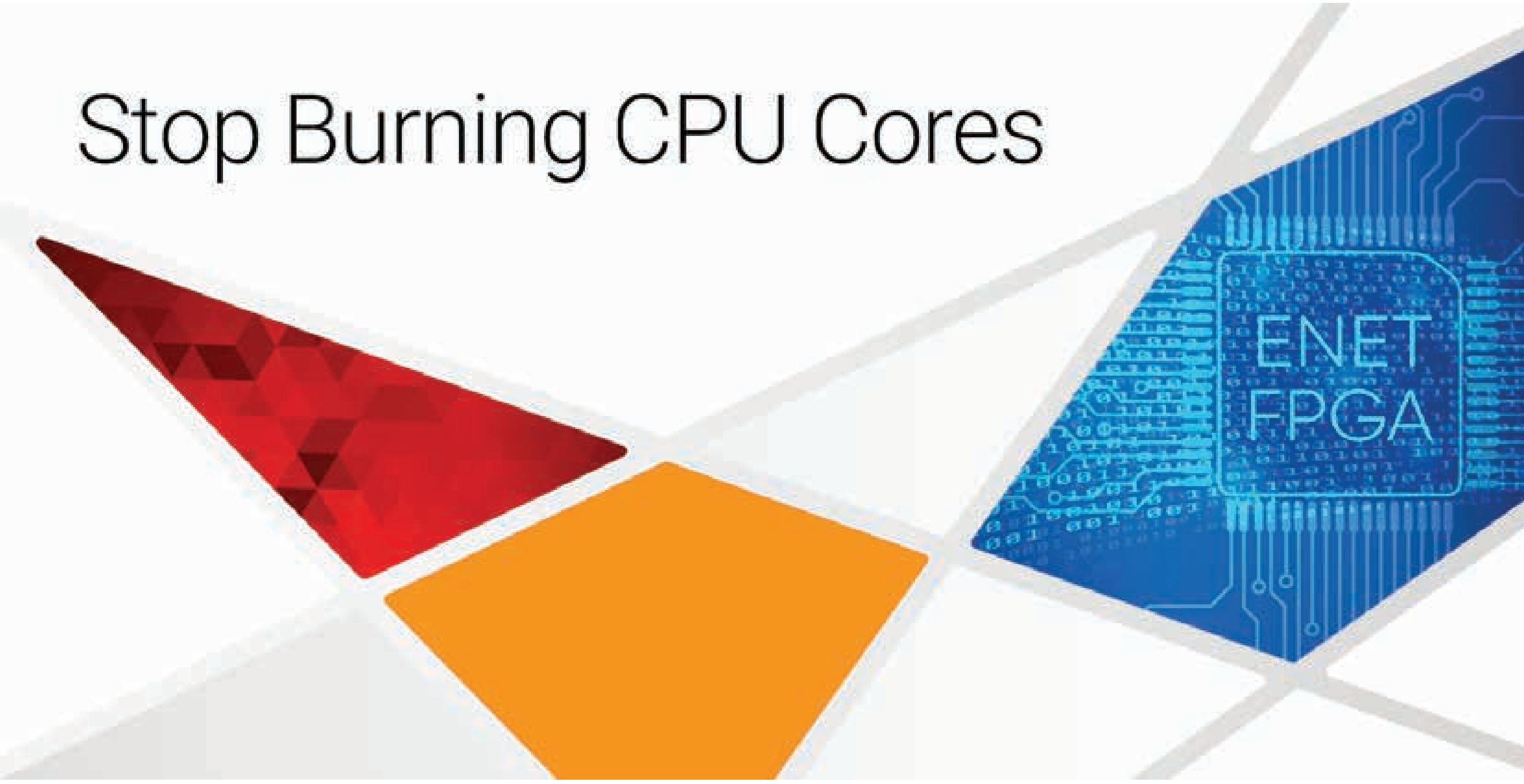

Annual Report and Financial Statements For the Year Ended 31 December 2018

Ethernity Networks Ltd

Company registration number: 51-347834-7.

Ethernity Networks, headquartered in Israel, provides innovative networking and security solutions on programmable hardware for accelerating telco/cloud networks. Ported onto any FPGA, Ethernity's software offers complete data plane processing with a rich set of networking features, robust security, and a wide range of virtual functions to optimise the network. The Company's ACE-NIC smart network adapters, ENET SoCs, and turnkey network appliances offer best-in-class all-programmable platforms for the telecom, cloud service provider, and enterprise markets offering its customers complete solutions that quickly adapt to their changing needs, improving time-to-market and facilitating the deployment of edge computing, 5G, IoT, and NFV.

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.

Contents

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	
Registered office	13A Hamelacha Street Lod Industrial Park 7152025 Israel	
Auditor	Fahn Kanne & Co. Grant Thornton Israel 32 Hamasger Street Tel Aviv 6721118 Israel	
Registrars	Link Market Services (Guernsey) Limited Mont Crevelt House, Bulwer Avenue St. Sampson, Guernsey GY2 4LH	
Nominated Adviser and Broker	Arden Partners plc 125 Old Broad Street London EC2N 1AR	
UK Solicitors	Howard Kennedy LLP No.1 London Bridge London SE1 9BG	
Israel Solicitors	Gornitzky & Co 45 Rothschild Blvd. Tel Aviv 6578403 Israel	
Public Relations	In house	

Chairman's Statement

During 2018 Ethernity continued to develop its patented products and technology solutions across a range of applications and related markets in the network and cloud data management arenas.

Specific product and design solutions were delivered during the year resulting in first technology licensing agreements with two Tier1 OEM customers, that will generate recurrent revenue streams due to commence in 2019 and then in following years.

Following on from the previous year, legacy royalty and FPGA income remained low as anticipated during the year due to historic customers not producing revenue from this generation of products. However, going forward licensing income is anticipated to recover in 2019 and this is set out in further detail in the Chief Executive`s Review below.

During the year the management's focus continued on developing the Sales and Marketing and Research and Development team's strength and infrastructure, as the Company deployed resources to support existing customers and to target new business opportunities.

The Company traded in line with expectations for the year with revenue delivery in 2018 being relatively low due to market delays and customer positioning. This is outlined further in the Strategic and Financial Review set out below.

Revenues for 2018 were $1.12m (2017 $1.52m) with gross margin of $0.813m (2017 $1.3m) and operating loss of $2.7m (2017 $0.152m profit) respectively. The Company continued a managed investment programme, investing approximately $4m (2017 $1.95m) in R&D and related expenditure.

At the year end the Company`s cash balance available for working capital and investment for growth was $8.5m (2017 $14.9m). The Company maintains close management of the use of cash resources and the rate of deployment of cash is monitored by management and the Board with a view to adjusting cash utilisation and maintaining cash reserves to meet trading requirements.

Since the year end, Ethernity has continued with its investment programme which is focussed on customer led product and service development directly related to customer relationships. Sales and market opportunities are developed based on a continued presence and profile within the network and data management sectors, where the Company`s IP and technology innovation maintains a considerable profile.

The Board remains conscious of the uncertainties over the timing of the securing of customer orders and receipt of revenues from product sales and licensing transactions. This remains a challenge for the executive management in predicting when substantive revenues and related profits will be earned, including for the current financial year. However, the Board is confident that the Company`s solutions continue to be well received and will translate to significant revenues in the years ahead.

The Board is very appreciative of the considerable efforts of our management and staff, who all work tirelessly towards the development, sales and administrative goals of the Company. I thank them for their continuing hard work and commitment to the Company.

Outlook

It is apparent that 2019 will be another year of challenges to steadily develop customer partnerships and relationships and grow the revenue delivery from a relatively low base. However, the Board is confident that progress will be made during the year and of building value over the longer term for shareholders.

Graham Woolfman
Chairman

11 June 2019

Chief Executive's Statement

Business and Market Overview

Ethernity Networks operates in a market which is evolving and undergoing significant change. This includes the growing use of FPGA devices for networking appliances and the transition to 5G networks which will provide higher data throughput to users and Network Function Virtualization (NFV).

The Company presents its technology and appliances to OEMs and other partners responsible for integration, delivery and support of overall solutions with embedded Ethernity technology, in FPGA Smart NIC or appliances. The Company has continued to build its R&D and Sales and Marketing infrastructure to enable the Company to move from a technology / IP company to a solutions and complete product provider.

Central to all of Ethernity`s delivery is patented architecture which produces the fundamental ENET code, which has been deployed in 600,000 OEM platforms in broadband, Ethernet Access and mobile markets. This ENET code is embedded into the various solutions, be they licensed products, the FPGA Smart NIC or as part of appliances.

We expect continued progress in the market acceptance of the use of FPGA for networking and security applications in preference to ASIC's. This is evidenced by the initiatives undertaken on the OCP (Open Compute Project) and AT&T. Furthermore, many ASIC Network processors' offerings have been discontinued[1], providing many more opportunities for FPGA-based all programmable and cost effective platforms. We are confident that our technology will be a successor to ASIC based NPUs for networking and security appliances.

With our main goal to deliver complete product solutions that will result in generating a targeted 10 times more revenue from each use of our ENET Code technology, we developed the ACENIC FPGA SmartNIC family to target acceleration of Networking Function Virtualization at the telco edge, which is still an evolving market, along with an additional networking appliance for existing markets - including FTTH and Ethernet Access as described below

These two markets are:

- The FTTH (fibre to the home) Broadband deployment with XGSPON, DPU/ONU. We are currently discussing a 10G Passive Optical Network (XGSPON) solution on a central office site. According to Dell'Oro Group, PON has a Total Addressable Market of $7 billion by 2022 and a CAGR of almost 40%.
- The EAD (Ethernet Active Devices) market is a further opportunity for the Company currently under discussion, the product offering being a UEP (Universal Edge Platform) as published on the Company website and in the market place on 29 May 2019.[2] Currently we are in discussions for the mass rollout of the UEP with a major US OEM. The existing marketplace for this offering is forecast to reach $1.47 billion in 2021, achieving a 2017–2022 compound annual growth rate (CAGR) of 8 percent.

We have addressed the existing appliance market under Current Trading below .

Review of 2018 achievements

I am pleased to report that during the 2nd half of 2018 we succeeded in winning existing Flow Processor FPGA Firmware and Software business with a Tier1 U.S OEM, and signed a contract with a military-avionic Tier1 OEM for a high capacity switch, all integrated on Xilinx's FPGAs Commercial Off The Shelf (COTS) devices, with the majority of the revenue from the two licensing deals being recognised during 2019. Furthermore we delivered the Company's ACENIC-100 FPGA Smart NIC, supporting complete router functionality, to a Korean OEM for a Multi access Edge Computing (MEC) platform to be hosted on low cost, low power HPE servers designed to meet the edge compute constraints. The most important licensing revenues come from ongoing recurrent royalties and FPGA that the Company will continue to generate from contracts and wins signed more than 10 years ago. However the recurrent revenues were badly affected during 2017 and 2018 due to difficulties experienced by three long-standing customers in generating sales from products developed years ago. Whilst in 2019 the revenue from two of the three vendors has recovered and is growing, one of them has ceased operations. In light

1 as highlighted in Ethernity's Blog https://www.ethernitynet.com/blog/the-risk-of-using-programmable-npus/

2 as published on the website https://www.ethernitynet.com/news/ethernity-networks-releases-modular-programmable-universal-edge-platform/

of this the licensing deals signed with the Tier1 OEMs represents part of the change we anticipate developing into stable recurrent revenue from royalties. Going forward the company intends to focus on Tier1/Tier2 OEMs rather than the small Tier3/4 vendors we dealt with in the past, with the goal being to build stable recurrent revenues from technology licensing.

In conjunction with our long term plan and active projects with major OEMs relating to acceleration of virtualized networking applications for obtaining major market share from FPGA smart NICs for telco cloud business, in which the market is still evolving, our plan is to generate greater value from our existing technology and solutions, by offering complete all programmable networking and security platforms that we target will generate 10 times more revenue for each use of our firmware and software technology. This has been enabled by the following:

- We developed and obtained application software that can run on top of Ethernity's Flow Processor FPGA Firmware;
- We have developed a hardware platform to serve as a Universal Edge Platform (UEP) that will host our field proven flow processor for general edge access deployment with a complete programmable platform; and
- We developed XGSPON technology to serve deployment of fiber to the distribution point (FTdP) , cellular site aggregation and FTTH (Fiber to The Home).

These developments will fuel major revenue streams by delivering complete solutions while the telco cloud business is evolving.

Our ACENIC-100 FPGA SmartNIC offers unique capabilities for telco/cloud edge market by integrating complete router functionality on a NIC to serve as a gateway for multiple virtualized networking appliances such as Security, VPN, Broadband gateway and Internet of things (IoT) aggregation platforms. With the current ongoing discussions and engagements with new potential Tier1 customers, we are extremely positive as to the progress the Company is making to become the leader in delivering networking and security acceleration for various edge virtualized appliances.

Current Trading

Revenue in the year under review was bolstered mainly due to the two new contracts signed in the fourth quarter of 2018 referred to above along with the resultant increase from the recurrent revenue derived from previous ENET flow processor engagement and the licensing deal. The Company is making positive and solid progress towards obtaining major business for its new Universal Edge Platform proposals. With the Release of our FPGA Smart NIC ACENIC-100, we anticipate a greater impact on, and engagement in joint development projects with Tier1 OEMs around the ACENIC-100, that will further fuel our growth in this area.

Furthermore, the Company anticipates concluding agreements with two Tier1 OEMs in the FTTH Broadband deployment and EAD (Ethernet Access Devices) existing markets respectively, with rollout and production plans for the latter portion of 2019, and mass deployment in 2020, along with other initiatives including in 5G networks. This will drive the product into the market along with our FPGA SmartNIC solutions.

The year continued with the bedding down of the infrastructures for R&D and Sales and Marketing as detailed in our IPO plans and the 2018 half year results, with our year to date performance continuing to track the half year as anticipated. We believe that both the Research and Development and Marketing infrastructures are now positioned as we anticipated so as to allow the projected growth.

As anticipated, the building of these teams had a direct effect on our profitability for the 2018 financial year, in support of management's philosophy to build the Company in 2018 so as to achieve future growth in line with the anticipated market growth from 2019 onwards. While we are mindful of the risks posed by the prevailing dynamics and current delays in the macro market, we continue to have a high level of confidence that we are the best positioned company in our market, as evidenced by the new contracts signed and the current discussions with new and existing customers.

Chief Executive's Statement

Outlook

The Company continues to focus on the development and delivery of its SmartNIC solutions for joint development projects with Tier1 virtualization solutions, that when completed will fuel growth from 2020 onwards. In parallel with this, the Company continues to drive business in existing markets including mobile, broadband, cable and wireless, together with vertical markets such as the avionics and automotive markets, with the goal of generating additional revenues.

Revenues increased in the second half of 2018 over the same period in 2017 due to an increase in activities around licensing deals signed with Tier1 OEMs. This trend has continued into the first quarter of 2019, with revenues materially surpassing the same period of 2018.

In 2020 the Company anticipates commencing the generation of cash flow from trading operations during the second half of the year.

I am now significantly more positive of achieving our planned growth objectives in existing and new market places as I see the growth in interest in the Company's offerings and the opening of materially significant discussions that will lead to the Company making considered headway in 2019 and allow for multiple times growth in 2020 as the solutions pass testing phases by the operators and reach mass deployment.

David Levi
Chief Executive Officer

11 June 2019

Strategic and Financial Review

Ethernity Networks is a leading innovator of software-defined network processing and security solutions on programmable hardware. The company is currently working to accelerate commercialisation through the launch of its SmartNIC combined with virtualized software solutions, with the focus on Tier1 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 virtualization of networking functionality.

The Market

We live in an age of massive demand for data. Today's devices and associated applications, whether Video on Demand, online gaming, online storage for data backup, or artificial intelligence, require high bandwidth and low latency. Whereas Network Interface Cards (NICs) were once used exclusively for providing a means of transferring data throughout the network, today's focus is not only about connectivity, but also on optimizing the network's agility and efficiency.

SmartNICs have therefore begun to replace traditional NICs as a means of addressing the primary disadvantage of pure software-based networking, that is, price per performance. SmartNICs provide the same I/O functionality between the CPU and the network, while offloading many of the CPUs most taxing data transfer functions as a means of accelerating applications and improving both productivity and cost-efficiency. Moreover, SmartNICs can offer similar programmability to software, only in a hardware-based environment.

SmartNICs are used in a wide variety of markets, ranging from the financial services industry, where exceedingly low latency can be the difference of millions of dollars within microseconds, to the storage market, where remote access to arrays of solid-state drives (SSDs) requires acceleration to deliver such storage services to the network edge and customer premises.

Ethernity's FPGA SmartNICs are especially valuable in the field of edge computing, which has various real-world markets . Whether for the telecom industry's implementation of 5G services to enable the Internet of Things (IoT) and virtual reality or for the automotive industry's experimentation with autonomous cars, FPGA SmartNICs are an absolute necessity to not only transfer data throughout the network quickly and efficiently, but also to offload functions so that CPUs can concentrate on their primary purpose – compute. This provides the acceleration without which such applications could not exist, and the efficiency to make them viable revenue-generators.

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.

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 virtualized software architecture on COTS FPGA platforms.

Achievements

During 2018, key operational achievements have included the announcement of three new contracts relating to the developments and objectives whereby the Company has moved towards being a solutions provider. These include:

- The Company signed a contract in October 2018 to supply its ENET Switch and Traffic Manager firmware for a North American Tier1 telecommunications OEM. Ethernity has completed the integration of its firmware on the equipment manufacturer's existing fibre-to-the-home optical networking platform for advanced broadband services with 4K video. The contract represents nearly $0.5 million dollars in short-term revenue for Ethernity and, given the popularity of the platform and the size of the OEM, is expected to generate an estimated $2 million in future recurrent revenues from royalty streams over the next 3 years, with additional royalty streams extending thereafter. The agreement between the two companies specifies that Ethernity's solution will be integrated into between 5,000 to 15,000 devices annually for this specific platform, representing about 1 million homes.

Strategic and Financial Review

Furthermore, thanks to the success of this solution, the parties have already engaged in discussions to apply Ethernity's ENET firmware and software to the customer's broadband switch and router platforms, which, if successfully concluded, would add to the ongoing royalty stream by more than three times the present arrangement.

- The Company signed a contract in November 2018 to supply a Tier1 North American aviation and defence OEM with its ENET Switch/Router firmware and software. Ethernity will integrate its firmware on the customer's FPGA-based avionics platform. The contract represents $400,000 in short-term revenue with additional future recurrent revenues from royalty streams.

- Further to a contract with a Korean OEM signed in June 2018 that specified the final delivery of a customised solution on FPGA, embedding Ethernity's rich networking features including hierarchical QoS, flow classification, protocol offloading, and routing, the Company announced on January 16, 2019 that it had successfully completed delivery of its 100Gbps ACE-NIC100 FPGA SmartNIC to the Korean OEM.

- The ACE-NIC100 will be incorporated into commercial off-the-shelf (COTS) servers that come with fewer CPU cores compared to regular data centre servers, resulting in significant power and cost reduction. The combination of the powerful ACE-NIC100 with edge-optimized COTS servers deliver a high-performance yet affordable and energy efficient platform, ideal for network edge virtualization.

Financial Performance

As stated in our interim results to 30 June 2018, the adoption of the new networking virtualization market in which we operate was delayed by some 12 months, which trend continues, and our trading results, as a consequence, reflect this delay and are in line with expectations.

The Company continues to operate in line with its budgeted cost base and R&D expense allocation, and is forecasting to generate positive cash flows from operating activities during 2020. Whilst this continues to be reviewed and adjusted where appropriate, R&D activity and related expenditure remains focused on new product developments aligned with the market and customer requirements.

Key financial results

	US Dollar Audited For the year ended 31 December 2018	US Dollar Audited For the year ended 31 December 2017
Revenues	1,123,707	1,518,661
Gross Margin	812,513	1,304,222
Gross Margin %	*72.31%*	*85.88%*
Operating (Loss) Profit	(2,785,731)	152,219
Net Financing income	238,542	7,252
(Loss) Profit before tax	(2,547,189)	159,471
Tax benefit	–	–
Net comprehensive (loss) income for the year	(2,547,189)	159,471
Basic earnings per ordinary share	**(0.08)**	**0.01**
Diluted earnings per ordinary share	**(0.08)**	**0.01**
Weighted average number of ordinary shares for basic earnings per share	**32,526,149**	**25,397,245**

Revenue Analysis

Revenues for the twelve months ended 31 December 2018 declined by 35% to $1.123m (2017: $1.519m). Whilst this result may seem disappointing, given the first six months revenue of $441k which continued the downward trend across both halves of 2017 resulting mainly from a decline of recurrent revenue from previous engagements, the second six months of 2018 represents a major change in securing lucrative technology licensing deals with Tier1's that will generate ongoing recurrent revenue in the years to come. Along with the first contract of our ACENIC100, in the second half of 2018, this shows a recovery in revenues compared to the first and second six months of 2017 as well as the first six months of 2018.

Margins

Gross margins remained above the anticipated 50% level that the Company models its forecasts on with the 2018 gross margin being 72.31% as compared to 85.8% in 2017. As always, the gross margin will vary according to the revenue mix as Royalty and Design Win revenues achieve an approximate 100% gross margin before any sales commissions are accounted for.

During the 2018 financial year, sales commissions of $76,187 (2017 $nil) were paid and charged to cost of sales. Excluding these, the gross profit on revenues for 2018 would have been 79.1% compared to 85.8% for 2017.

Operating Costs

Operating costs increased as planned primarily due to greater Sales & Marketing expenses, R&D expenses and the annualised costs related to becoming a listed company as previously highlighted. The Company has, along with the continued planned expansion during 2018 focussing on its SmartNIC, established the infrastructure to enable it to achieve the goals of 2019 and beyond.

Strategic and Financial Review

Some of the increases in costs can be attributed, amongst other things to;

- An increase in the amortization charge of the Intangible Asset of $206,660 to $322,724 (2017 $116,064)
- Foreign exchange gains relating to translation differences at the end of the year of $23,235 (2017 loss of $127,790)
- The provision for a doubtful debt of $32,320 and €21,000 for a customer that was placed under administration during January 2019 and the outcome of which remains uncertain.
- A further provision of $75,000 against amounts charged to a Russian customer in 2017 that is awaiting payment from their customer, a Russian government entity. Due to the major delay in payment it was felt prudent to create this provision.
- Increases in costs relating to the expanded business and costs being fully annualised compared to 2017 as follows:

  a. Listed company costs increased by $162,283

  b. Independent director fees increased by $91,527

  c. Marketing and Selling salary and consultants costs increased by $816,501

  d. Research and Development costs after providing for capitalisation of R&D and amortisation charges increased by $257,711, with gross R&D staff employment costs before capitalisation increasing by $1,836,174

  e. Amortisation charges of the intangible asset increased by $206,660

Operating Loss and Net Comprehensive Loss for the Year

After taking the above into account, the Operating Profit for the year was in line with expectations. The operating profit in 2017 of $152,219 was a result of the inclusion of the European Union Grant received in 2017 of $203,618 as "Other Income" not repeated in 2018 and includes in 2018 a marketing grant received via the Israeli Ministry of Economics and Industry of $104,105.

The Net loss for the year was reduced due to gross interest earned in 2018 on the cash management of funds of $210,340 (2017 $69,472).

In summary, other than the provisions for bad debts and provision against the delayed payments by a customer, gross revenues for 2018 of $1,124m (2017 $1.519m), gross margins of $812,513 (2017 $1,304m) and the net loss of $2,547m (2017 net income $159,471) were in line with our expectations for the year.

Balance Sheet

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

The net cash utilised and cash reserves are carefully monitored by the Board, who are satisfied that the cash resources remain sufficient to meet the current and future requirements. Cash utilised in operating activities for the year is $2,155,378 as anticipated (2017 $437,249) with the cash spend being directed in the main toward the Sales and Marketing and R&D infrastructure. Cash reserves remained positive at $8,557,524 including financial instruments as of 31 December 2018, (2017 $14,950,578) and in line with forecast outcomes.

Short term borrowings of $133,497 (2017 $nil) arose due to timing differences in relation to access to notice deposits, requiring a 30 day facility to meet immediate cash requirements. This was closed off at 31 January 2019 when term deposits fell due.

The Intangible Asset on the Balance Sheet at a carrying value of $6,869,815 (2017 $3,170,553) is a result of the Company having adopted from 2015, the provisions of IAS38 relating to the recognition of Development Expenses. 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. The Company undertook a comprehensive internal modelling exercise to assess the fair value of the Intangible Asset and based on this Management are in their view, satisfied with the continued practice of capitalising costs in terms of IAS38.

Other than that as discussed above, there are no items on the Balance Sheet that warrant further discussion outside of the disclosures made in the Annual Financial statements on pages 21 to 66 of this Annual Report.

David Levi
Chief Executive Officer

11 June 2019

Mark Reichenberg
Chief Financial Officer

11 June 2019

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 Defense 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 of experience in the telecoms and technology sectors holding a variety of senior executive positions with AT&T, Global One and Cisco Systems. He has run businesses in Switzerland and The Netherlands and was CEO of Easynet plc (listed on the London Stock Exchange until it was acquired). Latterly he has been advising companies across a variety of sectors helping them implement growth strategies as well as sitting on a number of Boards. 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 was 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 Defense Forces.

Corporate Governance Statement

Introduction

The Board is responsible to shareholders for the effective direction and control of the Company, with the aim of generating long-term success for the Company.

The directors recognise the importance of high standards of corporate governance and in accordance with the AIM Rules for Companies and their requirement to adopt a recognised corporate governance code, the Board has adopted the Quoted Companies Alliance Corporate Governance Code (the "the Code"). The QCA Code was developed by the QCA as an alternative corporate governance code applicable to AIM companies

As a company incorporated in Israel the Company also complies with the corporate governance provisions of Israel's Companies Law, 5759-1999 (the "Companies Law").

The Board believes that good corporate governance reduces risks within the business, promotes confidence and trust amongst stakeholders and is important in ensuring the effectiveness and efficiency of the Company's management framework.

The Code is based around 10 broad principles of good corporate governance, aimed at delivering growth, maintaining a dynamic management framework and building trust. The application of the Code requires the Company to apply these 10 principles and to publish certain related disclosures on its website and in its Annual Report. The Company addresses the key governance principles defined in the QCA Code as outlined on the Company website.

Further details of the Company's approach to the 10 principles of the Code and how it applies these principles, can be found on the Company`s Website section for Investors, specifically the corporate governance disclosures at www.ethernitynet.com/corporate-governance.

The Directors and the Board

The Board is comprised of three executive directors, David Levi, Mark Reichenberg and Shavit Baruch, and of four non-executive directors, Graham Woolfman (Chairman), Neil Rafferty, Chen Saft-Feiglin and Zohar Yinon. The balance between executive and non-executive directors does not allow any group to dominate the Board's decision making.

In accordance with Israel Companies Law, the Board must always have at least two external directors who meet certain statutory requirements of independence (the "External Directors"). The Company's External Directors are currently Chen Saft-Feiglin and Zohar Yinon. The term of office of an External Director is three years, which can be extended for two additional three-year terms. Under the Companies Law, External Directors are elected by shareholders by a special majority and may be removed from office only in limited cases. Any committee of the Board must include at least one External Director and the Audit Committee and Remuneration Committee must each include all of the External Directors (including one External Director serving as the chair of the Audit Committee and Remuneration Committee), and a majority of the members of each of the Audit Committee and Remuneration Committee must comply with the director independence requirements prescribed by the Companies Law.

The detailed composition of the board is as follows:

Graham Woolfman	Independent Non-Executive Chairman Chairman of the Nomination Committee *(Companies Law precludes the Chairman from being a member of the Audit and Remuneration Committees)*
David Levi	Chief Executive Officer Nomination Committee member
Mark Reichenberg	Chief Financial Officer and Company Secretary
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 page 12.

Operation of the Board

The Board is responsible for the overall strategy and financial performance of the Company and has a formal schedule of matters reserved for its approval. In order to lead the development of the strategy of the Company and the progress of financial performance, the Board is provided with timely information that enables the Board to review and monitor the performance of the Company and to ensure it is in line with the Company's objectives in order to achieve its strategic goals.

The CFO and Company Secretary, Mark Reichenberg is responsible for ensuring that the Company complies with the statutory and regulatory requirements and maintains high standards of corporate governance. He supports and works closely with the Chairman of the Board, the Chief Executive Officer and the Board committee chairs in setting agendas for meetings of the Board and its committees and supports the transfer of timely and accurate information flow from and to the Board and the management of the Company.

Corporate Governance Statement

During 2018, the Board met on nine occasions. Board members also hold ad hoc telephone calls amongst themselves to discuss governance, financial, operational and other business matters, between formal Board meetings. A majority of the Board members constitutes the legal quorum for a board meeting, and all but one Board member attended all of the board meetings. All Directors receive a board pack comprising of an agenda and all relevant operational information in advance of each meeting.

Attendance at Board and Committee meetings by members of the Board during the year ended 31 December 2018 was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee (Note 1)
Number of meetings	9	4	2	1
Graham Woolfman	9	2 (as invitee)	1 (as invitee)	1
David Levi	9	1 (as invitee)	1 (as invitee)	1
Mark Reichenberg	9	4 (as invitee)		1 (as invitee)
Shavit Baruch	9			
Neil Rafferty	9	4	2	1
Chen Saft-Feiglin	8	4	2	
Zohar Yinon	9	4	2	

Notes:

1. There was no formal requirement for any Nominations Committee meetings during the period under review. With the consent of the Board, the Nominations Committee was requested to assist the Executive Management in the appointment of a Director of Finance to report to the CFO.

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.

Board Committees

The Board has established properly constituted Audit, Remuneration and Nomination Committees of the Board with formally delegated duties and responsibilities.

Audit Committee

The UK Corporate Governance Code recommends that an audit committee should comprise at least three members who are independent non-executive directors, and that at least one member should have recent and relevant financial experience. The Israel Companies Law requires that at least two the External Directors and one other non-executive director are members of the committee, and that the Chairman of the Company may not be a member of the Committee.

The Audit Committee, which comprises the Independent Non-Executive and External Directors (excluding the Chairman) and the Internal Auditor of the Company (if one is appointed) is chaired by Zohar Yinon with the remaining members being Chen Saft-Feiglin and Neil Rafferty. The Committee invites other members of the Board and the Auditors to attend meetings as appropriate. The Audit Committee has responsibilities which include the review of:

- The Company's internal control environment;
- Financial risks.;

- 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. In reviewing the Annual Financial Statements, discussions take place with the Auditor`s without executive management present and discussions are also held 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 2018, the Audit Committee met on four occasions and the matters considered included the following:

- Appointment of an Internal auditor for the Company, and receipt of the Internal auditor`s report on controls and utilisation of funds deployed post IPO;
- Consideration of the Company`s annual audited financial statements for the year ended 31 December 2017, unaudited six months financial statements to 30th June 2018, and recommendation to the Board for publication;
- Audit planning and review meetings with Fahn Kanne & Co. Grant Thornton Israel and their continuation for appointment as external auditors.

Remuneration Committee

The Israel Companies Law requires that at least two of the External Directors and one other non-executive director are members of the committee, and that the Chairman of the Company may not be a member of the Committee.

The Remuneration Committee comprising the Independent Non-Executive and External Directors (excluding the Chairman) is chaired by Ms. Chen Saft-Feiglin with the other members being Neil Rafferty and Zohar Yinon. The Committee invites other members of the Board to attend meetings as appropriate.

The Remuneration Committee has responsibility for reviewing and recommending to the Board the remuneration and incentive arrangements for the executive and non-executive directors, and delegated authorities to the chief executive relating to senior staff. The Remuneration Committee also has responsibility for:

- Recommending to the Board the adoption of or variations to a remuneration policy for directors and executives and monitoring its implementation;
- Recommending to the Board any changes to the remuneration and incentive arrangements in accordance with the policy, for each executive and non-executive director (excluding the External directors), and senior executives.

The remuneration of all External Directors is fixed in terms of Israel Companies Law .

During the year ended 31 December 2018, the remuneration Committee met on two occasions and confirmed the following;

- Recommendation to the Board of the granting of options and related terms to individuals eligible under the share option scheme;
- Consideration and recommendation to the Board for the implementation of a Compensation Policy for Office Holders as required by Israel Companies Law.

Corporate Governance Statement

The Company is required in terms of Israel Companies Law to formulate and adopt a formal Compensation Policy for Office Holders. The basis of this policy is to set the levels of remuneration of Office Holders, parameters relating to the structure of their remuneration including any performance based compensation, be it cash or equity based. The policy further limits the Board of Directors from applying any changes to office holder's remuneration outside of the set parameters without bringing such changes to a General Meeting of the Shareholders for approval.

Nominations Committee

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 comprises Independent Non-Executive Directors and is chaired by Graham Woolfman with Neil Rafferty as the other member.

During the year ended 31 December 2018, there were no formal requirements for the Nomination Committee to meet. The Committee was however tasked by the Board of Directors to assist the Company's CEO and CFO in the appointment of a Director of Finance as an assistant to the CFO. This process was duly concluded and the Company appointed a Director of Finance effective January 2019.

Internal Control

The Board considers on an ongoing basis the 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.

The Company's key internal financial control procedures include:

- A review by the Board of actual results compared with budget and forecasts;
- Reviews by the Board of year end forecasts;
- The establishment of procedures for capital expenditure and expenditure incurred in the ordinary course of business.

The external auditors are engaged to express an opinion on the financial statements. They discuss with management the reporting of operational results and the financial condition of the Company, to the extent necessary to express their audit opinion.

Internal Audit

During the first quarter of 2019, the Internal Audit position was vacated. As internal audit is a requirement in terms of Israel Companies law, a replacement independent Internal Auditor will be engaged during the second half of the 2019 year.

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 2018.

Principal Activities

Ethernity Networks is a technology solutions provider that develops and delivers data processing technology and solutions 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 26. No dividend is proposed for the year.

Risk Management

The Company's policies for managing risk arising from activities are set out in Note 27 of the Financial Statements.

Directors

The current Directors of the Company are:

Graham Woolfman *Independent Non-Executive Chairman*

David Levi *Chief Executive Officer*

Mark Reichenberg *Chief Financial Officer*

Shavit Baruch *VP R&D*

Neil Rafferty *Independent Non-Executive Director*

Chen Saft-Feiglin *External Director**

Zohar Yinon *External Director**

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

Directors' Interests

The interests of current Directors in shares and options are disclosed in the Directors' Remuneration Report set out in Note 29D 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 Company and of the profit or loss of the Company 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 IFRS 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 Ltd.

GrantThornton

Independent Auditor's Report
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 of 31 December 2018 and 2017 and the Statements of comprehensive income, the Statements of changes in equity and the statements of cash flows for each of the years 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 2018 and 2017 and its financial performance and its cash flows for each of the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audits 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 2018. 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.

Independent Auditor's Report to the Shareholders of Ethernity Networks Ltd.

	Description of Key Audit Matter and why a matter of most significance in the audit	Description of Auditor's Response and Key Observations
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 2018, 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 2.I. 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 of revenue, expenses and profitability, the appropriateness of discount rates used related to the capitalized intangible assets, the most recent and updated business plans and the compliance with the requirements of IAS 36, impairment of assets. We have considered management's assessment and based on the audit work performed we have not identified anything to suggest that the capitalization of development costs and the impairment test intangibles were not performed by the Company in accordance with the applicable requirements under International Financial Reporting Standards
Deferred tax assets	The extent to which deferred tax assets can be recognised 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 in order to determine that the deferred tax assets are recognised to the extent that it is probable it will be realised. 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 25 to the financial statements to ensure these were in accordance with IAS 12 'Income tax'. Our testing did not identify any material misstatements related to the accounting of deferred tax assets.

Other information included in the Company's 2018 Annual Report

Other information consists of the information included in the Company's 2018 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.

Independent Auditor's Report to the Shareholders of Ethernity Networks Ltd.

- 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 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 2018 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, 11 June 2019

Statements of Financial Position

For the year ended 31 December 2018

	Notes	US dollars 31 December 2018	2017
ASSETS			
Current			
Cash and cash equivalents	4	**473,815**	3,881,106
Other short-term financial assets	5	**8,083,709**	11,069,472
Trade receivables	6	**642,085**	513,965
Inventories		**116,012**	–
Other current assets	7	**409,250**	438,265
Current assets		**9,724,871**	15,902,808
Non-Current			
Property and equipment	8	**606,057**	155,840
Deferred tax assets	24	**800,000**	800,000
Intangible asset	9	**6,869,815**	3,170,553
Non-current assets		**8,275,872**	4,126,393
Total assets		**18,000,743**	20,029,201
LIABILITIES AND EQUITY			
Current			
Short Term Borrowings	10	**133,497**	–
Trade payables		**288,308**	225,087
Other current liabilities	11	**1,084,728**	931,771
Warrants liability, at fair value	12	**–**	15,770
Current liabilities		**1,506,533**	1,172,628
Non-Current			
IIA royalty liability	13	**6,578**	–
Long Term Borrowings	14	**–**	7,522
Non-current liabilities		**6,578**	7,522
Total liabilities		**1,513,111**	1,180,150
Equity	16		
Share capital		**8,039**	8,028
Share premium		**23,396,310**	23,356,078
Other components of equity		**760,849**	615,322
Accumulated deficit		**(7,677,566)**	(5,130,377)
Total equity		**16,487,632**	18,849,051
Total liabilities and equity		**18,000,743**	20,029,201

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

Statements of Comprehensive Income

For the year ended 31 December 2018

	Notes	US dollars For the year ended 31 December 2018	2017
Revenue	18, 27	**1,123,707**	1,518,661
Cost of sales		**311,194**	214,439
Gross profit		**812,513**	1,304,222
Research and development expenses	19	**473,489**	215,778
General and administrative expenses	20	**1,291,175**	(*) 554,645
Impairment losses of financial assets	20	**132,799**	(*) 37,258
Marketing expenses	21	**1,804,886**	556,588
Other income	22	**(104,105)**	(212,266)
Operating profit (loss)		**(2,785,731)**	152,219
Financing costs	23	**(15,450)**	(85,727)
Financing income	24	**253,992**	92,979
Net comprehensive income (loss) for the year		**(2,547,189)**	159,471
Basic earnings (loss) per ordinary share	26	**(0.08)**	0.01
Diluted earnings (loss) per ordinary share	26	**(0.08)**	0.01
Weighted average number of ordinary shares for basic earning or loss per share		**32,526,149**	25,397,245

(*) – reclassified

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

Statements of Changes in Equity

For the year ended 31 December 2018

	Number of shares		Amounts in US dollars (except number of shares) Share Capital					
	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares	Share premium	Other components of equity	Accumulated deficit	Total equity
Balance at 1 January 2017	**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	3,725,400	(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**
Employee share-based compensation	–	–	–	–	36,393	145,527	–	181,920
Exercise of employee options	38,500	–	11	–	3,839	–	–	3,850
Net comprehensive loss for the year	–	–	–	–	–	–	(2,547,189)	(2,547,189)
Balance at 31 December 2018	**32,556,686**	**–**	**8,039**	**–**	**23,396,310**	**760,849**	**(7,677,566)**	**16,487,632**

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

Statements of Cash Flows

For the year ended 31 December 2018

	US dollars For the year ended 31 December 2018	2017
Operating activities		
Profit (loss) before tax	**(2,547,189)**	159,471
Non-cash adjustments		
Depreciation of property and equipment	**100,918**	20,171
Capital gain from sale of vehicle	**–**	(8,648)
Share-based compensation	**5,031**	69,178
Amortisation of intangible assets	**322,724**	116,064
Amortisation of liabilities	**(13,255)**	(13,792)
IPO related costs	**(9,514)**	–
Foreign exchange gains on cash balances	**(24,517)**	–
Net changes in working capital		
Increase in trade receivables	**(128,120)**	(245,656)
Increase in inventories	**(116,012)**	–
Decrease (increase) in other current assets	**29,015**	(409,540)
Increase in trade payables	**63,221**	103,127
Increase (decrease) in other liabilities	**162,320**	(227,624)
Net cash used in operating activities	**(2,155,378)**	(437,249)
Investing activities		
Decrease (Increase) of other short-term financial assets	**2,985,763**	(11,010,954)
Purchase of property and equipment	**(551,135)**	(126,423)
Proceeds from sale of vehicle	**–**	28,999
Amounts carried to intangible assets	**(3,835,583)**	(1,958,997)
Participating grants in intangible assets	**–**	95,820
Net cash used in investing activities	**(1,400,955)**	(12,971,555)
Financing activities		
Proceeds from exercise of options	**3,850**	
Repayment of IIA liability	**(5,300)**	(93,034)
Proceeds from (repayment of) short term borrowings	**133,497**	(128,969)
Repayment of long term borrowings	**(7,522)**	(122,613)
Repayment of shareholder loans	**–**	(527,568)
Net proceeds from issuing ordinary shares	**–**	17,826,371
Net cash provided by financing activities	**124,525**	16,954,187
Net change in cash and cash equivalents	**(3,431,808)**	3,545,383
Cash and cash equivalents, beginning of year	**3,881,106**	335,723
Exchange differences on cash and cash equivalents	**24,517**	–
Cash and cash equivalents, end of year	**473,815**	3,881,106
Supplementary information:		
Interest paid during the year	**813**	21,918
Interest received during the year	**197,949**	69,472
Supplementary information on non cash activities:		
Share-based compensation capitalised to intangible assets	186,403	117,542

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

Notes to the Financial Statements
For the year ended 31 December 2018

NOTE 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.

NOTE 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 2018, 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 2018 (including comparative amounts) were approved and authorised for issue by the board of directors on 11 June 2019.

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 judgements are continually evaluated and are based on prior experiences, various facts, external items and reasonable assumptions in accordance with the circumstances related to each assumption.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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 recognised in the financial statements when incurred, as part of financing expenses or financing income, as applicable.

The exchange rates as at the 31st of December, of one unit of foreign currency to each US dollar, were:

	2018	2017
New Israeli Shekel (“NIS”)	**0.267**	0.288
EURO	**1.279**	1.200
Sterling	**1.145**	1.350

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 Company 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. 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) were 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 (until the first half of 2017) using the "if-converted method", if the effect of each of such financial instruments is dilutive.

H. 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.

I. 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 amortised 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 amortisation 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 amortised on the straight-line method, over its estimated useful life, which is estimated to be ten years.

The useful life and the amortisation 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 amortisation period is changed accordingly. Such change is accounted for as a change in accounting estimate in accordance with IAS 8.

J. 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), 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 recognised as an intangible asset), it is recognised a deduction of the related asset.

Grants from the Israeli Innovation Authority of the Ministry of Economy (hereinafter – the "IIA") 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 IIA are recognised 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 recognised as a deduction from the cost of the related asset or as other income, as applicable.

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 recognised in profit or loss.

The difference between the amount received and the fair value on the date of receiving the grant is recognised 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).

K. Financial instruments

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

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

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 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.

Allowance for doubtful accounts

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful.

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 year ended December 31, 2017 the Company did not have any assets held for trading 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, IIA 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) were 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.

Notes to the Financial Statements

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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.

During the reporting period, the entire amount of a warrant liability (a derivative which was separated from a host contract) was derecognised to profit or loss (see also Note 12)

The accounting policy applied commencing from 1 January 2018

1. Classification and measurement of financial assets and financial liabilities

Initial recognition and measurement

The Company initially recognizes trade receivables on the date that they are originated. All other financial assets and financial liabilities are initially recognized on the date on which the Company becomes a party to the contractual provisions of the instrument. As a rule, a financial asset or a financial liability are initially measured at fair value with the addition, for a financial asset or a financial liability that are not presented at fair value through profit or loss, of transaction costs that can be directly attributed to the acquisition or the issuance of the financial asset or the financial liability. Trade receivables that do not contain a significant financing component are initially measured at the price of the related transaction.

Financial assets – subsequent classification and measurement

On initial recognition, financial assets are classified to measurement at amortized cost.

Financial assets are not reclassified in subsequent periods, unless, and only to the extent that the Company changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets the two following cumulative conditions and is not designated for measurement at fair value through profit or loss:

- The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows; and
- The contractual terms of the financial asset create entitlement on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has balances of trade and other receivables and deposits that are held under a business model the objective of which is collection of the contractual cash flows. The contractual cash flows in respect of such financial assets comprise solely payments of principal and interest that reflects consideration for the time-value of the money and the credit risk. Accordingly, such financial assets are measured at amortized cost.

Financial assets at amortized cost

In subsequent periods, these assets are measured at amortized cost, using the effective interest method and net of impairment losses. Interest income, currency exchange gains or losses and impairment are recognized in profit or loss. Any gains or losses on derecognition are also carried to profit or loss.

2. Financial assets at fair value through profit or loss

In subsequent periods, these assets are measured at fair value. Net gains and losses are carried to profit or loss.

Financial liabilities – classification, subsequent measurement and gains and losses

Financial liabilities are classified to measurement at amortized cost or at fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured at fair value, and any net gains and losses, including any interest expenses, are recognized in profit or loss. Other financial liabilities are measured at amortized cost in subsequent periods, using the effective interest method. Interest expenses and currency exchange gains and losses are recognized in profit or loss. Any gains or losses on derecognition are also carried to profit or loss.

Derecognition of financial liabilities

Financial liabilities are derecognized when the contractual obligation of the Company expires or when it is discharged or canceled. Additionally, a significant amendment of the terms of an existing financial liability, or an exchange of debt instruments having substantially different terms, between an existing borrower and lender, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value.

The difference between the carrying amount of the extinguished financial liability and the consideration paid (including any other non-cash assets transferred or liabilities assumed), is recognized in profit or loss. In the event of a non-material modification of terms (or exchange of debt instruments), the new cash flows are discounted at the original effective interest rate and the difference between the present value of financial liability under the new terms and the present value of the original financial liability is recognized in profit or loss.

3. Impairment

Financial assets and contract assets

The Company creates a provision for expected credit losses in respect of:

- Contract assets (as defined in IFRS 15).
- Financial assets measured at amortized cost.

The Company has elected to measure the provision for expected credit losses in respect of trade receivables, contract assets at an amount that is equal to the credit losses expected over the life of the instrument.

In assessing whether the credit risk of a financial asset has significantly increased since initial recognition and in assessing expected credit losses, the Company takes into consideration information that is reasonable and verifiable, relevant and attainable at no excessive cost or effort. Such information comprises quantitative and qualitative information, as well as an analysis, based on the past experience of the Company and the reported credit assessment, and contains forward-looking information.

Measurement of expected credit losses

Expected credit losses represent a probability-weighted estimate of credit losses. Credit losses are measured at the present value of the difference between the cash flows to which the Company is entitled under the contract and the cash flows that the Company expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial asset.

Financial assets impaired by credit risk

At each reporting date, the Company assesses whether financial assets that are measured at amortized cost have become impaired by credit risk. A financial asset is impaired by credit risk upon the occurrence of one or more of the events that adversely affect the future cash flows estimated for such financial asset.

L. 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 recognised 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 recognised as an expense. A change in estimate regarding prior periods is recognised 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.

M. 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, fell under this category.

N. 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.

O. Transactions with controlling shareholders

Transactions with controlling shareholders are recognised 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.

P. 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.

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

Revenues were 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.

1. Sales of goods

Revenues from programmable devices were recognised 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 based 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.

2. Contracts with milestone payments

Certain contracts with major customers are structured to provide the Company with payment upon the achievements 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.

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For the year ended 31 December 2018

3. 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 sales 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.

4. 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.

Accounting policy applied commencing from 1 January 2018

The Company recognises revenue when customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer.

Identification of the contract

The Company treats a contract with a customer only where all of the following conditions are fulfilled:

1. The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying their obligations thereunder;
2. The Company is able to identify the rights of each party in relation to the goods or services that are to be transferred;
3. The Company is able to identify the payment terms for the goods or services that are to be transferred;
4. The contract has commercial substance (i.e., the entity's risk, timing and amount of future cash flows are expected to change as result of the contract); and
5. It is probable that the consideration to which the Company is entitled to in exchange for the goods or services transferred to the customer will be collected.

Identification of performance obligations

On the contract's inception date the Company assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

1. Goods or services that are distinct; or
2. A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Company identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Company's promise to transfer the goods or services to the customer separately identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is separately identifiable, the Company examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

Determination of the transaction price

The transaction price is the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Company takes into account the effects of all the following elements when determining the transaction price; variable consideration, the existence of a significant financing component, non-cash consideration, and consideration payable to the customer.

Variable consideration

The transaction price includes fixed amounts and amounts that may change as a result of discounts, credits, price concessions, incentives, penalties, claims and disputes and contract modifications where the consideration in their respect has not yet been agreed to by the parties.

The Company includes the amount of the variable consideration, or part of it, in the transaction price only when it is considered highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Company revises the amount of the variable consideration included in the transaction price.

Satisfaction of performance obligations

Revenue is recognised when the Company satisfies a performance obligation by transferring control over promised goods or services to the customer, as applicable.

Contract costs

Incremental costs of obtaining a contract with a customer, such as sales fees to agents, are recognised as an asset when the Company is likely to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognised as an expense as incurred, unless the customer can be billed for those costs.

Costs incurred to fulfill a contract with a customer and that are not covered by another standard are recognised as an asset when they: relate directly to a contract the Company can specifically identify; they generate ore enhance resources of the Company that will be used in satisfying performance obligations in the future; and they are expected to be recovered. In any other case the costs are recognised as an expense as incurred.

Capitalized costs are amortised in the statement of income on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

In every reporting period, the Company examines whether the carrying amount of the asset recognised as aforesaid exceeds the consideration the entity expects to receive in exchange for the goods or services to which the asset relates, less the costs directly attributable to the provision of these goods or services that were not recognised as expenses, and if necessary an impairment loss is recognised in the statement of income.

Contract modification

A contract modification is a change in the scope or price (or both) of a contract that was approved by the parties to the contract. A contract modification can be approved in writing, orally or be implied by customary business practices.

When a contract modification has not yet been approved by the parties, the Company continues to recognise revenues according to the existing contract, while disregarding the contract modification, until the date the contract modification is approved or the contract modification is legally enforceable.

The Company accounts for a contract modification as an adjustment of the existing contract since the remaining goods or services after the contract modification are not distinct and therefore constitute a part of one performance obligation that is partially satisfied on the goods that are expected to be returned, instead of revenue, the Company recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer, date of the contract modification. The effect of the modification on the transaction price and on the rate of progress towards full satisfaction of the performance obligation is recognised as an adjustment to revenues (increase or decrease) on the date of the contract modification, meaning on a catch-up basis.

Sales of goods

Revenues from sale of programmable devices are recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the devices.

Certain contracts provide a customer with a right to return the goods within a specified period. The Company uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied with respect to arrangements that provides such right of return, in order to determine the amount of variable consideration that can be included in the transaction price. Accordingly, the Company recognize amounts subject to right of return only if it is highly probable that there will not be a significant reversal of revenues if the estimate of expected returns changes. As of December 31, 2018. there was no significant amount of goods that were subject to right of return.

Contracts with milestone payments

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

Management has determined that the performance obligation under such arrangements is satisfied over time.

As payments under the contract are dependent upon the Company's achievement of certain milestones, and as the payments are generally designed to depict the Company's performance under the arrangements, the Company measures progress toward satisfying the performance obligation based on the results actually achieved (i.e. the achievements of milestones) using the output method. Amounts received (including up-front payments), which relate to milestones that were non achieved yet, are deferred and presented as deferred revenues.

Multiple element transactions

Some of the Company's contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determine the standalone selling prices based on our overall pricing objectives, taking into consideration market conditions and other factors.

Revenues are then recognized for each separate performance obligations – sales of goods or designed tools, based on the criteria described in the above paragraph.

Revenue from royalties

The Company is entitled to royalties based on sales by third parties, of products which consist IP developed by the Company.

For arrangements that include such sales-based royalties, including milestone payments based on the level of sales, and the license of the IP developed by the company is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied), or (ii) when the related sales occur.

Accordingly, revenues from royalties are recognized based on the actual sales of products as reported to the Company on a quarterly basis.

Q. Income taxes

Taxes on income in the statement of comprehensive income comprise current and deferred taxes. 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.

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. (See also Note 25).

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

R. Operating cycle

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

S. 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, 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.

T. Ordinary shares

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

U. 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.

V. 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 recognised 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 recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

W. New and revised standards that are effective for annual periods beginning on or after 1 January 2018

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

The Standards presents a new five-step model for the recognition of revenue from contracts with customers:

1. Identifying the contract with the customer.
2. Identifying separate performance obligations in the contract.
3. Determining the transaction price.
4. Allocating the transaction price to separate performance obligations.
5. Recognizing revenue when the performance obligations are satisfied.

The adoption of IFRS 15 did not have material impact on the Company's revenue streams and selling contracts, the financial reporting and disclosers and on the business processes, control and systems. Thus, the adoption of IFRS 15 did not have material impact on the financial statement.

Presented in Note 2.P. are the principals of the new revenue recognition accounting policy, commencing on 1 January 2018, as applied following the adoption of IFRS 15.

IFRS 9 'Financial Instruments'

The new standard for financial instruments (IFRS 9) replaced IAS 39 'financial Instrument: 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.

The following areas identified as the most impact by the application of IFRS9:

- The classification and measurement of the Company's financial assets. Management holds financial assets to hold and collect the associated cash flows. However, management has determined that the majority of financial assets held by Company as the adoption date (including the Company's major investment in short term deposit) are eligible to be accounted for at amortised cost in accordance with the previous IFRS. Accordingly, the new guidance did not affect the classification and measurement of these financial assets.
- The impairment of financial assets applying the expected credit loss model. This applies to the Company's trade receivables and other short term investments in debt-type assets that were previously classified as 'Loan and Receivable'. For contract assets that will arise from IFRS 15 and trade receivables, the Company determined to apply a simplified model of recognizing lifetime expected credit losses as these items do not have a significant financing component.

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

The Company applied IFRS 9, retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparative for 2017 were not be restated.

The adoption did not have a material impact on the Company's financial statements.

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

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 'Leases' and three related interpretations. It completes the IASB's long running project to overhaul lease accounting. in accordance with IFRS 16, 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 rental. Two important reliefs provided by IFRS 16, are for assets of low value and short-term leases of less than 12 months. Each lease payment is allocated between the liability and finance expenses, whereas the finance expenses is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-ling basis.

The accounting for lessors will not significantly change.

In order to determine the impact of IFRS 16, the Company is required to perform a fill review of all agreements in order to assess whether any additional contracts will now become a lease under IFRS 16's new definition. The Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted;
however, the Company has not elected to adopt it earlier than is required.

Management is in the process of assessing the full impact of the Standard. Currently, the Company:

- has decided to make use of the practical expedient, allowing it to not perform a full review of existing leases and to apply IFRS 16 only to new or modified contracts;
- believes that the most significant impact will be that the Company will need to recognise a right of use asset and a lease liability for the office and production buildings currently treated as operating leases. At 31 December 2018 the future minimum lease payments amounted to $479,488. This will mean that the nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense;

Notes to the Financial Statements

For the year ended 31 December 2018

The Company is planning to adopt IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Choosing this transitional approach, results in further policy decisions that the Company needs to make as there are several other transitional reliefs that can be applied. These relate to those leases previously held as operating leases and can be applied on a lease-by-lease basis. The Company is currently assessing the impact of applying these other transitional reliefs.

The Company estimates the effects of the IFRS 16 application, based on the present value calculation, as being an increase of $444,788 for the right-of-use assets and corresponding lease liabilities, over the entire period of all the leases including any options to extend the leases.

The Company estimates that applying the standard is expected to cause a decrease in lease expenses of approximately $125 thousand and an increase in depreciation expenses and financing expenses of a similar amount.

NOTE 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 (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 25.B. and 25.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 recognised 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 8 and 9).

- 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 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).

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	US dollars 31 December	
	2018	2017
In Sterling	**23,717**	403,307
In U.S. Dollar	**212,209**	3,301,745
In Euro	**12,260**	16,626
In New Israeli Shekel	**225,629**	159,428
	473,815	3,881,106

NOTE 5 – OTHER SHORT-TERM FINANCIAL ASSETS

As at 31 December 2018, this consisted of one short term 12 month deposit of $8,000,000 earning an annual interest rate of 2.48%.

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.

NOTE 6 – TRADE RECEIVABLES

Trade and other receivables consist of the following:

	US dollars 31 December	
	2018	2017
Trade receivables	**633,366**	372,536
Unbilled revenue	**83,719**	180,114
Less: provision for expected credit losses	**(75,000)**	(38,685)
Total receivables	**642,085**	513,965

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.

NOTE 7 – OTHER CURRENT ASSETS

Other current assets consist of the following:

	US dollars 31 December	
	2018	2017
Prepaid Expenses	**206,513**	108,733
Deposits to suppliers	**19,512**	1,731
Government institutions	**83,329**	28,363
Grant receivable	**99,896**	299,438
Total other current assets	**409,250**	438,265

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For the year ended 31 December 2018

NOTE 8 – PROPERTY AND EQUIPMENT

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

	US dollars				
	Testing equipment	Computers	Furniture and equipment	Leasehold improve-ments	Total
Gross carrying amount					
Balance 1 January 2018	33,445	213,244	47,649	13,448	307,786
Additions	35,378	442,712	26,635	46,654	551,135
Balance 31 December 2018	68,823	655,712	74,284	60,102	858,921
Depreciation					
Balance 1 January 2018	(22,881)	(108,052)	(20,853)	(160)	(151,946)
Depreciation	(8,063)	(68,928)	(5,669)	(18,258)	(100,918)
Balance 31 December 2018	(30,944)	(176,980)	(26,522)	(18,418)	(252,864)
Carrying amount 31 December 2018	**37,879**	**478,732**	**47,762**	**41,684**	**606,057**

	US dollars					
	Testing equipment	Computers	Furniture and equipment	Vehicles	Leasehold improve-ments	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**

NOTE 9 – INTANGIBLE ASSET

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

	US dollars Total
Gross carrying amount	
Balance 1 January 2018	3,325,568
Additions*	4,021,986
Balance 31 December 2018	7,347,554
Amortisation	
Balance 1 January 2018	155,015
Amortisation	322,724
Balance 31 December 2018	477,739
Carrying amount 31 December 2018	**6,869,815**

(*) The additions include $186,403 of share based compensation.

	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
Amortisation	
Balance 1 January 2017	38,951
Amortisation	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.

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

NOTE 10 – SHORT- TERM BORROWINGS

Borrowings include the following financial liabilities:

	Annual % Interest rate[1]	US dollars 31 December	
	2018	**2018**	2017
Bank borrowings [2]	4.2%	**133,497**	–
Total short- term borrowings		**133,497**	**–**

(1) The loans bore variable interest of 4.2%. The above interest rate is the weighted average rate as of 31 December 2018. The loan was fully repaid in January 2019.

(2) The Company has an unused credit facility of 500,000 NIS (approx. $133,000).

NOTE 11 – OTHER CURRENT LIABILITIES

Other short-term liabilities consist of:

	US dollars 31 December	
	2018	2017
Salaries, wages and related costs	**295,790**	195,269
Provision for vacation	**131,148**	111,630
Current portion of IIA royalty liability (see Note 13)	**10,757**	20,120
Accrued expenses and other	**235,965**	203,610
Deferred revenue (*)	**40,000**	–
Related parties (see Note 29.A.)	**371,068**	401,142
Total other short-term liabilities	**1,084,728**	931,771

(*) - These deferred revenues will be recognized over 12 months starting from August 2019.

NOTE 12 – SHAREHOLDERS LOANS

Short-term liabilities to shareholders consist of:

	US dollars 31 December	
	2018	2017
Warrants liability, at fair value	**–**	15,770

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.

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 represented an embedded derivative (equity kicker) since the economic characteristics and risks of such an equity-based return were 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 accordingly was initially recorded at the amortised value of $226,700 (net of the discount of $43,300). The difference between the amount recorded and the amount that was expected to be repaid to the shareholders was 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 also lower than the exercise price of the warrants, the warrant liability was valued at a lower value, being approximately $15,800. Concurrent with the expiration of the warrants in 2018, the warrant liability was terminated. The decrease in 2017 and 2018 in the fair value of this warrant liability was recorded in profit and loss as part of finance income and expenses.

NOTE 13 – IIA ROYALTY LIABILITY

As described in Note 2.J., the Company received research and development grants from the Israel Innovation Authority ("IIA") 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. As at 31 December 2018, the Company has repaid approximately $500,000 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 as at 31 December 2018.

NOTE 14 – LONG-TERM BORROWINGS

Long-term liabilities consist of:

	Annual % Interest rate[(1)]	**US dollars 31 December**	
	2018	**2018**	2017
Bank borrowings	4.60%	–	7,522
Total long-term borrowings		–	7,522

(1) Variable interest based on the prime interest rate.

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NOTE 15 – COMMITMENTS AND CONTINGENT LIABILITIES

A. During the years 2005 through 2012, the Company received grants from the IIA (Israel Innovation Authority) totaling approximately $3 million, to support the Company's various research and development programs. The Company is required to pay royalties to the IIA 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 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
2019	543,000	145,000
2020	552,000	147,000
2021	562,000	150,000
2022	515,000	137,000

C. 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 200,000 share options vesting over 4 years and exercisable at $2.00 per option (see Note 17). The agreement was terminated during 2018 and 150,000 of the share options were cancelled as they had not yet vested. The consultant was paid approx. $91,000 during 2018 consisting of the monthly fee and commissions. The Company has an obligation to pay commissions to the consultant on the relevant revenues earned until 30 June 2019.

NOTE 16 – EQUITY

Details regarding share capital and number of shares at 31 December 2018 and at 31 December 2017 are:

Share capital

	US dollars 31 December	
	2018	2017
Ordinary shares of NIS 0.001 par value	**8,039**	8,028
Total share capital	**8,039**	8,028

Number of shares at 31 December 2018:

	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

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**	32,556,686
	50,000,000	32,556,686

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 Including costs in respect of share-based payments to consultants for the issuance of equity instruments. 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 and option based payments provided to employees, consultants and third parties.

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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

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

the preferred shareholders had the right to 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 carried a liquidation preference up to $3.29 per share upon actual liquidation or upon an M&A transaction. After this amount per preferred share has been paid, the liquidation preference was cancelled and the preferred shares would 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 would 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 were 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). These warrants expired in June 2018. In June 2017, 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.)

NOTE 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, consultants, 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 (generally four years) 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 (generally ten years from the date of the grant). 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 (all amounts are in US Dollars unless otherwise indicated):

	Option grant dates			
	5 Mar 2017	15 Mar 2017	9 Jul 2017	10 Jul 2017
Number of options granted	109,000	40,000	210,000	30,000
Recipients of the options	employee	employee	employee	employee
Approximate fair value at grant date:				
Total benefit	102,369	24,690	335,982	42,637
Per option benefit	0.94	0.62	1.60	1.42
Assumptions used in computing value:				
Risk-free interest rate	2.50%	2.50%	2.39%	2.38%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	46%	46%	40%	40%
Expected term (in years)	10	10	10	10
Expensed amount recorded for year ended:				
31 December 2017	44,105	–	–	–
31 December 2018	32,130	–	–	–
Capitalised amount recorded for year ended:				
31 December 2017	–	10,285	84,360	10,645
31 December 2018	–	7,919	134,449	17,091

Notes to the Financial Statements

For the year ended 31 December 2018

	Option grant dates			
	6 Sep 2017	24 Sep 2017	17 Jul 2018	17 Jul 2018
Number of options granted	30,000	30,000	160,000	280,000
Recipients of the options	employee	employee	employees	consultants
Approximate fair value at grant date:				
Total benefit	40,957	38,389	16,632	29,106
Per option benefit	1.37	1.28		
Assumptions used in computing value:				
Risk-free interest rate	2.07%	2.26%	2.85%	2.85%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	40%	40%	40%	40%
Expected term (in years)	10	10	10	10
Expensed amount recorded for year ended:				
31 December 2017	–	–	–	–
31 December 2018	–	–	1,515	11,075
Capitalised amount recorded for year ended:				
31 December 2017	6,831	5,422	–	–
31 December 2018	18,045	4,175	4,463	–

The value of these options at 31 December 2018 which have yet to be recorded as expenses, amount to $212,163.

B. The following table presents a summary of the status of the option grants by the Company as of 31 December, 2018 and 2017:

	Number	Weighted average exercise price (US$)
Year ended 31 December 2018		
Balance outstanding at beginning of year	3,155,920	0.30
Granted	460,000	1.32
Exercised	(38,500)	0.10
Forfeited	(431,500)	0.16
Balance outstanding at end of the year	3,145,920	0.42
Balance exercisable at the end of the year	2,349,670	

	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	

C. The following table summarises information about options outstanding at 31 December 2018:

Exercise price	Outstanding at 31 December 2018	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Exercisable at 31 December 2018	Weighted average remaining contractual life (years)
$0.10	2,236,920	4.9	0.10	2,202,420	4.8
$0.20	129,000	8.2	0.20	37,250	8.2
£1.05	40,000	8.2	1.28	10,000	8.2
£1.05	210,000	8.5	1.36	52,500	8.5
£1.43	30,000	8.5	1.84	7,500	8.5
£1.40	30,000	8.7	1.83	7,500	8.7
£1.40	30,000	8.7	1.89	7,500	8.7
£1.00	440,000	9.6	1.32	25,000	9.6
	3,145,920			2,349,670	

The following table summarises information about options outstanding at 31 December 2017:

Exercise price	Outstanding at 31 December 2017	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Exercisable 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 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.

Notes to the Financial Statements
For the year ended 31 December 2018

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.

NOTE 18 – REVENUE

	US dollars Year ended 31 December	
	2018	2017
Sales	**805,647**	1,236,335
Royalties	**318,060**	282,326
Total revenue	**1,123,707**	1,518,661

NOTE 19 – RESEARCH AND DEVELOPMENT EXPENSES

	US dollars Year ended 31 December	
	2018	2017
Employee remuneration, related costs and subcontractors	**122,004**	44,126
Maintenance of software and computers	**13,145**	24,983
Insurance and other expenses	**15,616**	30,605
Amortisation	**322,724**	116,064
Total research and development expenses	**473,489**	215,778

NOTE 20 – GENERAL AND ADMINISTRATIVE EXPENSES

	US dollars Year ended 31 December	
	2018	2017
Employee remuneration and related costs (*)	**339,566**	113,440
Professional fees	**505,540**	251,848
Rentals and maintenance	**342,185**	166,087
Depreciation	**100,918**	20,153
Travel expenses	**2,966**	3,117
Impairment losses on receivables	**132,799**	37,258
Total general and administrative expenses	**1,423,974**	591,903
* Including share based compensation of	**33,540**	44,314

NOTE 21 – MARKETING EXPENSES

	US dollars Year ended 31 December	
	2018	2017
Employee remuneration and related costs (*)	**545,129**	158,429
Marketing expenses	**1,139,669**	320,252
Travel expenses	**120,088**	77,907
Total marketing expenses	**1,804,886**	556,588
* Including share based compensation of	**(28,509)**	24,864

NOTE 22 – OTHER INCOME

As described in Note 2.J, when the grant is related to an expense item, it is recognised as other income.

NOTE 23 – FINANCING COSTS

	US dollars Year ended 31 December	
	2018	2017
Bank fees and interest	**15,450**	54,264
Interest and revaluation of embedded derivative on shareholder loans	**–**	31,463
Total financing costs	**15,450**	85,727

NOTE 24 – FINANCING INCOME

	US dollars Year ended 31 December	
	2018	2017
Interest and revaluation of embedded derivative on shareholder loans	**20,417**	–
Interest received	**197,949**	69,472
Exchange rate differences	**35,626**	23,507
Total financing income	**253,992**	92,979

Notes to the Financial Statements

For the year ended 31 December 2018

NOTE 25 – 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
2019	23.0

B. As of 31 December 2018, 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 it possible that future taxable profits would be available against 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 2017	**186,772**	**613,228**	**800,000**
Balance at 31 December 2017	**186,772**	**613,228**	**800,000**
Balance at 31 December 2018	**186,772**	**613,228**	**800,000**

D. Theoretical tax reconciliation

For the years ended 31 December 2018 and 2017, the following table reconciles the statutory income tax rate to the effective income tax rate:

	US dollars Year ended 31 December	
	2018	2017
Tax expense (benefit) at statutory rate	**23%**	24%
Tax expense (benefit) at statutory rate	**(585,853)**	(38,273)
Increase in taxes from permanent differences in share-based compensation	**44,030**	44,814
Loss carryforwards - not affecting the deferred tax asset	**541,824**	(83,087)
Income tax expense (benefit)	**0**	0

NOTE 26 – BASIC AND DILUTED (LOSS) / EARNINGS PER ORDINARY SHARE

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

	US dollars Year ended 31 December	
	2018	2017
Profit (loss) for the year	**(2,547,189)**	159,471
Less: Profit attributed to preferred shares	**–**	10,702
Profit (loss) for the year attributable to ordinary shareholders	**(2,547,189)**	148,769

	Number of shares Year ended 31 December	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic (loss) / earnings per ordinary share	**32,526,149**	25,397,245

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

	US dollars Year ended 31 December	
	2018	2017
Profit (loss) for the year	**(2,547,189)**	159,471
Less: Profit attributed to preferred shares	**–**	10,702
Profit (loss) for the year attributable to ordinary shareholders	**(2,547,189)**	148,769

	Number of shares Year ended 31 December	
	2018	2017
Weighted average number of ordinary shares	**32,526,149**	25,397,245
Weighted average number of free shares from share options	**1,734,348**	2,581,852
Weighted average number of ordinary shares used in the computation of diluted (loss) / earnings per ordinary share	**34,260,497**	27,979,097

Notes to the Financial Statements

For the year ended 31 December 2018

NOTE 27 – 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.

Currency basis of monetary balances

			US dollars 31 December 2018		
	NIS	**GBP**	**Euro**	**US $**	**Total**
Assets					
Cash and cash equivalents	225,629	23,717	12,260	212,209	473,815
Other short-term financial assets	–	–	–	8,083,709	8,083,709
Trade receivables	43,085	–	–	599,000	642,085
Other current assets	267,405	39,002	–	102,843	409,250
	536,119	62,719	12,260	8,997,761	9,608,859
Liabilities					
Short term borrowings	133,497	–	–	–	133,497
Trade payables	198,416	3,517	–	86,375	288,308
Other liabilities	823,971	–	–	260,757	1,084,728
	1,155,884	3,517	–	347,132	1,506,533
	(619,765)	59,202	12,260	8,650,629	8,102,326

	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

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

A change in the exchange rate of the NIS and other currencies to the USD as of the dates of the relevant statement of financial position, at the rates set out below, which according to Management are reasonably possible, would increase (decrease) the profit and loss by the amounts set out below. The analysis below was performed under the assumption that the rest of the variables remained unchanged.

	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		Book value	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor	
	Increase at the rate of		31 December	Decrease at the rate of	
	10%	5%	2018	5%	10%
Cash and cash equivalents	(26,161)	(13,080)	261,606	13,080	26,161
Trade receivables	(4,309)	(2,154)	43,085	2,154	4,309
Other current assets	(30,641)	(15,320)	306,407	15,320	30,641
Short Term Borrowings	13,350	6,675	(133,497)	(6,675)	(13,350)
Trade payables	20,193	10,097	(201,933)	(10,097)	(20,193)
Other liabilities	82,397	41,199	(823,971)	(41,199)	(82,397)
Total	**54,829**	**27,417**	**(548,303)**	**(27,417)**	**(54,829)**

Notes to the Financial Statements

For the year ended 31 December 2018

	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		Book value	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor	
	Increase at the rate of		31 December	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
Short Term Borrowings	21,279	10,639	(212,789)	(10,639)	(21,279)
Trade payables	91,165	45,583	(911,651)	(45,583)	(91,165)
Other liabilities	752	376	(7,522)	(376)	(752)
Total	**13,371**	**6,686**	**(133,712)**	**(6,686)**	**(13,371)**

- Credit risk

All of the cash and cash equivalents and other short-term financial assets as of 31 December, 2018 and 2017 were deposited with one of the major banks in Israel.

Trade receivables as of 31 December, 2018 and 2017 were 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 impairment losses.

- 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, the Company has large cash resources to finance and expand its operations. All the non-current liabilities at 31 December 2017 were repaid in 2018. The short-term borrowings at 31 December 2018 were repaid in 2019 and the trade payables and other current liabilities are expected to be paid within 1 year.

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, IIA 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 (fair value for disclosure purposes):

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, 2018 and 2017, approximate their 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, 2018 and 2017 approximate their 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.

D. Trade Receivables

IFRS 9 provides a simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

Management have assessed the receivables on a case by case basis. Management have concluded based on past experience that there is any risk in these receivables being collected. Management have indicated a concern of the payment from one customer of which a provision has been made for. This is not expected with the remaining receivables and therefore no further assessment is required.

NOTE 28 – SEGMENT REPORTING

The Company has implemented the principles of IFRS 8 ('Operating Segments'), 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.

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

	US dollars Year ended 31 December	
	2018	2017
Asia	**203,000**	66,439
Europe	**117,888**	580,772
Israel	**324,220**	397,464
United States	**478,600**	473,986
	1,123,708	1,518,661

	% Year ended 31 December	
	2018	2017
Asia	**18.1%**	4.4%
Europe	**10.5%**	38.2%
Israel	**28.9%**	26.2%
United States	**42.6%**	31.2%
	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.

Notes to the Financial Statements

For the year ended 31 December 2018

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

	% Year ended 31 December	
	2018	2017
Customer A	**28%**	22%
Customer B	**22%**	19%
Customer C	**18%**	12%
Customer D	**11%**	10%
Customer E	**10%**	9%
	89%	72%

NOTE 29 – 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 were entitled to an annual bonus of 5% of the Company's revenue for the years 2012-2015, if the Company had positive cash flow from operations. This was 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 6 months 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 2018

In terms of Israeli Companies Law, the following needs to be disclosed

		US dollars		
Name	Position	Salary and benefits	Share based compensation	Total
Graham Woolfman (1)(3)	Non Executive Chairman	50,030	–	50,030
David Levi	Chief Executive Officer	206,340	–	206,340
Mark Reichenberg (1)	Chief Financial Officer	109,442	32,130	141,572
Shavit Baruch	VP Research & Development	206,340	–	206,340
Neil Rafferty (1) (3)	Non Executive Director	40,024	–	40,024
Chen Saft-Feiglin (2) (3)	Non Executive Director	17,517	–	17,517
Zohar Yinon (2) (3)	Non Executive Director	19,185	–	19,185
		648,878	**32,130**	**681,008**

Directors' remuneration for the year ended 31 December 2017

Name	Position	Salary and benefits (US dollars)	Annual bonus (US dollars)	Share based compensation (US dollars)	Total (US dollars)
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.

Directors' equity interests in the Company as at 31 December 2018

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)]	–	–	–	27,250	81,750	109,000
Neil Rafferty	7,143	–	7,143	–	–	–
Chen Saft-Feiglin	–	–	–	–	–	–
Zohar Yinon	–	–	–	–	–	–
	11,275,043	**10,715**	**11,285,758**	**148,670**	**81,750**	**230,420**

D. Directors' equity interests in the Company as at 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

Notes to the Financial Statements

For the year ended 31 December 2018

NOTE 30 – RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Long Term Borrowings	Short Term Borrowings	Total
1 January 2018			
Cashflow			
– Repayments	(7,522)	–	(7,522)
– Proceeds	–	133,497	133,497
31 December 2018	**–**	**133,497**	**133,497**

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