,088	–	–	16,088
Chen Saft-Feiglin [2][3]	Non Executive Director	2,597	–	–	2,597
Zohar Yinon [2][3]	Non Executive Director	2,820	–	–	2,820
		572,176	**17,720**	**44,105**	**634,001**

(1) Appointed 29 June 2017.

(2) Appointed 15 November 2017.

(3) Independent director.

Notes to the Financial Statements continued
For the year ended 31 December 2017

Name	Shares Direct holdings	Shares Beneficial holdings	Shares Total shares held	Options Unexercised vested options	Options Unvested options	Options Total options
Graham Woolfman	–	10,715	10,715	–	–	–
David Levi	6,767,900	–	6,767,900	60,710	–	60,710
Shavit Baruch	4,500,000	–	4,500,000	60,710	–	60,710
Mark Reichenberg [(1)]	–	–	–	–	109,000	109,000
Neil Rafferty	7,143	–	7,143	–	–	–
Chen Saft-Feiglin	–	–	–	–	–	–
Zohar Yinon	–	–	–	–	–	–
	11,275,043	10,715	11,285,758	121,420	109,000	230,420

[(1)] 27,250 of the unvested options vested on 5 March 2018

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