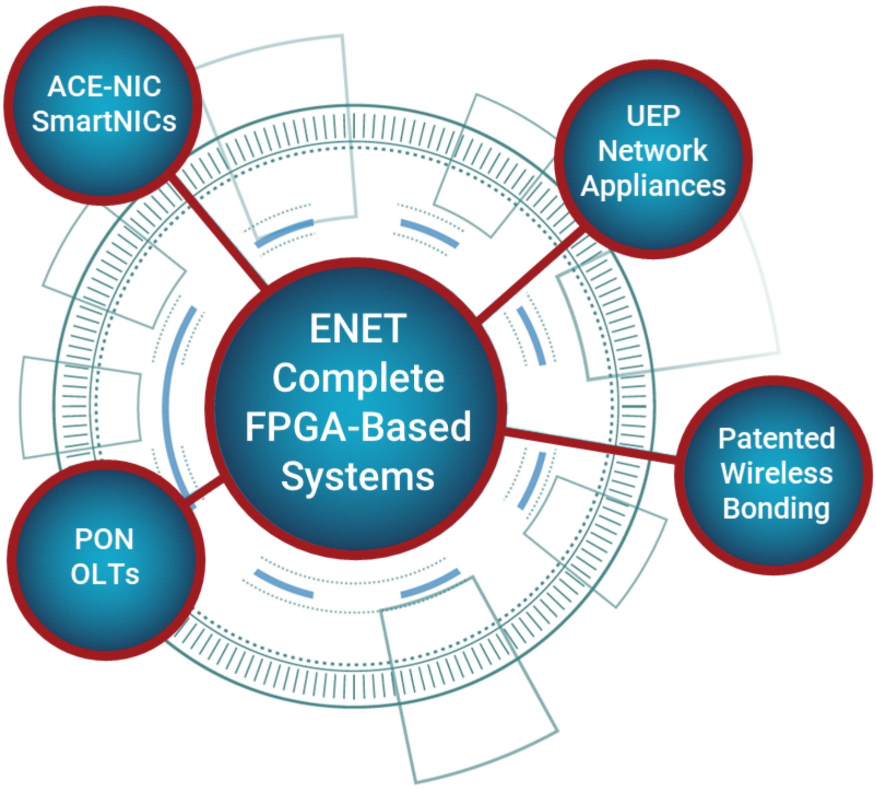


Building Innovative Programmable Networking Solutions

Annual Report and Financial Statements For the Year Ended 31 December 2021

Ethernity Networks Ltd

Company registration number: 51-347834-7.

Ethernity Networks, headquartered in Israel, provides innovative, comprehensive networking and security solutions on programmable hardware for accelerating telco/cloud networks. Ethernity's FPGA logic offers complete Carrier Ethernet Switch Router data plane processing and control software with a rich set of networking features, robust security, and a wide range of virtual function accelerations to optimize telecommunications networks. Ethernity's complete solutions quickly adapt to customers' changing needs, improving time-to-market and facilitating the deployment of 5G, edge computing, and NFV.

The Company's core technology enables the delivery of data offload functionality at the pace of software development, improves performance, and reduces capital expenses, power consumption and latency, which facilitates the deployment of network function virtualisation for 5G, Broadband, and Edge Computing.

Contents

Statutory and Other Information

Directors	Joseph (Yosi) Albagli	*Independent Non-Executive Chairman*
	David Levi	*Chief Executive Officer*
	Mark Reichenberg	*Chief Financial Officer*
	Shavit Baruch	*VP Research & Development*
	Chen Saft-Feiglin	*Independent Non-Executive Director*
	Zohar Yinon	*Independent Non-Executive Director*
	Richard Bennett	*Independent Non-Executive Director**
	**Appointed 7 April 2022 subject to ratification at the upcoming AGM*	
Secretary	Mark Reichenberg	
Registered office	Beit Golan, 3rd Floor 1 Golan St., Corner HaNegev Airport City 7019900 Israel	
Auditor	Fahn Kanne & Co. Grant Thornton Israel 32 Hamasger Street Tel Aviv 6721118 Israel	
Registrars	Link Group 10th Floor, Central Square 29 Wellington Street Leeds LS1 4DL	
Nominated Adviser and Joint Broker	Arden Partners plc 125 Old Broad Street London EC2N 1AR	
Joint Broker	Peterhouse Capital Limited 80 Cheapside London EC2V 6DZ	
UK Solicitors	Edwin Coe LLP 2 Stone Buildings Lincoln's Inn London SE1 9BG	Howard Kennedy LLP No.1 London Bridge London WC2A 3TH
Israel Solicitors	Gornitzky & Co HaHarash St 20 Tel Aviv-Yafo 6761310 Israel	

Chairman's Statement

It gives me great pleasure to present my report as Chairman of the Board.

Since my appointment as Chair on 10 March 2021, I have spent considerable time with the CEO and members of the Board and management both inside and outside of formal meetings so as to fully appreciate the Company strategy, the challenges and the current dynamic environment in which the Company operates. I believe that the strategic direction the Company has taken with its offerings to include systems and solutions in addition to IP licensing and services is proving to be the correct strategy as has been evidenced from the signed contracts, increased engagements and in line with the market direction in the past year. The continued level of engagement with more significant market players as well as progress being made to date is proof to me that the strategic direction of the Company is the right one and carries my full support.

We are progressing in achieving the desired mix of revenue streams from the sale of product and solutions in addition to IP licenses and services. With the immense opportunities in the market for not only 5G deployment but also for other desirable solutions, such as the fixed wireless and 1G/10G PON OLT, I believe this will fuel our revenue growth to position us as a validated supplier with differentiated offerings and growing revenue streams.

The past year was not without its challenges for Ethernity, and while the Company continued with its strategic direction, the ongoing impacts of COVID-19 remained felt and had an effect on planned deliveries specifically related to the worldwide components shortage that emerged during the year. Whilst the Company took immediate steps to secure components needed for delivery on its order commitments, the impact was also felt by our customers and suppliers who inevitable pushed out their planned deliveries. The offshoot of the worldwide component shortage did however impact on the realisation of planned revenues for 2021, resulting in certain revenue delays. Revenue increased by 42.2% for the 2021 financial year to $2.63 million (FY 2020 $1.85 million), while gross margin for the year was $1.94m (2020 $1.58m) and an operating loss of $6.32m (2020 $5.09m). This is further expanded upon in the Financial Report section of this Annual Report. The Company continues to invest significantly in planned Research and Development.

Fundraising

During the year under review the Company finalised and closed the Investment Facility with the 5G Innovation Leaders Fund LLC ("5G Fund") which introduced a total of £3.2m funding commencing from 25 September 2020 through to 1 November 2021. Additional funding was realised via the 30p Warrants exercises along with the Company having concluded a successful oversubscribed placing of £4.6m on 29 September of 2021.

Subsequent to the 2021 year end, the Company entered into a further Share Subscription Agreement with the 5G Fund on 25 February 2022, raising $2m on significantly more favourable terms to the Company. This has allowed the Company to accelerate production of its UEPs and ACE-NIC and provides an increased cash buffer for the Company.

These fundraising efforts have significantly strengthened the financial position of the Company and allows the Company to be well-positioned for the next stage of its development and growth with significantly larger customers, and to service expected mass deployment growth from current contracted customers and from anticipated new contracts from end 2022 onwards.

COVID-19

The Company managed to maintain its operational capacity and deliverables during the difficult time the world endured due to COVID-19. I am pleased to report that until the emergence of the Omicron variant, due to the exceptional and worldwide noted efforts of both the Israeli government and the population in general, the country managed the pandemic inside of its borders and the Company managed to continue meeting its deliverables within the constraints of its customers and the worldwide component shortages challenges that emerged. The medium to long term effects of the 5th wave of COVID-19 related to the Omicron variant remain unknown.

Thanks

Neil Rafferty stepped down as a director on 1 December 2021 and on behalf of the Board I would like to express our appreciation to him for his contributions to the Company since the date of its admission to AIM.

Richard Bennett was appointed by the Board as an Independent Non-Executive Director on 7 April 2022. His appointment will be ratified by shareholders, as required, at the upcoming AGM of the Company. The Company is pleased to have Richard join the board with his wealth of knowledge in the industry as well as deep experience having served as a non-executive director on various AIM company boards since 2005.

The Board is very appreciative of the considerable efforts of the CEO, the CFO, the VP R&D and all our management and staff, who work

Chairman's Statement

tirelessly towards the development, sales, and administrative goals of the Company. I thank them especially during these challenging times for their continuing hard work and commitment to the Company.

Outlook

The current year will be both challenging and exciting as the Company continues to increase and capitalise on customer engagements, continues to develop, and deliver its strategy as well as face the particular challenges, including the shortage of components, to grow the revenue delivery from current modest levels, into milestone new contracts. The Board is confident that, providing customers maintain their technology investment programs and the effects of COVID-19 remain at their current or lower levels, progress will be made this year resulting in longer term value for shareholders.

Yosi Albagli
Chairman

8 April 2022

Chief Executive's Statement

Business and Market Overview

Ethernity Networks has enjoyed a very active past year in product developments, contracts signed and market acceptance of our product and solutions offerings, in a market which is undergoing significant change and that has faced new challenges due to the worldwide components shortage that has come about due to the COVID-19 pandemic.

The market changes include the disaggregated 5G and Open RAN networks which will break the current monolithic 5G offering to spread the network for use by multiple hardware, NIC, servers, software and orchestration vendors, and will utilise Cloud Native Architecture based on computer Servers and Virtualised Software that has a growing demand for FPGA devices for networking data plane offload. The Company's disaggregated products and innovative IP coupled with software appliances covers the Open RAN space including the actual data fiber and wireless infrastructure from tower to core. These will all contribute to the Company to positioning itself as a key player in this market.

5G is needed to enable new types of applications well beyond today's voice communications and internet access services: powerful virtual and augmented reality applications that will only become practical when the Internet of Things (IoT) becomes more responsive and reliable.

That is why Open RAN is gaining momentum. Open RAN is a series of standards managed by the O-RAN Alliance and 3GPP that support disaggregation, open APIs and multi-vendor interoperability, all attractive features for mobile network operators (MNOs) seeking to build flexible, responsive networks. SDN and NFV technology in telecom network transformation and network function virtualization (NFV) are two separate networking technologies that are becoming the backbone of any communication network nowadays, and they both enable a new level of flexibility in network configuration and support multi-vendor deployments. This has been embraced by an extensive ecosystem of companies, who are now designing products and solutions for the Open RAN environment. That is in contrast to the previous cellular communication generations where RAN platforms deployed a baseband unit installed on a proprietary vendor-specific hardware platform to handle signal processing and to communicate with individual remote radio units (RRUs) installed at or near the cell tower. The RAN, including its RRUs, made up the bulk of the cellular base station.

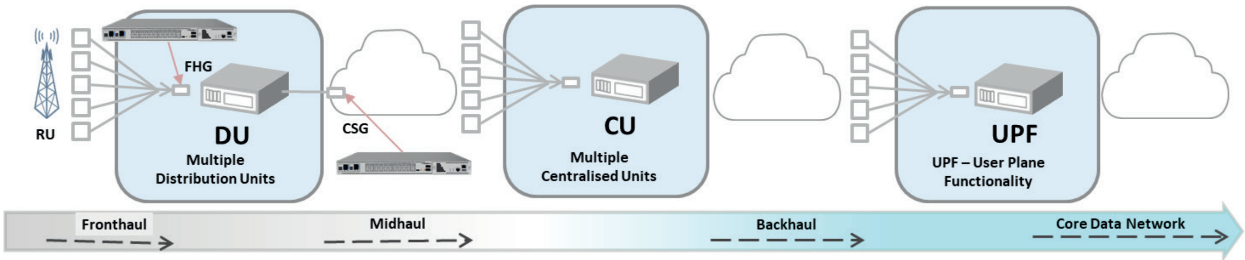
There is no doubt that the anticipated realisation of the NFV market has started to become a reality worldwide, with the demand for disaggregation constantly increasing and a greater place for the use of FPGA devises becoming increasingly apparent, specifically as the demands for offload functionality from the CPU increases, freeing up the CPU and CPU cores for other services.

According to the Dell'Oro Group, cumulative Open RAN revenue from 2020-2025 could be as high as $15 billion, with Open RAN revenues accounting for more than 10% of the overall RAN market by 2025.

5G continues to gain traction around the world and while the proportion of devices using 5G is considerably lower, a tipping point is expected to arrive in 2023, where usage rates are expected to increase strongly and steadily as customers reach the tech refresh point in their mobile device upgrade cycles and MNOs solve their 5G deployment challenges.

The first investment required to build such an Open RAN network is the infrastructure that is required to connect cellular towers and with the Open RAN standard. The baseband unit is disaggregated into a centralised unit (CU) and one or more distributed units (DUs), coupled with wireless backhaul equipment, fronthaul gateway and cell site gateways.

Chief Executive's Statement



For global service providers, each element out of the DU, CU and UPF are usually situated in a different location in the network and therefore, following the connection of the mobile users and increase in usage acceleration of the data plane at the UPF 5G core is required. However, for 5G private networks, smaller service providers may locate all the elements into a single server and then the Company ACE-NIC product can offload routing, CU and UPF onto a single ACE-NIC element running at lower throughput.

Ethernity operates and sells its product through OEMs, and its Radio Access Network offering includes a mix of FPGA SoCs embedding our ENET network flow processor switch/router data plane deployed in our OEMs' products, FPGA SmartNIC for Fronthaul aggregation, vRouter offload, Central Unit Data Plane offload and UPF data plane offload, and a cell site gateway appliance under the Universal Edge Platform (UEP) product family. The Cell Site Router UEP family of systems products targets the $2bn cell site router market. On top of regular cell site routing functions, the UEP differentiates itself by embedding the Company's patented link bonding to allow transmission of higher speed throughput over multiple wireless connections that has already captured two design wins during the last year.

The Company has built extensive knowledge in this market and over the last decade signed multiple licensing contracts for use of our FPGA SoC and ENET Flow Processor IP with many vendors developing products and systems, and has delivered thousands of FPGA SoCs into this market, including fixed wireless systems (proprietary and LTE) base stations, point-to-point microwave systems and 4th gen LTE EPC data plane, all of which are the backbone of our current 5G offering, with many of today's OEMs that serve fixed wireless and wireless backhaul embedding Ethernity's offering in their platforms.

During the year under review, the Company continued its main focus of delivering complete solutions, including 5G routing software, network operating systems, and hardware. Under this strategy, we signed a second large $1m system contract, with an international wireless connectivity vendor to supply a customised UEP module that embeds our patented link bonding technology ("Contracted UEP Module") that is expected to generate close to $4m in revenues during 2022/23. We further delivered the UEP-60 platform and continued our 5G UPF engagement with various partners, operators and OEMs. Furthermore, we signed a $3m contract with a Chinese broadband network OEM to supply our ENET 4820 and ENET 5200 FPGA System-on-Chip (SoC) devices which will enable the two types of PON (XGS-PON and GPON) for use in the OEM's 5G fronthaul products, as well as other fiber access deployments.

Further to this, the contract signed with an American fixed wireless broadband solution manufacturer in 2017 has produced significant orders from the customer as they have rolled out their solution into market deployment.

While we experienced a challenging period due to COVID-19 and in light of the component shortage phenomenon that arose as a result of COVID-19, which resulted in significant increases in component prices, Ethernity adapted its UEP product hardware to use single forms of components with different FPGA assembly options, allowing us to focus on purchasing single sets of components. This will allow the Company to be well-positioned to meet the planned 22/23 revenue goals for our UEP product.

During the period under review, the Company completed a successful and over-subscribed share placing and subscription in September of 2021, and with this fundraising activity along with the closing out of the 30p Warrants from the 2020 placing and subscription, in conjunction with the closing out and finalisation of our Investment Agreement with the 5G Innovation Leaders Fund, has significantly strengthened the Company's balance sheet and raised our financial profile positively with vendors.

Overall, our results for the financial year ended 31 December 2021 reflected the results of the positive engagements and new contracts with revenues increasing by 42.2% to $2.64m (2020: $1.85m) and the gross margin increased by 22.9% to $ 1.9m.

Significant achievements were realised during 2021 in both our customer engagements, the move of our customers to mass production and product offerings:

- Our 5G Distribution Unit (DU) FPGA implementation on top of our ACE-NIC100 FPGA SmartNIC was delivered to three Tier-1 server vendors for telco OpenRAN trials.
- The Company received production orders of $2m for 2021 and 2022 for its ENET Flow Processor FPGA systems-on-chip (SoCs) from its American fixed wireless broadband solution manufacturer customer for Ethernity FPGA SoCs, which provide complete IP networking functionality, including critical traffic management features, for the customer's base station product. Despite the worldwide component shortage, the Company secured supplies of the required components for this product for both 2021 and 2022 deliveries.
- Ethernity's 5G DU Aggregation and vRouting on FPGA SmartNIC solution was shortlisted for a prestigious 2021 Global Mobile ("GLOMO") Award.
- In July 2021, the Company signed a new contract ("Contracted UEP Module") with an international wireless connectivity vendor to supply a switch module with the company's patented link bonding, with an initial order for $930,000, and anticipated revenue for 22/23 of around $4m. The UEP Module is to serve as a hardened microwave/ millimeter wave Outdoor Unit with Ethernity's integrated link bonding solution.
- Our UEP-20 (Universal Edge Platform) product equipped with wireless bonding technology successfully completed live trails with a global OEM customer. The customer conducted field trials for Ethernity's UEP-20 product with a US-based ISP (internet service provider) and passed the field trials, with bonding successfully performed on a variety of products from multiple vendors, indicating the ability of the solution's interoperability and flexibility.
- The Company signed a $400,000 contract with a global wireless OEM based in Europe to supply its ENET 4840 40Gbps FPGA System-on-Chip (SoC) with support for Carrier Ethernet switching, wireless bonding, and IPSec security. The ENET 4840 is a customised version of the device that is used within the UEP-20 Universal Edge Platform product design, which will also be supplied to the OEM for manufacturing.
- Ethernity signed a $3m contract with a Chinese broadband network OEM to supply its ENET 4820 and ENET 5200 FPGA System-on-Chip (SoC) devices.

Current Trading

During the first quarter of 2022 we continued to progress with our strategy and planned deliveries and engagements. Notably to date in 2022, the following has been achieved:

- Additional $800,000 of orders from the American fixed wireless OEM customer already received for 2023, on top of the $2m announced on 27 May 2021. Orders and customer deliveries are progressing as planned and with timely supply of the FPGA SoC required by the customer.
- We have continued with our process of securing components for our own UEP hardware platforms to alleviate the effects of the worldwide components shortage.
- The Company successfully completed its UEP-60 platform as part of the contract with the Indian OEM, that will also serve as the Company's UEP-60 platform (https://ethernitynet.com/products/enet-network-appliances/uep-60/) for sale to other customers.
- The Company completed fabrication of the hardware for the Contracted UEP Module system at the end of February 2022, and with the development done on the UEP-60 described above, the Company anticipates releasing this product for testing during Q3/22, with production shipments during Q4/22.
- The Chinese vendor's XGS-PON OLT platform that embeds Ethernity's XGSPON MAC FPGA SoC will be fabricated during Q2/22 with planned shipment during Q4/22. Further discussions are ongoing with system integrators or vendors for delivery of a complete system based on the system that would be manufactured by the Chinese OEM, or for a new design based on Ethernity's FPGA SoC.
- With the introduction of the UEP that embeds the patented link bonding, the Company initiated participation in WISP events that are focused on wireless internet service providers in America, enjoying immense interest for our link bonding solution intended to serve as a network element that facilitates further expansion of the current

Chief Executive's Statement

wireless providers' networks. During the recent event in March, 50% of OEM vendors presenting in the show either use or have signed with Ethernity to use our products in their offerings.

- Further work is underway with regards to the Company's UPF offload and its integration into current cloud environments, and with other large OEMs that will further expand in the due time.

Outlook

The Company expects significant revenue growth from its FPGA-based programmable system solutions and FPGA SoC, coupled with further growth in the FPGA Router-on-NIC.

Year-on-year revenue growth is anticipated from product orders and contracts already signed, in particular from long-term contracts for Fixed Wireless Access, FPGA-based Universal Edge Platform systems with Ethernity's patented wireless bonding, FPGA Router-on-NIC, and the recently announced $3m contract for FPGA-based 1G/10G PON OLT. The anticipated growth into 2022 and beyond from existing signed contracts, over and above the initial contract commitments, is expected to continue the momentum of increased engagements for Ethernity's solutions-based offerings.

Revenue during 2022 and 2023 will be derived from a mixture of sales of FPGA SoC embedding our ENET Flow Processor firmware, routing software stack, customised UEP offerings, and the FPGA Smart NIC solution for UPF and DU. The Company also expects further contracts during 2022, which would lead to additional orders for 2022, 2023 and onwards.

Outlook for 2022

In terms of contracted revenues for 2022, these already stand at $4.3 million from existing customers.

1. FPGA SoC revenues are expected to increase significantly over 2021, attributed to revenue associated from the orders in place mainly from our U.S fixed wireless system provider and the PON Chinese OEM customer.
2. Design kit and ongoing royalties, design revenues excluding other licensing deals in plan.
3. System Platforms (UEP and ACE-NIC): commencing growth from contracted deliveries (with potential for upside, depending on components supply) associated mainly with current orders and contracts, that are a priority relating to purchasing of components.

Further growth is expected from the winning of new contracts leading to additional licensing fees, and further delivery of ACE-NICs, UEP devices and the UEP Module.

Outlook for 2023

The Company already has significant revenue visibility for 2023, with $5.0 million of orders contracted. Importantly, significant further growth over 2022 is expected from both additional orders from existing contracts and further contract wins.

1. FPGA SoC: continued significant revenue growth expected over 2022 relating mainly to existing committed orders from existing customers. Upside opportunities exist from further follow-on deployments from existing customers' platforms that already embed the Ethernity ENET FPGA SoC and Flow Processor.
2. System Platforms (UEP and ACE-NIC): resulting mainly from the UEP revenue anticipated for follow on orders for the Contracted UEP Module, other new engagements under negotiation for our UEP cell site router, and ACE-NICs for the 5G and vRouter markets.

Overall, we are expecting growth across many facets of the business – from the multiple contracts signed, in both sales of ENET FPGA SoC products from multiple markets including fiber access (PON), wireless access, and wireless and fiber backhaul, with our OEM customers' products having matured for mass deployment.

This is underpinned by committed volumes or firm orders received from our customers for their own deployment. FPGA SoC revenue is a recurrent revenue associated with the deployment of our OEM customers' products that embed the ENET FPGA SoC. This represents a secure link for Ethernity with our customer – once the customer deploys a product with Ethernity's solutions, it is very difficult for the customer to roll out a new product without Ethernity's FPGA SoC.

Over and above the Company's UEP products designed and manufactured through Ethernity's contractor manufacturers, further opportunities for growth may be realised through other sources outside of the existing contract frameworks, in particular:

1. The contract signed with the Indian OEM for the two cell site router platforms, that, over and above the regular contract framework where the customer will purchase an FPGA SoC and system software stack: as Ethernity actually designed the complete system, we can also purchase the complete system from the customers' manufacturer and resell this to other OEM customers for different markets and applications depending on the functionality coded on the FPGA.

2. The contract signed with the Chinese vendor for XGS-PON and GPON OLT FPGA SoC, that, over and above the regular contract framework, where the customer will purchase FPGA SoCs for XGS-PON and GPON OLT, Ethernity can purchase the customer platform for reselling to other OEMs that will allow us to propose another ENET system product for fiber access.

With the disaggregation framework that is progressing within the CSPs (Communications Service Providers), delivery to the CSPs will be undertaken by system integrators, server manufacturers, the Company's OEM customers, or other channels that will supply and support the deployment at the CSP. The Company does not plan to sell its products directly to CSPs for large scale deployment and intends to deliver to the market through the above channels.

I am encouraged by the fact that with the product contracts we have already signed, the product orders we have received, and the good progress we have experienced with acceptance of our offerings, this will continue to position us not just as a technology company, but as a validated system product supplier with differentiated offerings allowing for continual increasing revenue streams.

David Levi
Chief Executive Officer

8 April 2022

Financial Review

Financial Performance

Through the past financial year we continued with our goals and to progress our transition towards diversifying the Company's offerings to include systems and solutions in addition to IP licensing and services as the correct strategy which has been proven in the accomplishments and engagements attained over the past year.

Obviously, as with most companies worldwide, the COVID-19 pandemic continued to create challenges, not only within the management of the Company, but in aligning ourselves with the issues within the markets in which we operate and our customers goals. Further to this, as a direct offshoot of the COVID-19 pandemic, planned deliveries were affected specifically related to the worldwide components shortage that emerged during the year with components supply across the board in all market places becoming an issue. Whilst the Company took immediate steps to secure components needed for delivery on its order commitments for its 2022 system solutions delivery (UEP and ACE-NIC100 products), the impact was also felt by our customers and suppliers who inevitable pushed out their planned deliveries. This did however impact on the realisation of planned revenues for 2021, resulting in approximately $1m revenue delays for the remainder of the 2021 year, to be realised in 2022.

In order to meet the challenges above, ensure funding is in place for the securing component supply and significantly strengthened the financial position of the Company, the Investment Facility with the 5G Innovation Leaders Fund LLC was closed out and a successful oversubscribed placing of shares in September 2021 was completed. This is expanded on further in this report.

Highlights

- Revenues increased by 42.2% to $2.64m (2020: 38.0% to $1.85m)
- Gross margins increased by 22.92% to $ 1.9m (2020: 37.5% to $1.58m)
- Gross Margin percentage declined to 73.80% (2020 85.4%)
- Operating costs before amortisation of intangible assets, depreciation charges, provisions and other non-operational charges increased by 32.11% to $6.9m (2020: 23.0% to $5.27m)
- EBITDA Loss increased by 35.72% to a loss of $ 5.05m (2020: 34.2% to a loss of $3.72m)
- Cash funds raised during the year of $11.2m before costs (2020: $3.3m)

Key financial results

Recognition of Research and Development Costs.

In line with the change in policy adopted by the Company from 1 July 2019 the Company continues with the policy of no longer continuing recognising the Research and Development costs as an intangible asset but recognising these as an expense and charged against income in the year incurred.

Furthermore, as reported for the financial year end 31 December 2019, an independent Fair Value report was commissioned by the management to support the management assertion that the underlying value of the intangible asset exceeded the carrying value on the balance sheet. The report concluded and supported the management assertion that no impairment of the intangible asset on the Balance Sheet is required, which assertion the management continue to support.

For the year ending 31 December 2020 management performed their own internal assessment of the fair value of the intangible asset and concluded that the value of the asset is fair and no impairment of the intangible asset on the Balance Sheet is required. This process was repeated by management for the financial year under review, 31 December 2021 and the assertion that the underlying value of the intangible asset exceeds the carrying value on the balance sheet remains unchanged.

EBITDA

EBITDA, albeit it not a recognised reportable accounting measure, provides a meaningful insight into the operations of a Company when removing the non-cash or intangible asset elements from trading results along with recognising actual costs versus some IFRS adjustments, in this case being the amortisation and non-cash items charges in operating income and the effects of IFRS 16 treatment of operational leases.

Financial Review

The EBITDA for the year under review for the financial year ended 31 December 2021 would be presented as follows:

	US Dollar For the year ended 31 December			
EBITDA	**2021**	**2020**	**Increase (Dec)**	**%**
Revenues	**2,635,420**	**1,853,732**	**781,688**	**42.17%**
Gross Margin as presented	**1,944,903**	**1,582,279**	**362,624**	**22.92%**
Gross Margin %	*73.80%*	*85.36%*		
Operating (Loss) Profit as presented	**(6,327,475)**	**(5,088,929)**	**(1,238,546)**	**24.34%**
Adjusted for:				
Add back Amortisation of Intangible Assets	961,380	952,606	8,774	0.92%
Add back Share based compensation charges	77,583	18,209	59,374	326.07%
Add back vacation accrual charges	(27,519)	81,732	(109,251)	-133.67%
Add back depreciation charges on fixed assets	87,586	156,011	(68,425)	-43.86%
Add IFRS operating leases depreciation	173,675	155,862	17,813	11.43%
EBITDA	**(5,054,770)**	**(3,724,509)**	**(1,330,261)**	**35.72%**

The EBITDA losses increased during the 2021 year from $3.72m in 2020 to $5.05m in 2021. The increase in the EBITDA losses were driven by increases in the Research and Development costs of $1.52m which arose mainly as a result of staff returning to 100% capacity during 2021 and increases in General and Administrative costs of $202,000. Marketing and Sales expenses declined negligibly by $28,000 as COVID-19 continued to affect marketing activities abroad. The majority of these increases resulted from the return to normalised operating levels post the COVID-19 lock-down periods and following the cash conservation measures taken by management in early 2020 in response to the COVID-19 pandemic outbreak at the time and are detailed further in this report under the section "Operating Costs and Research & Development Costs".

These EBITDA losses should start to reduce reaching into 2023 as the future revenues increase, albeit there are anticipated decreases in the gross margin percentage as the product sales mix evolves weighted more towards sales of products and solutions as versus the historical skewing towards licensing and design revenues, along with the planned increases in both R&D resource costs and the increased marketing activities.

Summarised trading results

	US Dollar Audited For the year ended 31 December			
Summarised Trading Results	**2021**	**2020**	**Increase (Dec)**	**%**
Revenues	**2,635,420**	**1,853,732**	**781,688**	**42.17%**
Gross Margin	**1,944,903**	**1,582,279**	**362,624**	**22.92%**
Gross Margin %	*73.80%*	*85.36%*	*-11.56%*	*-13.54%*
Operating (Loss) Profit	**(6,327,475)**	**(5,088,929)**	**(1,238,546)**	**24.34%**
Financing costs	(3,074,452)	(1,462,740)	(1,611,712)	110.18%
Financing income (expenses)	228,404	298,016	(69,612)	-23.36%
(Loss) Profit before tax	**(9,173,523)**	**(6,253,653)**	**(2,919,870)**	**46.69%**
Tax benefit (reversal of previous deferred tax benefit)	(186,772)	—	(186,772)	
Net comprehensive (loss) income for the year	**(9,360,295)**	**(6,253,653)**	**(3,106,642)**	**49.68%**

The operating loss before finance charges increased by $1.24m over 2020, attributable mainly as explained above to the increase in R&D costs and lower gross margin percentage. The effect of the finance costs. Which are based on IFRS recognition and not a cash cost are discussed further down in this report.

Financial Review

Revenue Analysis

Revenues for the twelve months ended 31 December 2021 increased by 42.2% to $2.64m (2020: $1.854m) after additional year end IFRS adjustments. This result is a positive reflection of the upward trend anticipated due to the recent contracts signed, orders received on customer deployments and the increased customer engagements.

The revenue mix will continue to evolve as the Company progresses in achieving the desired mix of the revenue streams from the sale of products and solutions in addition to IP licenses and services.

Margins

Gross margins remained above the 60% – 70% levels that the Company models its forecasts on, with the 2021 gross margin being 73.8% as compared to 85.4% in 2020. While the gross margin will vary according to the revenue mix as Royalty and Design Win revenues generally achieve an approximate 100% gross margin before any sales commissions are accounted for, as the Company progresses its strategy of becoming a supplier of customised and differentiated system solutions as compared to the legacy model of FPGA code licensing, there will be a continued downward pressure on margin percentages as product and solutions revenues become an increasingly larger portion of the revenues mix.

Operating Costs and Research & Development Costs

After adjusting for the capitalised Research and Development Costs amortisation costs of the Development Intangible Asset, Depreciation, IFRS, Share Based Compensation and payroll non-cash accruals adjustments, the resultant increases (decreases) in Operating costs, as adjusted would have been:

	US Dollar For the year ended 31 December			
Operating Costs	**2021**	**2020**	**Increase (Dec)**	**%**
Total R&D Expenses	5,550,912	4,037,904	1,513,008	37.47%
R&D Intangible amortisation	(961,380)	(952,606)	(8,774)	0.92%
Vacation accrual expenses	33,921	(28,856)	62,777	-217.55%
Share Based Compensation IFRS adjustment	(54,962)	(6,783)	(48,179)	710.29%
Research and Development Costs net of amortisation, Share Based Compensation, IFRS adjustments and Vacation accruals	**4,568,491**	**3,049,659**	**1,518,832**	**49.80%**
Total G&A Expenses	1,721,873	1,591,079	130,794	8.22%
Share Based Compensation IFRS adjustment	(10,750)	(11,168)	418	-3.74%
Vacation accrual expenses	2,181	(22,956)	25,137	-109.50%
Impairment losses of financial assets	(80,000)	(75,000)	(5,000)	6.67%
Fixed Assets Depreciation Expense	(87,586)	(156,011)	68,425	-43.86%
Depreciation Leases IFRS16	(173,675)	(155,862)	(17,813)	11.43%
General and Administrative expenses, net of depreciation, Share Based Compensation, IFRS adjustments, Vacation accruals and impairments.	**1,372,043**	**1,170,082**	**201,961**	**17.26%**
Total Marketing Expenses	1,044,905	1,082,560	(37,655)	-3.48%
Share Based Compensation IFRS adjustment	(11,871)	(258)	(11,613)	
Vacation accrual expenses	(8,583)	(29,920)	21,337	-71.31%
Marketing expenses, net of Share Based Compensation and Vacation accruals.	**1,024,451**	**1,052,382**	**(27,931)**	**-2.65%**
Total	**6,964,985**	**5,272,123**	**1,692,862**	**32.11%**

Operating costs were in line with the Company targets and expectations as planned with increases in General and Administrative costs.

Research and Development costs after reducing the costs for the amortisation of the capitalised Research and Development intangible asset, depreciation, share based compensation and vacation accruals increased by $1,518,832 against 2020. These increases were attributable to the increase in the basic payroll component increases as planned along with the return to normal levels operations post COVID-19 of approximately $1,260,000 over 2020.

The increase in General and Administrative costs over 2020 to $1,372,043 after adjusting out depreciation, share based compensation, IFRS adjustments and vacation accruals amounted to approximately 17.26% or $201,961. This increase resulted mainly from the return to 100% payroll and time after the significant 2020 COVID-19 pay cuts in the finance department, the increase amounting to approximately $185,000. By the very nature of expenditure accounted for under the General and Administrative costs there was little scope for further savings due to the fixed nature of such expenses.

Following the significant decline in Sales and Marketing costs during the 2020 financial year due to cessation of many marketing travel and travel related activities, including conferences as a result of the COVID-19 pandemic and restrictions in place, Sales and Marketing costs decreased marginally from 2020 by $27,931. This decrease resulted mainly from reduced marketing activity and attendance at market events due to the COVID-19 situation of approximately $258,000 while the return to 100% payroll activity within the Marketing department accounted for a payroll increase of approximately $181,000.

Financing Costs

The continued material levels of financing costs has come about due to the continued recognition and realization of funds inflows of the two historical equity events referred to below and under the section "Balance Sheet" along with the further finance effects of the over-subscribed Placing and Broker option along with the corresponding warrants issued in September 2021.

It is to be noted that the three transactions detailed below, albeit they were in essence based on raising funds via equity issues, are nonstandard equity arrangements and have been dealt with in terms of the guidance in *IFRS9–Financial Instruments*. This guidance, which is significantly complex in its application, forces the recognition of the *fair value* of the equity issues, and essentially creating a recognition in differences between the market price of the shares issued at time of issue versus the actual price the equity is allotted at. It is this differential or "derivative style instrument" that needs to be subject to a fair value analysis, and the instruments, the values received and outstanding values due being separated into equity, assets, finance income and finance charges in terms of the IFRS-9 guidance.

Referring to the fundraise deals the Company completed during the year of 2020 and further in 2021 being;

a. Final exercise of the Warrants bundle (Peterhouse Capital Limited 2020 placing and issue of the £0.30 warrants the exercise and issue of which concluded on the 12th of May 2021.

b. The over-subscribed Placing and Subscription to raise £4.2m, issue of warrants (60p Warrants) at £0.60 and the Over-Subscribed Broker Option that raised an additional £402,480 from the 27th to 29th of September 2021.

c. Finalisation and close-out of the Share Subscription Agreement (5G Innovation Leaders Fund LLC) entered into during 2020 and concluded on 9 November 2021.

It has been determined that in terms of IFRS-9, all the transactions are to be recognised as equity and a liability of the Company and all adjustments to the liability value are to be recognised through the Income Statement. In all cases the equity differential based on allotment price and fair value at time of allotment is charged to the income statement. The liability in respect of deal b. above represents the outstanding 60p Warrants which have not been exercised as of 31 December 2021.

The above outlined treatment results in the finance expense charged to the Income Statement, however it should be noted that the expense is <u>not an actual cash expense</u>, rather an expense due to the accounting treatment and recognition of an expense instead of an asset in terms of IFRS guidance.

Financial Review

The Finance income $49,723 relates to the 5G Fund transaction 880,000 "Allotment Shares" the Company issued in advance as part of the Share Subscription Agreement, the cash payment for which the Company received on 23 April 2021. The $370,758 on the September share placing led by Peterhouse Capital is the result of the fair value calculation of the warrants issued based on the placing price of the shares and the fair value of the warrants at 31 December 2021.

The Financing Expenses and Finance Income in the Income Statement are thus summarised as follows:

Financing expenses for the full year ending December 31 2021			
5G Innovation Leaders Fund LLC			
The Company has received three additional tranches during the period from 1 January 2021 to 30 June 2021, being £400K (3rd tranche), £400K (4th tranche) and £750K (5th tranche) and an additional tranche during the period from July 1 2021 to December 31 2021 in the amount of £750K (6th tranche). The below expenses are split between the tranches as well as general expenses which relate to the entire funding agreement and allotment of shares.			
3rd Tranche	$	52,627	Face value premium of £38,000 for third tranche (£400K)
4th Tranche	$	52,926	Face value premium of £38,000 for fourth tranche (£400K)
	$	9,885	Remaining liability from 4th tranche as of June 30 2021 has been adjusted to Fair Value, the adjustment is recognised as finance expenses.
5th Tranche	$	102,191	Face value premium of £73,500 for 5th tranche (£750K)
	$	25,360	Liability from 5th tranche as of June 30 2021 has been adjusted to Fair Value, the adjustment is recognised as finance expenses.
6th Tranche	$	100,298	Face value premium of £73,500 for 6th tranche (£750K)
General expenses	$	182,795	Upon share allotment of 1,805,054 shares, the Company adjusted liability which was extinguished to Fair Value right before allotment. The adjustment portion is recognised as finance expenses.
	$	648,972	Upon share allotment of 2,033,898 shares, the Company adjusted liability which was extinguished to Fair Value right before allotment. The adjustment portion is recognised as finance expenses.
	$	169,451	Upon share allotment of 1,307,190 shares, the Company adjusted liability which was extinguished to Fair Value right before allotment. The adjustment portion is recognised as finance expenses.
	$	932,225	Upon share allotment of 2,433,007 shares, the Company adjusted liability which was extinguished to Fair Value right before allotment. The adjustment portion is recognised as finance expenses.
	$	540,816	Upon share allotment of 2,642,472 shares, the Company adjusted liability which was extinguished to Fair Value right before allotment. The adjustment portion is recognised as finance expenses.
	$	66,708	Initial finance fees for entire deal of $90K have been amortizing throughout the entire deal term. During 2021 the Company expensed 74.1% of the remaining $90K Prepaid Finance Expenses to finance expenses

Financing expenses for the full year ending December 31 2021			
Total 5G Fund	**$**	**2,884,254**	
September 2021 placing	**$**	**127,856**	Recording a portion of initial fundraise expenses (prorated a portion which relates to the Warrants and not the shares, as those need to be recognised in the Income Statement)

Financing Income for the full year ending December 31 2021			
5G Innovation Leaders Fund	**$**	**49,723**	Recording adjustment to cash due for the 880,000 "Initial Shares", valued at 29.20p per share which is the conversion price at settlement date. Asset is worth more at date of payment then it was on allotment, and therefore the increase in value is recorded as finance income.
During the financial year ended, the 30p Warrants in terms of the July 2020 placing were exercised and closed by the warrant holders. Furthermore, the Company undertook a placing of shares led by Peterhouse Capital in September 2021. The placing which issued ordinary shares at £0.35 (35p), included the issue of Warrants on a 1:1 basis, with an exercise price of £0.60 (60p). The below figures represent the finance income and expenses in regards to the two warrant instruments issued as part of both placement deals			
Peterhouse Capital Fundraise July 2020 30p Warrants close out.	**-$**	**262,035**	The liability in respect of the 30p Warrants was adjusted to Fair Value right before the exercise which took place during the period. This adjustment portion is recognised as a finance expense.
September 2021 placing	**$**	**370,758**	Updating value of warrants issued, as of December 31 2021
Total net finance income	**$**	**108,723**	

Operating Loss and Net Comprehensive Loss for the Year

Whilst portion of the revenues have been deferred from 2021 to 2022 due to the worldwide components shortage as previously noted, the operating loss before financing expenses and the effect of the equity transactions was in line with expectations.

Balance Sheet

During the year under review, the Company continued to strengthen its balance sheet as follows:

- Finalisation and close out of the July 2020 Placing and Subscription 30p Warrants, all of which were exercised and funded by 12 May 2021.
- The over-subscribed Placing and Subscription, issue of Warrants (60p Warrants) at £0.60 and the Over-Subscribed Broker Option from the 27th to 29th of September 2021.
- The Share Subscription Agreement with 5G Innovation Leaders Fund LLC ("5G Fund"), a U.S.-based specialist investor, entered into during September 2020 was concluded and all advances and share allotments against advances were concluded on 9 November 2021.

The above transactions raised approximately $11.2m which have significantly strengthened the financial position of the Company.

Financial Review

Furthermore, there have been some material changes on other balance sheet items as follows:

- Resulting from the final funding received on the 5G Fund agreement and the successful oversubscribed placing, cash and cash equivalents increased materially compared to the previous period by $5m.
- Increases in trade receivables reflect the activity in the second half of the financial year from the announced contracts.
- Intangible assets continue to reduce in carrying value due to the amortisation policy.
- Trade payables increased due to advance purchasing of components and in line with revenue increases in the latter portion of the reporting year.
- Short term liabilities have reduced by $841,000 with regard to the close out of the 5G Fund and the final allotments of shares against all advances, however there was an increase in the warrants liabilities of $928,000, as mentioned earlier in this report, these liabilities arose due to IFRS recognition standards.

The balance sheet quick and current ratios of the Company for 2021, excluding the "liabilities" relating to the Share Subscription Agreement and Warrants, strengthened significantly to 4.20 and 4.07 respectively (2020 1.90 and 1.81 respectively).

The net cash utilised and cash reserves are carefully monitored by the Board. Cash utilised in operating activities for the year is $5,386,653 (2020 $3,594,827), the increase in consumption being mainly related to the increases in return to post COVID-19 operating levels, inventories and trade receivables. Gross cash reserves remained positive at $7,060,824 as of 31 December 2021, (2020 $2,180,726), which reserves had been substantially bolstered by the historical fundraising activities carried over from the 2020 financial year along with the Subscription and placement in September 2021.

Short term borrowings of $422,633 (2020 $411,726) arose mainly from trade financing facilities raised during 2020 via the Company's bankers. This is a "rolling facility" and utilised by the Company on specific customer transactions only.

The Intangible Asset on the Balance Sheet at a carrying value of $6,424,180 (2020 $7,385,560) is a result of the Company having adopted from 2015, the provisions of IAS38 relating to the recognition of Development Expenses, which methodology as noted in the 2019 Annual Report was ceased from 1 July 2019. 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. For the year ending 31 December 2021, management performed their own internal assessment of the fair value of the intangible asset and concluded that the value of the asset is fair and no impairment of the intangible asset on the Balance Sheet is required.

The Right-of-use asset under Non-current assets and the corresponding Lease liability under Non-current liabilities on the balance sheet and as referred to in Note 10 of the financial statements arises in terms of IFRS 16 which became effective from 1 January 2019. This accounting treatment relates to the recognition of the operating leases of the company premises, and immaterially to leased company vehicles. In terms of the applicable Standard, the Company is required to recognise the "benefit" of such operational leases as it enjoys the rights and benefits as if it had ownership thereof. Correspondingly, in terms of the Standard, the liability relating to the future payments under such operating leases is required to be recognised. The accounting treatment, simply put, then results in an amortisation of the asset over the period of the operating lease as a charge to income, and payments made are charged as a reduction against the liability, essentially offsetting each other to zero. The liability is not an "amount due" for repayment in full as a singular payment at any one time, and both the asset and liability have no impact on planned and actual cash flows as the real cash flow is the normal monthly instalments for premises rentals and car leases paid in the normal course of business as part of planned expenditures in cash flows.

The asset and liability referred to above in respect of the Company premises is material in that it represents the 5 year lease commitment plus the 5 year renewal option that the Company has the right to and benefit of.

Summary of Fundraising Transactions Liabilities in terms of IFRS Recognition

At year end, as all transactions relating to the 5G Fund had closed, which included having received value owing on the initial 880,000 "Initial Shares" allotted in 2020, there were no further outstanding assets relating to the transaction.

The issue of the 60p Warrants in the September 2021 Share Placing created a liability as explained above in terms of IFRS recognition principles. This liability reverses to equity once the warrants are exercised.

As of 31 December 2021 the liabilities in terms of the financing transactions entered into is:

Liability at 31 December 2021			
September 2021 Placing and issue of 60p Warrants	$	0	No remaining liabilities as part of the Peterhouse July 2020 placing and associated warrants issued as of December 31, 2021
	$	0	No remaining liabilities towards 5G innovation fund as of December 31, 2021
	$	1,214,993	Warrants liability in regards to September 2021 placing deal, short term and long term (80p Warrants)
	$	**1,214,993**	

COVID-19 Impact and Going Concern

Currently, with the impact of COVID-19 in Israel having being reduced significantly the Company has resumed its planned strategies including the enhancement of the development resources. Coupled with the worldwide components shortage that is a direct result of the COVID-19 outbreak in 2019, we remain acutely aware of the COVID-19 situation in the geographies that we trade and have development engagements, and as such realise the risk of an impact in delays in the timing of revenues as well as delays in supplies not only to the Company but its customers, whose product deployment could be materially impacted. The medium to long term effects of the 5th wave of COVID-19 related to the Omicron variant remain unknown.

In the presentation of the annual financial statements for the year ended 31 December 2020, the auditors made reference to the existence of a material uncertainty in relation to going concern within the audit report. Due to the positive steps undertaken by the Company in its fundraising efforts coupled with the positive trading outlook for 2022 and 2023 onwards arising from existing and new contract engagements, the directors believe that the previous uncertainty is no longer relevant and as such any reference to the uncertainty has been removed from the financial statements as per Note 2 of the financial statements.

Other than the points outlined 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 29 to 82 of this Annual Report.

Mark Reichenberg
Chief Financial Officer
8 April 2022

Board of Directors

Joseph (Yosi) Albagli (Non-Executive Chairman)

Yosi was formally appointed as the Independent Non-executive Director and Chairman on 10 March 2021. Yosi comes from an engineering background, and has over 30 years of experience in engineering, business strategy and management, and entrepreneurship in the communications industry. Yosi co-founded and served as President and CEO of Tdsoft Ltd in 1994, driving the company toward becoming the leader in V5 solutions. In 2005, he led a reverse merger with VocalTec (NASDAQ: VOCL) becoming President, CEO and a board member, growing the company's market share, and establishing it as a leader in Voice-over-IP technology. Yosi also served as President and CEO of CTWARE Ltd., as a board member of ITGI Medical (TASE), and as President of the Satellite Communications division for Orbit Communication Systems (TLV: ORBI). Yosi is currently serving as the Co-Founder and Chairman of Over-Sat Ltd, a satellite communications company. Yosi is a Cum Laude graduate of The Technion – Israel Institute of Technology with a BSc degree in Civil Engineering and a veteran of the Israeli navy, in which he taught electronics.

David Levi (Chief Executive Officer)

David has over 27 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 Communication, sales manager at Dynamode Ltd. David holds an BSc Degree in Electronic Engineering from The Jerusalem College of Technology and an MBA from Bar Ilan University, and is a veteran officer (Major) of the Israeli Defense Forces, in which he served as a Systems Engineer and project manager.

Mark Reichenberg CA(SA) (Chief Financial Officer)

Mark is a qualified Chartered Accountant from South Africa. 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, logistics and technology companies. 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 27 years of experience in the telecom and datacom industry, with vast technical experience in ATM, Ethernet and SONET/SDH, both at the components and system level. Prior to Ethernity Networks, Shavit served as Chief Architect at Native Networks, a start-up company developing products for the Metro Ethernet market. Prior to this, in 2002, Shavit established Crescendo Networks, a start-up company enhancing data center applications performance. Prior to the venture at Crescendo, Shavit served as R&D Director at ECI Telecom, where he was in charge of the 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. Shavit holds an MSc. Degree in Electronic Engineering from Tel-Aviv University and is a veteran officer(Major) of the Israeli Defense Forces, in which he developed Electronic Systems.

Chen Saft-Feiglin (Independent Non-Executive Director)

Chen is a lawyer and notary admitted in Israel with more than 25 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 Defense Forces.

Zohar Yinon (Independent Non-Executive Director)

Zohar is currently the CEO of Bar Ilan University in Israel and board member of Birad Ltd (Bar-Ilan Research & Development commercialising Bar Ilan University inventions). 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.

Richard Bennett *(Appointed 7 April 2022 subject to ratification at the upcoming AGM of the Company)*

Richard Bennett has extensive business and listed company experience over a career spanning 30 years. During that time, he has worked for General Electric in Asia and the US and co-founded and listed on NASDAQ J2Global, an internet telecoms business currently valued at US$3.5 billion. He has worked in executive, chairman and non-executive roles with a series of successful growth-focused technology and clean energy companies, currently including AIM-quoted GETECH plc, China New Energy) and previously AIM-quoted wireless technology company, MTI Wireless Edge.

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's Corporate Governance Expert Group and a standalone Working Group comprising leading individuals from across the small & mid-size quoted company ecosystem.

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") as may be applicable, the more relevant of which relates to the constitution of the Board of Directors, the Audit and Risk Committee and the Remuneration Committee. Whilst the Israeli Law requirements are more onerous, these have been incorporated into the requirements and guidance under the QCA Code.

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 ten 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 ten 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, which is updated regularly as required with the most recent Company update being 22 December 2021, can be found on the Company's Website section for Investors at https://ethernitynet.com/investors/1454056723887-bab53599-82b7 .

The Directors and the Board

The Board is currently comprised of three executive directors, David Levi, Mark Reichenberg and Shavit Baruch, and four non-executive directors, Joseph (Yosi) Albagli (Chairman), appointed on 10 March 2021, Chen Saft-Feiglin, Zohar Yinon and Richard Bennett appointed as independent non- executive director on 7 April 2022 (subject to ratification of the shareholders at the forthcoming Annual General Meeting). The balance between executive and non-executive directors encourages a diversity of views, and ensures the independence of the directors, not allowing 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 and Risk Committee and Remuneration Committee must each include all of the External Directors (including one External Director serving as the chair of the Audit and Risk Committee and Remuneration Committee), and a majority of the members of each of the Audit and Risk 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:

Joseph (Yosi) Albagli	Independent Non-Executive Chairman (Appointed 10 March 2021) 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 Provisional Remuneration Committee member
Mark Reichenberg	Chief Financial Officer and Company Secretary Nomination Committee member Provisional Audit and Risk Committee member
Shavit Baruch	Vice President R&D (re-elected 22 June 2020)
Chen Saft Feiglin	External Director Remuneration Committee Chairman Audit and Risk Committee member
Zohar Yinon	External Director Audit and Risk Committee Chairman Remuneration Committee member
Richard Bennett	Independent Non-Executive director (*appointed 7 April 2022 subject to ratification at the AGM*) Audit and Risk Committee member Remuneration Committee member Nomination Committee member

Biographical details of all the Directors are set out on pages 18 to 19.

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.

During 2021, the Board met formally on ten occasions. Board members also hold ad hoc discussions amongst themselves between formal Board meetings to discuss governance, financial, operational, and other business matters. A majority of the Board members constitutes the legal quorum for a board meeting, and all but three Board members 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.

Corporate Governance Statement

Attendance at Board and Committee meetings by members of the Board during the year ended 31 December 2021 was as follows:

	Board	Audit & Risk Committee	Remuneration Committee	Nominations Committee
Number of meetings	**10**	**5**	**4**	**1**
Yosi Albagli *(Note 1)*	7	4 (as invitee)	4 (as invitee)	
Graham Woolfman *(Note 2)*	2			
David Levi	10	2 (as invitee)	3 (as invitee)	1
Mark Reichenberg	10	5 (as invitee)	1 (as invitee)	1 (as invitee)
Shavit Baruch	10	1 (as invitee)		
Neil Rafferty *(Note 3)*	9	5	4	1
Chen Saft-Feiglin	9	4	4	1 (as invitee)
Zohar Yinon	9	5	4	1 (as invitee)

Note.

1. Appointed 10 March 2021
2. Resigned 17 November 2020, effective 17 February 2021
3. Resigned 1 December 2021

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.

In terms of the General Meeting of the Company held on 22 June 2020, the term of David Levi and Shavit Baruch, in their capacity as directors, was extended until 22 June 2023, the term of Mark Reichenberg and Neil Rafferty, in their capacity as directors, was extended until 28 June 2023. In terms of the Annual General Meeting of the Company held on 14 September 2020, Chen Saft-Feiglin and Zohar Yinon, in their capacity as external directors were reappointed as Directors for a three year term commencing from 15 November 2020 and ending on 14 November, 2023.

Yosi Albagli was formally appointed as the Independent Non-Executive Chairman on 10 March 2021 for an initial period of three years.

Richard Bennett was formally appointed as an Independent Non-Executive Director on 7 April 2022 for an initial period of three years.

Board Committees

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

Audit and Risk Committee

The UK Corporate Governance Code recommends that an Audit and Risk 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 and Risk Committee, which comprises the Independent Non-Executive and External Directors (excluding the Chairman) and by permanent invite the Chairman and the CFO. The Committee is chaired by Zohar Yinon with the remaining members being Chen Saft-Feiglin and, on an interim basis Mark Reichenberg the CFO, until such time as the appointment of Richard Bennett, the proposed Independent Non-Executive Director is ratified at the upcoming AGM of the Company, who will then join the Committee. The Committee invites other members of the Board as well as the Independent and Internal Auditors of the Company to attend meetings as appropriate. The Audit and Risk Committee has responsibilities which include the review of:

- The Company's internal control environment;
- Financial risks and Internal Audit;
- Financial statements, reports, and announcements, including the Board's responsibility to present an annual report that is fair, balanced, and understandable. The Committee evidences this review in a report to the Board following its meeting with the auditors to discuss their Report to the 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; and
- 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 2021, the Committee met on five occasions and the matters considered included the following:

- Consideration of the Company's annual audited financial statements for the year ended 31 December 2020, review of going concern, treatment of the equity and finance transactions undertaken in the financial statements and recommendation to the Board for publication thereof.
- Review of the Interim Unaudited Financial Statements as at 30 June 2021, review of going concern and reporting, the COVID-19 continuing situation, treatment of the equity and finance transactions undertaken, and formal recommendation to the Board for the Issuance of the Interim Unaudited Financial Statements as at 30th June 2021.
- Review and recommendation to the Board of the placing and subscription by the Company in September 2021.
- Presentation by the Internal Auditors of their report, initial audit planning for the 2021 annual results, going concern and possible complexities surrounding the various fund raising transactions that had taken place during the year.

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 remaining members Zohar Yinon and, on an interim basis David Levi the CEO, until such time as the appointment of Richard Bennett, the proposed Independent Non-Executive Director is ratified at the upcoming AGM of the Company, who will then join the Committee. The Committee invites other members of the Board to attend meetings as appropriate.

Corporate Governance Statement

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 Compensation Policy for Office Holders 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 2021, the Remuneration Committee met formally on four occasions discussing the executive director remuneration packages, share options in terms of the Company's registered share option plan and bonus structures for 2022 onward.

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.

During the year under review, this Committee comprised the Chief Executive Officer, David Levi and the Independent Non-Executive Directors Graham Woolfman *(resigned effective 17 February 2021),* Neil Rafferty *(resigned 1 December 2021)* and subsequently the Non-Executive Chairman Yosi Albagli following his appointment on 10 March 2021.

During the year ended 31 December 2021, the Nominations Committee met on one occasion in February 2021 to formalise and recommend the appointment of Yosi Albagli as Independent Non-Executive Chairman, as subsequently approved and appointed by the Board on 10 March 2021 and ratified in an Extraordinary General Meeting of the shareholders on 15 April 2021.

Following the resignation of Neil Rafferty on 1 December 2021, Mark Reichenberg the CFO was appointed to the Committee. Yosi Albagli as the Chairman of the Committee, David Levi the CEO, and Mark Reichenberg the CFO are the current members of the Committee. Once the appointment of Richard Bennett, the proposed Independent Non-Executive Director is ratified at the upcoming AGM of the Company, he will join the Committee. Other board members will participate as required.

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 current 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

The Internal Auditors, PKF Amit Halfon presented their 2021 review report to the Audit and Risk Committee during the year under review. Their report for the previous year focussed on:

- Review of the business, identify key high risk areas and review controls.
- Identify risks.
- Assess risks and present findings.
- Prepare multi-year audit plan.

Due to the size and nature of the Company, the Audit and Risk Committee had agreed with the Internal Auditors that the review for 2021 would focus on data security and cyber threats. The report was finalised and presented to the Audit and Risk Committee in November 2021, with the following actions decided:

- The significant items were highlighted
- The Audit and Risk Committee recommended to the Board on 13 December 2021 that the significant items be address and it was agreed that an action plan be presented to the Board and the key items addressed during the first half of the 2022 financial year.

The Audit and Risk Committee approved the continuation of the work plan as outlined by the Internal Auditor.

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 the audited Financial Statements for the financial year ended 31 December 2021.

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 virtualisation 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 33. No dividend is proposed for the year.

Risk Management

The Company's policies for managing risk arising from activities are set out in Note 25 of the Financial Statements.

Directors

The current Directors of the Company are:

Joseph Albagli *Independent Non-Executive Chairman* (Appointed 10 March 2021)

David Levi *Chief Executive Officer*

Mark Reichenberg *Chief Financial Officer*

Shavit Baruch *VP R&D*

Chen Saft-Feiglin *External Director**

Zohar Yinon *External Director**

Richard Bennett *Independent Non-Executive Director* (Appointed 7 April 2022 subject to ratification at the upcoming AGM)

* 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 27 D 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 (AIM).

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;
- recognise the possible impact of COVID-19 on the Company as a whole; and
- 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.

COVID-19 and the Worldwide Components Shortage

In light of the continued duration of the COVID-19 pandemic that continued to prevail through the entire year of 2021, and the uncertainty on the potential ongoing and future impact, the Board took certain steps to both safeguard the well-being of staff and to position the Company for the future.

The worldwide components shortage presented further challenges for the Company, which led to the Company taking significant steps to secure sufficient critical components for its 2022 deliveries and continues in the process of securing components required to meet it and its customers delivery plans.

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

The resources of the Company were further strengthened by the Placing and Subscription of shares raising £4.6m before costs in September 2021 and the closing out of the funding arrangements with the 5G Innovation Leaders Fund LLC during the year raising a further £2.6m. The implementation of these measures is expected to allow the Company to meet its planned operational objectives and planned cash requirements.

The Board continues to closely monitor the situation and will take further action, if and as appropriate, to manage its working capital position and strengthen the balance sheet to support the execution of the Company’s plans.

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

Fahn Kanne
Grant Thornton

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

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Opinion

We have audited the financial statements of Ethernity Networks Ltd. (the "Company"), which comprise the Statement of financial position as of 31 December 2021 and the Statement of comprehensive loss, the Statement of changes in equity and the Statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

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

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 for the year ended 31 December 2021. 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. We have determined the matters described below to be key audit matters to be communicated in our report.

	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. Such intangible assets are required to be tested for impairment when there is any indication of impairment. The impairment analysis of intangible assets involves significant management judgement and therefore identified the impairment analysis 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: We assessed the recoverability of intangible assets by testing management's estimation of the value in use as part of the Intangible Asset Impairment Test that was performed by management (as described in Note 9). Such assessment included the evaluation of the competence of management in accordance with ISA 500 (Audit Evidence). The assessment also included testing 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 capitalised intangible assets, the most recent and updated business plans, Valuation model, working capital, useful life and the compliance with the requirements of international accounting standard 36 (IAS 36), impairment of assets. Based on the audit work performed, we have not identified any material misstatement in the impairment of intangibles.

Information other than the financial statements and auditor's report thereon

Management is responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the year ended 31 December 2021 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, April 7 2022

Statements of Financial Position

For the year ended 31 December 2021

	Notes	US dollars 31 December 2021	2020
ASSETS			
Current			
Cash and cash equivalents	5	7,060,824	2,180,726
Trade receivables	6	1,545,598	778,061
Inventories		284,810	173,494
Other current assets	7	240,964	626,690
Current assets		9,132,196	3,758,971
Non-Current			
Property and equipment	8	660,069	552,112
Deferred tax assets	23	–	186,772
Intangible asset	9	6,424,180	7,385,560
Right-of-use asset	10	3,156,202	292,219
Other long term assets		38,956	7,507
Non-current assets		10,279,407	8,424,170
Total assets		19,411,603	12,183,141
LIABILITIES AND EQUITY			
Current			
Short Term Borrowings	11	422,633	411,726
Trade payables		651,758	290,175
Liability related to share subscription agreement	14.F.[3]	–	841,944
Warrants liability	14.F.[2]	1,214,993	286,253
Other current liabilities	10,12	1,097,359	1,275,849
Current liabilities		3,386,743	3,105,947
Non-Current			
Lease liability	10	3,069,721	146,130
Non-current liabilities		3,069,721	146,130
Total liabilities		6,456,464	3,252,077
Equity	14		
Share capital		21,140	12,495
Share premium		40,382,744	26,849,698
Other components of equity		1,004,029	1,161,350
Accumulated deficit		(28,452,774)	(19,092,479)
Total equity		12,955,139	8,931,064
Total liabilities and equity		19,411,603	12,183,141

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

Statements of Comprehensive Loss

For the year ended 31 December 2021

	Notes	US dollars For the year ended 31 December 2021	2020
Revenue	16, 26	2,635,420	1,853,732
Cost of sales		690,517	271,453
Gross margin		1,944,903	1,582,279
Research and development expenses	17	5,550,912	4,037,904
General and administrative expenses	18	1,721,873	1,591,079
Marketing expenses	19	1,044,905	1,082,560
Other income	20	(45,312)	(40,335)
Operating loss		(6,327,475)	(5,088,929)
Financing costs	21	(3,074,452)	(1,462,740)
Financing income	22	228,404	298,016
Loss before tax		(9,173,523)	(6,253,653)
Tax expense	23	(186,772)	–
Net comprehensive loss for the year		(9,360,295)	(6,253,653)
Basic and diluted loss per ordinary share	24	(0.14)	(0.17)
Weighted average number of ordinary shares for basic loss per share		67,492,412	36,590,988

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

Statements of Changes in Equity

For the year ended 31 December 2021

	Notes	Number of shares	Share Capital	Share premium	Other components of equity	Accumulated deficit	Total equity
Balance at 1 January 2020		32,556,686	8,039	23,396,310	892,891	(12,838,826)	11,458,414
Employee share-based compensation		–	–	–	(79,635)	–	(79,635)
Exercise of employee options	14.F.[1]	338,000	99	33,701	–	–	33,800
Net proceeds allocated to the issuance of ordinary shares	14.F.[2]	7,333,334	2,140	914,595	–	–	916,735
Exercise of warrants	14.F.[2]	3,744,426	1,165	1,632,220	–	–	1,633,385
Shares issued pursuant to share subscription agreement	14.F.[3]	2,466,051	750	984,732	–	–	985,482
Shares issued, not yet paid for *	14.F.[4]	880,000	258	196,259	–	–	196,517
Expenses paid in shares and warrants	14.F.[5]	150,000	44	39,975	–	–	40,019
Net comprehensive loss for the year		–	–	–	–	(6,253,653)	(6,253,653)
Balance at 31 December 2020		47,468,497	12,495	27,197,792	813,256	(19,092,479)	8,931,064
Employee share-based compensation		–	–	–	77,583	–	77,583
Exercise of employee options	14.F.[1]	706,667	220	70,893	–	–	71,113
Net proceeds allocated to the issuance of ordinary shares	14.F.[2]	13,149,943	4,053	4,280,265	–	–	4,284,318
Exercise of warrants	14.F.[3]	3,500,010	1,072	2,007,606	–	–	2,008,678
Shares issued pursuant to share subscription agreement	14.F.[3]	10,221,621	3,204	6,742,848	–	–	6,746,052
Expenses paid in shares and warrants	14.F.[5]	305,000	96	83,340	113,190	–	196,626
Net comprehensive loss for the year		–	–	–	–	(9,360,295)	(9,360,295)
Balance at 31 December 2021		75,351,738	21,140	40,382,744	1,004,029	(28,452,774)	12,955,139

* These shares were not paid for except for the par value of $258 which was paid for.
The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

For the year ended 31 December 2021

	US dollars For the year ended 31 December	
	2021	2020
Operating activities		
Net comprehensive loss for the year	(9,360,295)	(6,253,653)
Non-cash adjustments		
Depreciation of property and equipment	86,168	156,012
Depreciation of operating lease right of use asset	173,675	155,862
Share-based compensation	77,583	18,209
Amortisation of intangible assets	961,380	952,606
Amortisation of liabilities	39,042	–
Deferred tax expenses	186,772	–
Foreign exchange losses (gains) on cash balances	30,214	145,258
Capital Loss	70	5,275
Income from change of lease terms	(8,929)	–
Revaluation of financial instruments, net	2,691,145	1,335,172
Expenses paid in shares and options	196,626	40,019
Net changes in working capital		
Increase in trade receivables	(767,537)	(350,899)
Increase in inventories	(111,316)	(6,589)
Decrease in other current assets	84,068	104,468
Increase in other long-term assets	(2,831)	(2,340)
Increase (decrease) in trade payables	361,583	(35,064)
(Decrease) increase in other liabilities	(24,071)	140,837
Net cash used in operating activities	(5,386,653)	(3,594,827)
Investing activities		
Withdrawals from other short-term financial assets	–	2,553,823
Deposits to other long-term financial assets	(28,618)	–
Purchase of property and equipment	(194,195)	(187,857)
Net cash provided (used) by investing activities	(222,813)	2,365,966
Financing activities		
Proceeds from share subscription agreement	3,177,306	1,164,190
Proceeds allocated to ordinary shares	5,016,494	916,993
Proceeds allocated to warrants	1,472,561	82,251
Issuance costs	(390,398)	–
Proceeds from exercise of warrants and options	1,367,388	1,027,142
Proceeds from short term borrowings	900,192	636,993
Repayment of short-term borrowings	(887,585)	(1,237,998)
Repayment of lease liability	(136,180)	(151,648)
Net cash provided by financing activities	10,519,778	2,437,923
Net change in cash and cash equivalents	4,910,312	1,209,062
Cash and cash equivalents, beginning of year	2,180,726	1,116,922
Exchange differences on cash and cash equivalents	(30,214)	(145,258)
Cash and cash equivalents, end of year	7,060,824	2,180,726

Statements of Cash Flows
For the year ended 31 December 2021

	US dollars For the year ended 31 December 2021	2020
Supplementary information:		
Interest paid during the year	13,468	9,764
Interest received during the year	41	63,059
Supplementary information on non-cash activities:		
Share-based compensation capitalised to intangible assets	–	(97,844)
Recognition of right-of-use asset and lease liability	3,776,886	–
Shares issued, not yet paid for	–	196,259
Shares issued pursuant to share subscription agreement	6,746,052	985,482
Expenses paid in shares and warrants	83,436	40,019

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

Notes to the Financial Statements

For the year ended 31 December 2021

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 provides innovative, comprehensive networking and security solutions on programmable hardware for accelerating telco/cloud networks performance. Ethernity's FPGA logic offers complete Carrier Ethernet Switch Router data plane processing and control software with a rich set of networking features, robust security, and a wide range of virtual function accelerations to optimise telecommunications networks. Ethernity's complete solutions quickly adapt to customers' changing needs, improving time-to-market and facilitating the deployment of 5G, edge computing, and different NFV appliances including 5G UPF, SD-WAN, vCMTS and vBNG with the current focus on 5G emerging appliances. The Company's customers are situated worldwide.

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 £1.40 per share, for a total consideration of approximately $19,444,000 (£15,000,000) before underwriting and issuance expenses. Total net proceeds from the issuance amounted to approximately $17,800,000.

COVID-19

During Q1 and Q2 of 2020 Company, as with most companies worldwide, faced much uncertainty as COVID-19 broke out, as a result the Company experienced a slowdown in new contracts being signed. The Company undertook succesful steps to counter the immediate effects of the COVID-19 outbreak and in Q3 and Q4 of 2020 the Company managed to recover from the above slowdowns, with operations being returned to normal levels in Q1 2021.

The ongoing effects of COVID-19 continue to be felt and the Company experienced some delays in its deliveries to customers in the latter part of Q4 2021 due to the worldwide components shortages and the effects of the components shortages on the Company suppliers, the Company, and the Company customers. The Company took mitigating steps to address this and despite the worldwide component shortage, the Company secured supplies of the essential required components for the remainder of the 2021 year and 2022 deliveries.

Furthermore, to ensure that resources were firmly in place to address the circumstances outlined above, the Company undertook fund raising events so as to ensure the ongoing development of its products and solutions in terms of contracts signed with customers and to ensure the ability to meet the delivery requirements to customers, along with securing the necessary supply of components for some of its products and solutions.

Currently, with the impact of COVID-19 in Israel having been reduced significantly, the Company has continued its planned strategies including the enhancement of the development resources.

Considering the worldwide components shortage issue that albeit has currently been resolved for some of its products and solutions by the Company, given the residual COVID-19 disruptions worldwide there remains elements of uncertainty over the timing of near-term events due to the challenges faced by our customers regarding both timing of component supply and the meeting of their own plans.

Notes to the Financial Statements

For the year ended 31 December 2021

NOTE 2 – GOING CONCERN

The financial statements have been prepared assuming that the Company will continue as a going concern. Under this assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future unless management intends or has no realistic alternative other than to liquidate the entity or to stop trading for at least, but not limited to, 12 months from the reporting date. The assessment has been made of the Company's prospects, considering all available information about the future, which have been included in the financial budget, from managing working capital and among other factors such as debt repayment schedules. Consideration has been given *inter alia* to the significant values of funds raised during the year ended 31 December 2021 and to date, the current stage of the Company's life cycle, its losses and cash outflows, including with respect to the development of the Company's products, the expected timing and amounts of future revenues.

In May 2020 the Company noted that its cash reserves were approximately $1.5m and it was likely the Company would need to seek access to alternative funding. Subsequently, in 2020 the Company raised gross funds of $3.3m via both a Placing and Subscription with associated Warrants, and a Share Subscription Agreement, with the cash reserves at 31 December 2020 having increased to $2.2m. In 2021 additional funds totalling $11.2m were raised via the Warrants from the 2020 Placing and Subscription, the Share Subscription Agreement and a further oversubscribed Placing and Subscription concluded in September 2021, with cash reserves having increased significantly to $7m. In February 2022, the Company raised a further $2m via a new Share Subscription Agreement with a recurring investor, maintaining the improved reserves.

During the latter portion of 2020 and through 2021, over and above existing contracts with customers that had continuing revenue streams or had moved to deployment of their product, the Company entered into new contracts for supply of the Company solutions and products along with deployment orders from existing customers, all of which including customer indications for significant amounts of revenue billings for the 2022 to 2023 financial years.

Based on the abovementioned significantly increased cash position and signed contracts, and in the light of enquiries made by the Directors as to the current liquidity position of the Company, as well as bearing in mind the ability and success of the Company to raise funds previously, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future and therefore have adopted the going concern basis of preparation in the financial statements, and that there is no material uncertainty that may cast doubt on the Company's ability to continue as a going concern and fulfil its obligations and liabilities in the normal course of business in the near future.

NOTE 3 – 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 2021, no new standards that had a material effect on these financial statements become effective.

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 statements have been prepared on an accrual basis and under the historical cost convention, except for financial instruments measured at fair value through profit and loss.

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 2021 (including comparative amounts) were approved and authorised for issue by the board of directors on 7 April 2022.

B. Use of significant accounting estimates, 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 4.

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.

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:

	2021	2020
New Israeli Shekel ("NIS")	0.322	0.311
Sterling	1.351	1.366
Euro	1.132	1.227

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. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any directly attributable selling expenses.

G. 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
Furniture and equipment	6-15
Leasehold improvements	Over period of lease

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.

H. Basic and diluted earnings (loss) per share

Basic and diluted earnings (loss) per share is computed by dividing the earnings (loss) for the period applicable to Ordinary Shares by the weighted average number of ordinary shares outstanding during the period.

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 settlement of other financial instruments convertible or settleable with ordinary shares using the "if-converted method".

I. Severance pay liability

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

Pursuant to section 14 of Severance Pay Law, which covers the Company's employees, monthly deposits with insurance companies release the Company from any future severance obligations in respect of those employees (defined contribution). Deposits under section 14 are recorded as an expense in the Company's statement of comprehensive income.

J. Research and development expenses

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- intention to complete the intangible asset and use or sell it.
- ability to use or sell the intangible asset.

- ability to demonstrate how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

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

The Company maintained the policy of recognising as an intangible asset, the costs arising from the development of its solutions, specifically the directly associated costs of its Research and Development center.

The Company periodically reviews the principles and criteria of IAS 38 as outlined above. Up and until June 2019, the Company has determined that all the above criteria were met.

Effective as from 1 July 2019 and thereafter, the Company concluded that it would no longer continue recognising these costs as an intangible asset due to the fact that the criteria in IAS38 was not met.

An intangible asset that was capitalised but not yet 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 (see also Note 9).

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.

K. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item (such as research and development of an intangible asset), 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 as 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, as the company might be required to refund such amount through payment of royalties.

Grants received from the IIA are recognised as a liability according to their fair value on the date of their receipt, unless there is reasonable assurance 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 intangible 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.

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 20).

L. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

1. Classification and measurement of financial assets and financial liabilities

Initial recognition and measurement

The Company initially recognises trade receivables on the date that they originated. All other financial assets and financial liabilities are initially recognised on the date on which the Company becomes a party to the contractual provisions of the instrument. 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

A financial asset is measured at amortised 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.

On initial recognition, financial assets that do not meet the above criteria are classified to measurement at fair value through profit or loss (FVTPL). Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category.

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.

Financial assets at amortised cost

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 amortised cost.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with all gains and losses and net changes in fair value recognised in the statement of comprehensive loss as financing income or cost. This category includes derivative instruments (including embedded derivatives that were separated from the host contract).

Financial liabilities – classification, subsequent measurement and gains and losses

Financial liabilities are classified to measurement at amortised cost or at fair value through profit or loss. All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings, and payables, net of directly attributable transaction costs.

Financial liabilities are measured at amortised cost

This category includes trade and other payables, loans and borrowings including bank overdrafts. These financial liabilities are measured at amortised cost in subsequent periods, using the effective interest method. Interest expenses and currency exchange gains and losses are recognised in profit or loss. Any gains or losses on derecognition are also carried to profit or loss.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. The effective interest method amortisation is included as finance costs in profit or loss.

Financial liabilities 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 recognised in profit or loss.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments (including warrants derivative liability related to warrants with exercise price denominated in a currency other than the Company's functional currency) entered into by the Company. Separated embedded derivatives are also classified as held for trading.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company designated its liability to issue variable number of shares which include certain embedded derivatives (such as prepayment options) under share subscription agreement at fair value through profit or loss (see Note 14).

2. Derecognition of financial liabilities

Financial liabilities are derecognised when the contractual obligation of the Company expires or when it is discharged or cancelled.

3. Impairment

Financial assets and contract assets

The Company creates a provision for expected credit losses in respect of Financial assets measured at amortised cost.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12-months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime expected credit losses).

The Company has elected to measure, if relevant, 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.

Notes to the Financial Statements

For the year ended 31 December 2021

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.

4. Derivative financial instruments

Derivative financial instruments are accounted for at FVTPL.

Embedded derivatives

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives

are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either 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 category.

As described in Note 14.F.[3]., the Company has determined to designate its liability with respect to share subscription agreement which include several embedded derivatives in its entirety at FVTPL category.

M. 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.

N. 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. No expense is recognised for awards that do not ultimately vest because of service conditions and/or if non-market performance conditions have not been met. As an expense is recognised over the vesting period, when an expense has been recorded in one period and the options are cancelled in the following period, then the previously recorded expenses for options that never vested, as reversed. 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. No expense is recognised for award that do not ultimately vest because service condition and/or non-market performance condition have not been made.

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 capitalised to the cost of an asset (if relevant), based on the nature of the transaction.

O. 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.

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

All assets and liabilities measured at fair value or for which fair value is disclosed are categorised 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.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in Note 25.

P. 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.

Q. Revenue recognition

The Company generates revenues mainly from:

- Sales of solutions-based product offerings
- sales of programmable devices ("FPGA") with embedded intellectual property ("IP") developed by the Company,
- IP developed by the Company together with software application tools to assist its customers to design their own systems based on the Company IP and
- maintenance and support services provided to customers.

The Company recognises revenue when the customer obtains control over the promised goods or when the Company has delivered the products 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 provided to the customer.

Notes to the Financial Statements

For the year ended 31 December 2021

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 committed to in the contract with the customer and identifies, as a performance obligation, any promise to transfer to the customer one of the following:

- Goods or services that are distinct; or
- 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.

Contracted revenues attached to milestone performance in a contract are recognised by the Company when it has completed a milestone requirement and the Company has delivered the goods and/or services connected to such milestone, whether or not the customer was yet in a position to receive same or not.

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 (see below), 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.

In accordance with the requirements in IFRS 15 on constraining estimates of variable consideration, the Company includes the amount of the variable consideration, or part of it, in the transaction price at contract inception, 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, or by transferring control over promised goods or having provided 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 fulfil 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 or 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.

Capitalised costs are amortised in profit or loss 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 profit or loss.

Sales of goods

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

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, delivery of existing schematics, prototypes, software drivers or design kit, or development of new product offerings or new features of existing products such as programmable devices ("design tools").

Management has determined that the performance obligations under such arrangements which are generally based on separate milestones, are recognised at the point in time when such separate milestone is transferred to the customer, generally upon completion of the related milestone.

Amounts received (including specific up-front payments), which relate to milestones that were not yet achieved, are deferred and are presented as deferred revenues.

Multiple element transactions

Some of the Company's contracts with customers contain multiple performance obligations. For these contracts, the Company accounts 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 determines the standalone selling prices based on an overall pricing objectives, taking into consideration market conditions and other factors.

Revenues are then recognised 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 performed by third parties of products which contain IP developed by the Company.

Notes to the Financial Statements

For the year ended 31 December 2021

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 recognises 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 that are reported by the customer are recognised based on the actual sales of products as reported to the Company.

Revenues from maintenance and support

Revenue from maintenance and support is recognised over the term of the maintenance and support period.

R Income taxes

Taxes on income in the statement of comprehensive loss comprises the sum of deferred taxes and current taxes (when applicable). 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 23.

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

S. Operating cycle

The normal operating cycle of the Company is a twelve-month period ending in December 31 of each year.

T. Impairment testing of non-financial assets

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 the 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, being the fair value less costs of disposal. To determine the fair value, 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 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 assets and reflect current market assessments of the time value of money and asset-specific risk factors, see also Note 9.

U. 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.

V. Equity and reserves

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

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

W. Provisions, contingent assets and contingent liabilities

Provisions for legal disputes, onerous contracts or other claims are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation 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.

X. Leased assets

The Company considers whether a contract is or contains a lease. A lease is defined as 'a contract, or part of a contract, which conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.' To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the lease commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included under non-current assets and the current portion of lease liabilities have been included in other current liabilities.

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Other Standards and amendments that are not yet effective and have not been adopted early by the Company include:

- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
- Amendments to IAS 12 Income Taxes–Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made.

NOTE 4 – 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 (if relevant), 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).

- Leases – determination of the appropriate lease period to measure lease liabilities

The Company enters into leases with third-party landlords and In order to calculate the lease liability, the Company assess if any lease option extensions will be exercised. The lease for the Company's offices is for 5 years with an option to extend it for a further 5 years. The Company expects this lease to be extended for the additional 5 years – see Note 10.

Estimation uncertainty

- Impairment of non-financial assets

In assessing impairment of non-financial assets (primarily, internally developed intangible assets), management estimates the fair value of each asset or cash generating units (if relevant) 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. See Note 9 for assumptions used in determining fair value.

- Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, Management uses various valuation techniques to determine the fair value of such financial instruments 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. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments (see Note 14).

NOTE 5 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	US dollars 31 December	
	2021	2020
In Sterling	5,817,800	1,651,352
In U.S. Dollar	622,042	153,045
In Euro	6,638	4,223
In New Israeli Shekel	614,344	372,106
	7,060,824	2,180,726

Notes to the Financial Statements

For the year ended 31 December 2021

NOTE 6 – TRADE RECEIVABLES

Trade and other receivables consist of the following:

	US dollars 31 December	
	2021	2020
Trade receivables	1,422,280	838,920
Unbilled revenue	353,318	89,141
Less: provision for expected credit losses	(230,000)	(150,000)
Total receivables	1,545,598	778,061

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 the possibility of loss (an allowance for impairment losses). See also Note 25A.

NOTE 7 – OTHER CURRENT ASSETS

Other current assets consist of the following:

	US dollars 31 December	
	2021	2020
Prepaid Expenses	167,291	170,547
Deferred expenses related to share subscription agreement facility – see Note 14.F.[3]	–	66,709
Deposits to suppliers	9,065	8,769
Government institutions	39,650	33,397
Other current assets	24,958	45,610
Proceeds due on account of shares issued – see Notes 14.F.[4] and 25.B.	–	301,658
Total other current assets	240,964	626,690

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 improvements	Total
Gross carrying amount					
Balance 1 January 2021	725,298	141,565	45,628	60,102	972,593
Additions	156,145	23,248	3,609	11,193	194,195
Disposals*	(331)	–	–	(60,102)	(60,433)
Balance 31 December 2021	881,112	164,813	49,237	11,193	1,106,355
Depreciation					
Balance 1 January 2021	(215,303)	(134,269)	(13,055)	(57,854)	(420,481)
Disposals	261	–	–	60,102	60,363
Depreciation	(71,938)	(8,935)	(3,041)	(2,254)	(86,168)
Balance 31 December 2021	(286,980)	(143,204)	(16,096)	(6)	(446,286)
Carrying amount 31 December 2021	594,132	21,609	33,141	11,187	660,069

* Disposals of assets for zero proceeds.

			US dollars		
	Testing equipment	Computers	Furniture and equipment	Leasehold improvements	Total
Gross carrying amount					
Balance 1 January 2020	552,342	242,113	75,846	60,102	930,403
Additions	184,323	2,923	611	–	187,857
Disposals	(11,367)	(103,471)	(30,829)	–	(145,667)
Balance 31 December 2020	725,298	141,565	45,628	60,102	972,593
Depreciation					
Balance 1 January 2020	(136,740)	(195,377)	(33,140)	(39,604)	(404,861)
Disposals	11,367	102,647	26,378	–	140,392
Depreciation	(89,930)	(41,539)	(6,293)	(18,250)	(156,012)
Balance 31 December 2020	(215,303)	(134,269)	(13,055)	(57,854)	(420,481)
Carrying amount 31 December 2020	**509,995**	**7,296**	**32,573**	**2,248**	**552,112**

Notes to the Financial Statements

For the year ended 31 December 2021

NOTE 9 – INTANGIBLE ASSET

Details of the Company's intangible asset (R&D) is as follows:

	US dollars Total
Gross carrying amount	
Balance 1 January 2021	9,550,657
Additions	–
Balance 31 December 2021	9,550,657
Amortisation	
Balance 1 January 2021	2,165,097
Amortisation	961,380
Balance 31 December 2021	3,126,477
Carrying amount 31 December 2021	6,424,180

	US dollars Tota
Gross carrying amount	
Balance 1 January 2020	9,648,501
Disposals	–
Other adjustment (*)	(97,844)
Balance 31 December 2020	9,550,657
Amortisation	
Balance 1 January 2020	1,212,491
Amortisation	952,606
Balance 31 December 2020	2,165,097
Carrying amount 31 December 2020	7,385,560

(*) Relates to a $97,844 reversal of share based compensation, capitalised in prior years – see Note 15.A.

The Company commissioned an impairment test of the capitalised intangible assets as of 31 December 2019, by a top-tier independent international firm with expertise in valuation procedures. According to such independent report, the recoverable amount of these intangible assets, based on future forecasted revenues, is approximately USD 27 million – more than three times the book value and accordingly there has been no need to record an impairment to such capitalised assets.

The Company tested the capitalised intangible assets for impairment as of 31 December 2021. Such analysis revealed a similar calculation as that determined as at 31 December 2020 and therefore no impairment is warranted.

In establishing its indications, the Company referred to the fact that the 2019 independent report placed a value of $27m on the intangible asset. Having given due consideration to the following, the Company believes that no further impairment is required.

- The anticipated outcomes of current discussions and engagements with customers;
- The customer projections and where the customer believes engagement, testing, field trials and deployment will take place;
- Signed engagements or commercial discussion phases and anticipated outturns;
- Development resources required to meet all of the above (I remind you this is a Development Company that is now in a new market of NFV which is being driven by 5G, connectivity and other solutions that the Company has developed over the past 17 years and the market is NOW engaging fully on);
- Development cost elements (R&D resources);
- Cash resources required to meet the forecast costs for the developments;
- Current cash resources at the time;
- Requirements if any for raising funds to ensure funds are freely available;
- Ease of fund raising.

The valuation method determined, to best reflect the fair value of the intangible assets, was the Multi-period Excess Earning ("MEEM") to be generated from such assets between 2022 through 2031.

The primary assumptions used in determining the fair value of these intangible assets are as follows:

- Corporate tax rate for the Company remains at 23%.
- The pre-tax discount rate used to value future cash flows is 30.6% (post-tax 25%).

Notes to the Financial Statements

For the year ended 31 December 2021

NOTE 10 – LEASES

A. Details of the Company's operating lease right of use assets are as follows:

	US dollars		
	Buildings	Vehicles	Total
Gross carrying amount			
Balance 1 January 2021	441,068	129,742	570,810
Terminations	(441,068)	(34,040)	(475,108)
Additions	3,158,849	–	3,158,849
Balance 31 December 2021	3,158,849	95,702	3,254,551
Accumulated depreciation			
Balance 1 January 2021	(225,228)	(53,363)	(278,591)
Terminations	337,842	16,075	353,917
Depreciation expense	(138,938)	(34,737)	(173,675)
Balance 31 December 2021	(26,324)	(72,025)	(98,349)
Total right-of-use assets as at 31 December 2021	3,132,525	23,677	3,156,202

	US dollars		
	Buildings	Vehicles	Total
Gross carrying amount			
Balance 1 January 2020	441,068	129,742	570,810
Additions	–	–	–
Balance 31 December 2020	441,068	129,742	570,810
Accumulated depreciation			
Balance 1 January 2020	(112,614)	(10,115)	(122,729)
Depreciation expense	(112,614)	(43,248)	(155,862)
Balance 31 December 2020	(225,228)	(53,363)	(278,591)
Total right-of-use assets as at 31 December 2020	215,840	76,379	292,219

The vehicle right-of-use assets comprises 4 vehicles used by employees, all of which lease terms extend until the second half of 2022. Unexpectedly, one of the leases ended in March 2021

B. Lease liabilities are presented in the statement of financial position as follows:

	US dollars	
	31 December	
	2021	2020
Current	170,350	160,653
Non-current	3,069,721	146,130
	3,240,071	306,783

C. In December 2017, the Company committed to a three-year lease agreement for its primary offices in the Industrial area of Lod, Israel. At the termination of the lease, the Company had an option to renew it for a further two years. Such renewal option was considered as reasonably certain to be exercised upon adoption of IFRS 16. In fact, one year was exercised. 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. With the exception of short-term leases and leases of low-value underlying assets (the parking bay leases), each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

In October 2021, the Company committed to a five-year lease agreement for its primary offices in Airport City Israel. At the termination of the lease, the Company had an option to renew it for a further five years. Such renewal option was considered as reasonably certain to be exercised according to IFRS 16.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term or for the employee who used the leased item, to purchase the underlying leased asset outright at the end of the lease term. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and factory premises the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

D. The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2021 were as follows:

	Minimum lease payments due US dollars		
	2022	**2023-2031**	**Total**
Lease payments	423,939	4,538,360	4,962,299
Finance charges	(253,222)	(1,252,177)	(1,505,399)
Net present values	170,717	3,286,183	3,456,900

E. Short-term leases.

The Company has elected not to recognise lease liabilities for leases of low value assets in 2020 (parking bays). Payments made under such leases are expensed on a straight-line basis. The expense for the year ended 31 December 2020, relating to payments not included in the measurement of the lease liability is $12,219. The lease was terminated November 2021.

NOTE 11 – SHORT- TERM BORROWINGS

Borrowings include the following financial liabilities:

	Annual % Interest rate(1)	US dollars 31 December	
	2021	**2021**	2020
Bank borrowings(1)	6.2%	422,633	411,726
Total short- term borrowings		422,633	411,726

(1) The loans bore variable interest of 6.2%. The above interest rate is the weighted average rate as of 31 December 2021. The loan will be fully repaid by June 2022.

(2) The Company had an unused credit facility of 100,000 NIS ($32,154). The credit facility was cancelled January 2022. In addition, the Company has obtained a facility for invoice trade financing of up to $480,000 which will allow acceleration of cash flows on invoicing receipts.

Notes to the Financial Statements

For the year ended 31 December 2021

NOTE 12 – OTHER CURRENT LIABILITIES

Other short-term liabilities consist of:

	US dollars 31 December	
	2021	2020
Salaries, wages and related costs	415,787	344,352
Provision for vacation	226,210	246,289
Accrued expenses and other	86,761	112,669
Deferred revenue	72,667	28,500
Short term lease liability	170,350	160,653
Related parties (see Note 27.A.)*	125,584	383,386
Total other short-term liabilities	1,097,359	1,275,849

* Relates to compensation from prior years. These amounts do not bear interest. This liability was partially settled in May 2021.

NOTE 13 – IIA ROYALTY LIABILITY

During the years 2005 through 2012, the Company received grants from the Israel Innovation Authority ("IIA") totalling approximately $3.05 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 $3.0 million. However, as the company is not expecting to produce revenues from products funded by such grants it was determined that there is reasonable assurance that the amount received will not be refunded and thus no liability was recognised with respect to such grants as of December 31, 2021 and 2020. Such contingent obligation has no expiration date.

As of 31 December 2021, the Company has repaid approximately $532,000 of these grants over numerous years, in the form of royalties. The maximum amount of royalties that would be payable, would be approximately $3,000,000 as at 31 December 2021.

NOTE 14 – EQUITY

A. Details regarding share capital and number of shares at 31 December 2021 and at 31 December 2020 are:

Share capital:

	US dollars 31 December	
	2021	2020
Ordinary shares of NIS 0.001 par value	21,140	12,495
Total share capital	21,140	12,495

Number of shares:

	31 December	
	2021	2020
Ordinary shares of NIS 0.001 par value – authorised	100,000,000	100,000,000
Ordinary shares of NIS 0.001 par value – issued and paid up	75,351,738	47,468,497

The shareholder extraordinary general meeting held on 22 June 2020, approved that the authorised share capital be increased from 50 million shares to 100 million shares.

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. Share premium

Share premium includes proceeds received from the issuance of shares, after allocating the nominal value of the shares issued to share capital. Transaction costs associated with the issuance of shares are deducted from the share premium, net of any related income tax benefit. The costs of issuing new shares charged to share premium during the year ended 31 December 2021 was $375,732 (2020: $134,736).

D. Other components of equity

Other components of equity include the value of equity-settled share and option-based payments provided to employees and consultants. When employees and consultants forfeit their options, the costs related to such forfeited options are reversed out to other components of equity – see Note 15.A.

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 £1.40 per share, for a total consideration of approximately $19,444,000 (£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 that existed as of that date were mandatorily converted into ordinary shares on a 1:1 basis. The Company trades on the AIM Stock Exchange under the symbol "ENET".

Concurrent with the IPO, the Company issued 162,591 five-year options to the IPO broker that may be exercised at an exercise price of £1.40 (see Note 15.C.) The Company's last share price as at 31 December 2021 was £0.40 (2020: £0.36). These options expire on 29 June 2022 and to date have not yet been exercised.

F. Shares issued during the accounting periods

During the year ended 31 December 2021, 27,883,241 (2020: 14,911,811) ordinary shares were issued, as follows:

		Number of shares issued during year ended 31 December	
	Note	**2021**	2020
Exercise of employee options	[1]	706,667	338,000
Issuance of ordinary shares (issued together with warrants)	[2]	13,149,943	7,333,334
Exercise of warrants	[2]	3,500,010	3,744,426
Shares issued pursuant to share subscription agreement	[3]	10,221,621	2,466,051
Shares issued, not yet paid for	[4]	–	880,000
Expenses paid for in shares and warrants	[5]	305,000	150,000
		27,883,241	14,911,811

Notes to the Financial Statements

For the year ended 31 December 2021

[1] Details of shares issued to employees and former employees, upon the exercise of their employee options, are as follows:

Date options exercised	Exercise price of options	Number of shares issued during year ended 31 December 2021	2020
22 January 2020	$0.10	–	138,000
14 August 2020	$0.10	–	200,000
11 January 2021	$0.10	220,000	–
16 February 2021	£0.12	6,667	–
11 October 2021	$0.10	480,000	–
		706,667	338,000

The amount received by the Company upon the exercise of these options during the year ended 31 December 2021 was $71,113, (2020: $33,800) – see Note 15.A. for further details related to the employee options.

[2] Details of the equity raises are as follows:

September 2021 equity raise

In September 2021 the Company issued 13,149,943 shares attached to 13,149,943 warrants. Each share and attached warrant were issued for £0.35, realising gross proceeds of $6.25 million (£4.6 million) and net proceeds after issuance expenses of approximately $5.85 million (£4.3 million).

Each warrant is exercisable at £0.60 ("£0.60 warrants") with a life term of 18 months. The warrants are not transferable, are not traded on an exchange and have an accelerator clause. The £0.60 warrants will be callable by the Company if the closing mid-market share price of the Company exceeds £0.80 over a 5-consecutive day period, within 12 months of the issuance date. If such 5-consecutive day period condition is met, the Company may serve notice on the warrant holders to exercise their relevant warrants within 7 calendar days, failing which, such remaining unexercised warrants shall be cancelled.

As the exercise price of the warrants is denominated in GBP and not in the Company's functional currency, it was determined that the Company's obligation under such warrants cannot be considered as an obligation to issue a fixed number of equity instruments in exchange for a fixed amount of cash. Accordingly, it was determined that such warrants represent a derivative financial liability required to be accounted for at fair value through the profit or loss category. Upon initial recognition the Company allocated the gross proceeds as follows: an amount of approximately $1.59 million was allocated as a derivative warrants liability with the remainder of the proceeds amounting to $4.40 million (after deduction of the allocated issuance costs of $376,000) being allocated to share capital and share premium. The issuance expenses were allocated in a consistent manner to the above allocation. The expenses related to the warrant component were carried to profit or loss as an immediate expense while the expenses related to the share capital component were netted against the amount carried to equity. In subsequent periods the company measures the derivative financial liability at fair value and the periodic changes in fair value are carried to profit or loss under financing costs or financing income, as applicable. The fair value of the derivative warrant liability is categorised as level 3 of the fair value hierarchy.

The fair value valuation of the warrants was based on the Black-Scholes option pricing model, calculated in two stages. Initially, the fair value of these call warrants issued to investors were calculated, assuming no restrictions applied to such call warrants. As the Company, under certain circumstances, has a right to force the investors to either exercise their warrants or have them cancelled, the second calculation calculates the value of the warrants as call warrants that were issued by the investor to the company. The net fair value results from reducing the call investor warrants fair value from the call warrants fair value, as long as the intrinsic value of the call warrants (share price at year end less exercise price of the warrants) is not greater than such value. Should the intrinsic value of the warrants be higher than the Black-Scholes two stage method described above, then the intrinsic value of the warrants is considered to be a more accurate measure to use in determining the fair value. The following factors were used in calculating the fair value of the warrants at their issuance:

Instrument	Term	Weighted average Share price at issuance	Exercise price	Risk free rate	Volatility
0.60p option	18 months	£0.519	£0.60	0.19%	81.3%
0.80p option	12 months	£0.519	£0.80	0.08%	77.6%

Of the 13,149,943 shares and 13,149,943 warrants subscribed for, the director's participation in this issuance was 253,431 shares and 253,431 £0.60 warrants, on the same terms as outside investors participated.

None of the £0.60 warrants had been exercised by 31 December 2021 and their fair value of $1.2 million at such date is disclosed as a warrants liability in the statement of financial position,

Upon this successful equity raise being concluded in September 2021, the brokers for this transaction received 257,929 three year warrants exercisable at £0.35 per warrant ("Broker Warrants"). The fair-value of these warrants at the time of issuance was approximately $113,190. As at 31 December 2021, none of these warrants have been exercised.

July 2020 equity raise

In July 2020 the Company issued 7,333,334 shares attached to 7,333,334 warrants. Every 2 shares and the attached 2 warrants were issued for £0.24 (£0.12 per share and attached warrant), realising gross proceeds of $1,103,069 (£880,000) and net proceeds after issuance expenses of approximately $999,000 (£827,500).

Every 2 warrants were comprised of 1 warrant exercisable at £0.20 ("£0.20 warrants") and 1 warrant exercisable at £0.30 ("£0.30 warrants"), both with a life term of 12 months. The warrants are not transferable and are not traded on an exchange. The warrants have an accelerator clause. The £0.20 warrants will be callable by the Company if the closing mid-market share price of the Company exceeds £0.30 over a 5-consecutive day period. The £0.30 warrants will be callable by the Company if the closing mid-market share price of the Company exceeds £0.40 over a 5-consecutive day period. If such 5-consecutive day period condition is met, the Company may serve notice on the warrant holders to exercise their relevant warrants within 7 calendar days, failing which, such remaining unexercised warrants shall be cancelled.

As the exercise price of the warrants is denominated in GBP and not in the Company's functional currency, it was determined that the Company's obligation under such warrants cannot be considered as an obligation to issue a fixed number of equity instruments in exchange for a fixed amount of cash. Accordingly, it was determined that such warrants represent a derivative financial liability required to be accounted for at fair value through the profit or loss category. Upon initial recognition the Company allocated the gross proceeds as follows: an amount of approximately $82,000 was allocated as derivative warrants liability with the remainder of the proceeds amounting to $917,000 (after deduction of the allocated issuance costs of $104,000) being allocated to share capital and share premium. The issuance expenses were allocated in a consistent manner to the above allocation. The expenses related to the warrant component were carried to profit or loss as an immediate expense while the expenses related to the share capital component were netted against the amount carried to equity. In subsequent periods the company measures the derivative financial liability at fair value and the periodic changes in fair value are carried to profit or loss under financing costs or financing income, as applicable. The fair value of the derivative warrant liability is categorised as level 3 of the fair value hierarchy.

The fair value valuation of the warrants was based on the Black-Scholes option pricing model, calculated in two stages. Initially, the fair value of these call warrants issued to investors were calculated, assuming no restrictions applied to such call warrants. As the Company, under certain circumstances, has a right to force the investors to either exercise their warrants or have them cancelled, The second calculation calculates the value of the warrants as call warrants that were issued by the investor to the company. The net fair value results from reducing the call investor warrants fair value from the call warrants fair value, as long as the intrinsic value of the call warrants (share price at year end less exercise price of the warrants) is not greater than such value.

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Should the intrinsic value of the warrants be higher than the Black-Scholes two stage method described above, then the intrinsic value of the warrants is considered to be a more accurate measure to use in determining the fair value. The following factors were used in calculating the fair value of the warrants at their issuance:

Instrument	Term	Share price at issuance	Exercise price for call warrants	Risk free rate	Volatility	Trigger price for call investor warrants
0.20p option	1 year	£0.135	£0.20	0.16%	66.3%	£0.30
0.30p option	1 year	£0.134	£0.30	0.17%	66.3%	£0.40

Of the 7,333,334 shares and 7,333,334 warrants subscribed for, the directors' participation in this issuance was 1,666,668 shares, 833,334 £0.20 warrants and 833,334 £0.30 warrants, on the same terms as outside investors participated.

During December 2020, the accelerator clause for the £0.20 warrants had been activated by the Company and 3,491,676 of these warrants were exercised for which the Company issued the same number of shares, while 174,991 warrants not exercised were cancelled in terms of the Warrant Instrument. The Directors exercised all their £0.20 warrants held.

Upon this successful equity raise being concluded in July 2020, the broker for this transaction received 252,750 one-year warrants exercisable at £0.12 per warrant ("Broker Warrants"). The fair-value of these warrants at the time of issuance was approximately $13,000. As at 31 December 2020, all these warrants have been exercised. See Note 15.E.b.

The total amount received by the Company upon the exercise of the £0.20 warrants and the Broker Warrants was approximately $0.99 million. Such amount, together with the fair value of the warrants derivative liability was recognised within the equity upon exercise of the warrants totaling an amount of $1.63 million.

None of the £0.30 warrants had been exercised by 31 December 2020 and their fair value of $286,253 at such date is disclosed as a warrants liability in the statement of financial position. The intrinsic value of the £0.30 warrants is higher than the fair value calculated using the Black-Scholes two stage method described above. Accordingly, these warrants are fair valued at their intrinsic value, being £0.06 per warrant (£0.36 share price at 31 December 2020 less the £0.30 exercise price).

In May 2021 the accelerator clause for the £0.30 warrants was activated by the Company and 3,500,010 of these warrants were exercised for which the Company issued the same number of shares, while 166,657 warrants not exercised, were cancelled. The Directors exercised all their £0.30 warrants held.

The total amount received by the Company upon the exercise of the £0.30 warrants was approximately $1.45 million. Such amount, together with the fair value of the warrants derivative liability was recognised within the equity upon exercise of the warrants totaling an amount of $2.01 million.

[3] On 24 September 2020 the Company entered into a share subscription deed / agreement ("SSD") with an institutional investor ("Investor"), to raise up to £3,200,000 (Approx. $4,100,000) as follows:

Closing	Closing date	Subscription amount	Amount receivable by Company	Date that amount was received
1st	Up to 5 business days following execution of the SSD	£547,000	£500,000	25 Sep. 2020
2nd	Up to 240 calendar days following the 1st closing date	£438,000	£400,000	31 Dec. 2020
	Amounts received until 31 December 2020	**£985,000**	**£900,000**	
3rd	Up to 240 calendar days following the 2nd closing date	£438,000	£400,000	4 Mar. 2021
4th	Up to 240 calendar days following the 3rd closing date	£438,000	£400,000	16 Apr. 2021
5th	By mutual agreement	£823,500	£750,000	30 April 2021
6th	By mutual agreement	£823,500	£750,000	1 Nov. 2021
	Amounts received until 31 December 2021	£3,508,000	£3,200,000	

According to the subscription agreement, the company is entitled to terminate the agreement (with respect to any subscription amount not yet closed), upon payment of a cancellation fee of $48,000.

Pursuant to the share subscription agreement, the investor has the right, at its sole discretion to require the Company to issue shares in relation to the subscription amount outstanding (or a part of it), under which, the number of shares to be issued for such settlement, shall be determined using an average five daily VWAP share price of the Company's shares as selected by the Investor, during the 20 trading days prior to such settlement notice ("Conversion Price"). However, the company has certain rights to make cash payments in lieu of the above share settlement, yet the Investor is entitled to exclude from such cash payment, up to 30% of the cash settlement amount.

As the company's obligation under the share subscription agreement with respect for each subscription amount received by the company, represent an obligation to be settled through the issuance of variable number of shares and as the agreements include several embedded derivatives (such as early prepayment options, principal amounts indexed to an average price of equity instrument) the company has designated this obligation as financial liability at fair value through profit or loss under "liability related to share subscription agreement".

Accordingly, upon initial recognition and at each reporting period the liability is measured at fair value with changes carried to profit or loss under financing costs or financing income, as applicable.

Upon settlement or a partial settlement of such liability, such when the investor calls for the settlement of the aggregate subscription amount outstanding (or any part of it), for a fixed number of shares, as calculated upon such settlement notice, the fair value of the liability, related to the settled portion is carried to equity.

The fair value of the liability related to share subscription agreement is categorised as level 3 of the fair value hierarchy. See Note 25.B.

Notes to the Financial Statements

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Activity for year ending 31 December 2020

As at 31 December 2020, this liability was comprised of:

Closing	Unconverted portion of subscription amount	70% of which could be repaid by the Company	Fair value of 30% portion that Investor can convert into shares at Conversion Price	Total fair value of liability	
				GBP	USD
1st	£107,000	£74,900	£46,104	£121,004	$165,299
2nd	£438,000	£306,600	£188,724	£495,324	$676,645
					$841,944

The Investor paid $648,417 (£500,000) to the Company by subscribing for an initial amount of $709,368 (£547,000), part of which was converted as follows:

	Date of conversion	Amount converted		Shares Issued
		GBP	USD	
Conversion	18 December 2020	250,000	330,416	1,184,834
Conversion	31 December 2020	190,000	257,888	826,087
				2,010,921
The Company paid the Investor an initial funding fee which was converted into shares	25 September 2020	71,000	90,000	455,130
				2,466,051

On 31 December 2020 the Investor subscribed for the second subscription amount of $546,426 (£400,000) with a face value of $598,337 (£438,000).

Pursuant to the SSD as described above, the Investor converts subscription amounts into shares of the Company at a discounted price. Upon each conversion, the difference between the actual market value of shares issued to the Investor and the amount converted, is recorded in finance costs, which in 2020 amounted to $347,388.

Activity for year ending 31 December 2021

During 2021, the Investor subscribed for a further $3.18 million (£2.30 million), with a total face value of $3.49 million (£2.52 million).

The Investor converted all remaining outstanding subscription amounts during 2021 as follows, thereby bringing the relationship to a conclusion, without any balances remaining as at 31 December 2021:

Notice date of conversion	Amount converted		Shares Issued
	GBP	USD	
16 April 2021	500,000	689,250	1,805,054
28 April 2021	600,000	834,240	2,033,898
19 October 2021	400,000	515,616	1,307,190
3 November 2021	744,500	1,004,439	2,433,007
9 November 2021	823,500	1,098,983	2,642,472
			10,221,621

Pursuant to the SSD as described above, the Investor converts subscription amounts into shares of the Company at a discounted price. Upon each conversion, the difference between the actual market value of shares issued to the Investor and the amount converted, is recorded in finance costs, which in 2021 amounted to $1,642,492.

[4] Concurrent with the initial investment by the Investor in September 2020, the Company issued 880,000 shares to the Investor for the par value of the shares, being $258. The Investor at its discretion, may choose to pay for these 880,000 shares, calculated at the then current Conversion Price. Upon issuance of the shares, the company recognised an amount $196,259, representing the fair value of the investor's obligation to payment for the shares under the caption "proceeds due on account of shares issued" – see Note 7. As the contractual terms of such financial asset do not create an entitlement to cash flows on specified dates that are solely payment of principal and interest, the financial asset was classified to measurement at fair value through profit or loss. As at 31 December 2020 the fair value of this asset was valued at $301,658 calculated by using the Conversion Price at that date of £0.251. The difference between the fair value recognised upon initial recognition and as at 31 December, 2020 was carried to profit or loss as financing income.

The Investor paid for these shares in April 2021 using the then applicable Conversion Price of £0.292 for proceeds of approximately $356,000. The approximately $55,000 difference between the fair value as at 31 December, 2020 and the fair value upon payment for these shares, was carried to profit or loss as financing income.

[5] In December 2020, the company agreed to settle amounts due to two directors in lieu of their directors fees amounting to approximately $83,000 through the issuance of 305,000 ordinary shares of the company. The company issued the shares in January 2021– See Notes 15.E.d and 27D.

In June 2020, an advisor was contracted to provide investment advisory services to the Company and received 150,000 shares as part payment for their fees. The fair value of these shares at the time of issuance was approximately $39,300. The advisor also received 100,000 three year warrants exercisable at £1.00, vesting at the rate of 16,667 warrants every six months. The contract was terminated after 16,667 warrants had vested. The fair value of such warrants was approximately $700. See also Note 15.E.a below.

NOTE 15 – 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 grantee's 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.

Notes to the Financial Statements
For the year ended 31 December 2021

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					
	23 Nov 2021	18 Mar 2021	19 Nov 2020	19 Nov 2020	28 Jul 2020	6 Jul 2020
Number of options granted	486,000	240,000	* 470,000	200,000	104,000	240,000
Exercise price in $	0.598**	0.461	0.265	0.271	0.158	0.256
Recipients of the options	Employees	Employees	Employees	Employees	Employees	Employees
Approximate fair value at grant date (in $):						
Total benefit	122,161	47,198	57,773	24,194	16,047	27,084
Per option benefit	0.25	0.20	0.12	0.12	0.15	0.11
Assumptions used in computing value:						
Risk-free interest rate	1.67%	1.71%	0.88%	0.88%	0.59%	0.69%
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	35%	35%	35%	35%	35%	35%
Expected term (in years)	8.7	9.4	10	10	10	10
Expensed amount recorded for year ended:						
31 December 2020	–	–	3,274	13,373	6,770	11,832
31 December 2021	11,880	14,780	26,008	7,162	5,338	7,566

The remaining value of these options at 31 December 2021 which have yet to be recorded as expenses, amount to $160,991 (2020: $71,783).

As some of these employees left the employ of the company prior to 31 December 2021, their options were cancelled.

* 100,000 options were granted to the CFO who is also a director in the Company.

** Average exercise price. High – $0.715. Low – $0.434

Share based compensation was treated in these financial statements as follows:

	US dollars Year ended 31 December	
	2021	2020
Total expensed amount recorded	77,583	18,209
Total capitalised amount recorded	–	(97,844)
Total	77,583	(79,635)

The following tables present a summary of the status of the employee option grants by the Company as of 31 December 2021 and 2020:

	Number	Weighted average exercise price (US$)
Year ended 31 December 2021		
Balance outstanding at beginning of year	3,140,920	0.18
Granted	726,000	0.55
Exercised	(706,667)	0.10
Forfeited	(208,333)	0.31
Balance outstanding at end of the year	2,951,920	0.27
Balance exercisable at the end of the year	1,810,753	

	Number	Weighted average exercise price (US$)
Year ended 31 December 2020		
Balance outstanding at beginning of year	3,095,920	0.43
Granted	1,014,000	0.22
Exercised	(338,000)	0.10
Forfeited	(631,000)	1.25
Balance outstanding at end of the year	3,140,920	0.18
Balance exercisable at the end of the year	2,203,170	

B. The option pool was increase to 6,500,000 options by resolution on 16 December 2021 and approved by the tax authorities.

Notes to the Financial Statements

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C. The following table summarises information about employee options outstanding at 31 December 2021:

Exercise price	Outstanding at 31 December 2021	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Exercisable at 31 December 2021	Weighted average remaining contractual life (years)
$0.10	1,128,920	1.5	0.10	1,128,920	1.5
$0.20	129,000	5.2	0.20	129,000	5.2
£0.12	73,000	8.6	0.16	48,667	8.6
£0.20	370,000	8.9	0.26	123,333	8.9
£0.21	210,000	8.5	0.26	87,500	8.5
£0.21	200,000	8.9	0.27	133,333	8.9
£0.33	175,000	8.6	0.46	–	8.6
£0.45	486,000	8.6	0.60	–	8.6
£1.05	40,000	5.2	1.28	40,000	5.2
£1.40	30,000	5.7	1.83	30,000	5.7
£1.00	60,000	6.5	1.32	45,000	6.5
£1.00	50,000	7.6	1.25	45,000	7.6
	2,951,920			1,810,753	

The following table summarises information about employee options outstanding at 31 December 2020:

Exercise price	Outstanding at 31 December 2020	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Exercisable at 31 December 2020	Weighted average remaining contractual life (years)
$0.10	1,828,920	2.5	0.10	1,828,920	2.5
$0.20	129,000	6.2	0.20	101,750	6.2
£0.12	93,000	7.5	0.16	–	7.5
£0.20	470,000	7.8	0.26	–	7.8
£0.21	210,000	9.5	0.26	35,000	9.5
£0.21	200,000	9.9	0.27	100,000	9.9
£1.05	40,000	6.2	1.28	30,000	6.2
£1.43	30,000	0.1	1.84	22,500	0.1
£1.40	30,000	6.7	1.83	22,500	6.7
£1.00	60,000	7.5	1.32	30,000	7.5
£1.00	50,000	8.6	1.25	32,500	8.6
	3,140,920			2,203,170	

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 that were allocated to capitalised research and development costs (up to and including 30 June 2019).

D. Options issued to the IPO broker

Upon the IPO consummation 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 £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 3.U., costs incurred in raising equity finance were applied as a reduction from those equity sale proceeds and is recorded in Other Components of Equity. As of December 31, 2021, such warrants had not been exercised and expire on 29 June 2022.

E. Shares and equity instruments issued in lieu of payment for services provided

a. In June 2020, an investment advisory firm was contracted to provide services to the Company and was issued 150,000 shares and 100,000 warrants vesting in 6 month increments over 3 years. This contract was terminated prior to its first anniversary. 16,667 warrants had exercised prior the contract being terminated, with the balance of the warrants being cancelled. The fair value of the shares and warrants issued was approximately $40,000. The amount relating to the shares issued was allocated to share capital and share premium, while the warrant's fair value for the warrants that were exercised, was allocated to share capital – see Note 14.F.[5].

b. Upon the successful equity raise concluded in July 2020, as described in Note 14.F.[2], the broker responsible for this transaction received 252,750 one-year warrants exercisable at £0.12 per warrant. The fair-value of these warrants at the time of issuance was approximately $13,000. As at 31 December 2020, all these warrants have been exercised.

c. In September 2020 the Company entered into a share subscription agreement as described in Note 14.F.[3]. The Company was obliged to pay the Investor a funding fee equivalent to $90,000, paid by issuing the Investor with 455,130 shares calculated at the contract Conversion Price. The fair value of these shares issued was approximately $99,500 which was initially recorded as prepaid financing costs, which are to be amortised over the expected period of this agreement. As at 31 December 2020 approx. $23,000 had been amortised to finance expenses with the balance of approx. $67,000 reflected as prepaid finance costs.

d. In December 2020, the company agreed to settle amounts due to two directors in lieu of their directors fees amounting to approximately $83,000 through the issuance of 305,000 ordinary shares of the company. The company issued the shares in January 2021– See Notes 14.F.5. and 27.D.

e. Upon the successful equity raise concluded in September 2021, as described in Note 14.F.[2], the brokers responsible for this transaction received 257,929 three-year warrants exercisable at £0.35 per warrant. The fair-value of these warrants at the time of issuance was approximately $113,000. As at 31 December 2021, none of these warrants have been exercised.

Notes to the Financial Statements
For the year ended 31 December 2021

NOTE 16 – REVENUE

	US dollars Year ended 31 December	
	2021	2020
Sales and royalties	2,477,087	1,715,399
Maintenance and support	158,333	138,333
Total revenue	2,635,420	1,853,732

NOTE 17 – RESEARCH AND DEVELOPMENT EXPENSES

	US dollars Year ended 31 December	
	2021	2020
Employee remuneration, related costs and subcontractors (*)	4,435,744	2,977,774
Maintenance of software and computers	115,149	90,597
Insurance and other expenses	31,874	11,475
Amortisation	961,380	952,606
Grant procurement expenses	6,765	5,452
Total research and development expenses	5,550,912	4,037,904
(*) Including share based compensation.	54,962	6,783

NOTE 18 – GENERAL AND ADMINISTRATIVE EXPENSES

	US dollars Year ended 31 December	
	2021	2020
Employee remuneration and related costs (*)	581,776	406,022
Professional fees	510,295	538,159
Rentals and maintenance	289,786	256,156
Depreciation	259,843	311,873
Travel expenses	173	3,869
Impairment losses of trade receivables	80,000	75,000
Total general and administrative expenses	1,721,873	1,591,079
(*) Including share based compensation.	10,750	11,168

NOTE 19 – MARKETING EXPENSES

	US dollars Year ended 31 December	
	2021	2020
Employee remuneration and related costs (*)	833,896	624,451
Marketing expenses	203,930	449,609
Travel expenses	7,079	8,500
Total marketing expenses	1,044,905	1,082,560
(*) Including share based compensation.	11,871	258

NOTE 20 – OTHER INCOME

As described in Note 3.K, when a government grant is related to an expense item, it is recognised as other income.

NOTE 21 – FINANCING COSTS

	US dollars Year ended 31 December	
	2021	2020
Bank fees and interest	32,147	23,253
Lease liability financial expenses	30,195	15,634
Revaluation of liability related to share subscription agreement measured at FVTPL	2,884,254	571,423
Revaluation of warrant derivative liability	–	852,430
Expenses allocated to issuing warrants	127,856	–
Total financing costs	3,074,452	1,462,740

NOTE 22 – FINANCING INCOME

	US dollars Year ended 31 December	
	2021	2020
Revaluation of proceeds due on account of shares (financial asset measured at FVTPL)	49,723	105,399
Revaluation of warrant derivative liability	108,723	–
Lease liability financial income	8,929	–
Interest received	41	63,059
Exchange rate differences, net	60,988	129,558
Total financing income	228,404	298,016

Notes to the Financial Statements

For the year ended 31 December 2021

NOTE 23 – TAX EXPENSE

A. The Company is assessed for income tax in Israel – its country of incorporation. The Israeli corporate tax rates for the relevant years is 23%.

B. As of 31 December 2021, the Company has carry-forward losses for Israeli income tax purposes of approximately $23 million. According to management's estimation of the Company's future taxable profits, it is no longer probable in the foreseeable future, that future taxable profits would utilise all 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 2020	186,772	–	186,772
Deductions	–	–	–
Balance at 31 December 2020	186,772	–	186,772
Deductions	(186,772)	–	(186,772)
Balance at 31 December 2021	–	–	–

D. Theoretical tax reconciliation

For the years ended 31 December 2021 and 2020, the following table reconciles the expected tax expense (benefit) per the statutory income tax rate to the reported tax expense in profit or loss as follows:

	US dollars Year ended 31 December	
	2021	2020
Loss before tax	9,360,295	6,253,653
Tax expense (benefit) at statutory rate	23%	23%
Expected tax expense (benefit) at statutory rate	(2,152,868)	(1,438,340)
Changes in taxes from permanent differences in share-based compensation	17,844	(18,316)
Increase in loss carryforwards – not affecting the deferred tax asset	2,135,024	1,456,656
Income tax expense	186,772	–

NOTE 24 – BASIC AND DILUTED LOSS PER ORDINARY SHARE

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

	US dollars Year ended 31 December	
	2021	2020
Loss for the year attributable to ordinary shareholders	(9,360,295)	(6,253,653)

	Number of shares Year ended 31 December	
	2021	2020
Weighted average number of ordinary shares used in the computation of basic loss per ordinary share	67,492,412	36,590,988

B. As the Company has losses attributable to the ordinary shareholders, the effect on diluted loss per ordinary share is anti-dilutive.

NOTE 25 – 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.

Notes to the Financial Statements

For the year ended 31 December 2021

Currency basis of financial instruments

	US dollars 31 December 2021				
	NIS	GBP	Euro	US $	Total
Assets					
Cash and cash equivalents	614,344	5,817,800	6,638	622,042	7,060,824
Trade receivables	424,685	–	–	1,120,913	1,545,598
	1,039,029	5,817,800	6,638	1,742,955	8,606,422
Liabilities					
Short term borrowings	422,633	–	–	–	422,633
Trade payables	518,745	17,279	5,659	110,075	651,758
Warrants liability	–	1,214,993	–	–	1,214,993
Non-current lease liabilities	3,069,721	–	–	–	3,069,721
	4,011,099	1,232,272	5,659	110,075	5,359,105
	(2,972,070)	4,585,528	979	1,712,880	3,327,317

	US dollars 31 December 2020				
	NIS	GBP	Euro	US $	Total
Assets					
Cash and cash equivalents	372,750	1,651,352	4,223	152,401	2,180,726
Trade receivables	–	–	–	778,061	778,061
	372,750	1,651,352	4,223	930,462	2,958,787
Liabilities					
Short term borrowings	411,726	–	–	–	411,726
Trade payables	130,330	101,628	–	58,217	290,175
Liability related to share subscription agreement	–	841,944	–	–	841,944
Warrants liability	–	286,253	–	–	286,253
Non-current lease liabilities	146,130	–	–	–	146,130
	688,186	1,229,825	–	58,217	1,976,228
	(315,436)	421,527	4,223	872,245	982,559

- 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 Increase at the rate of		Book value 31 December	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor Decrease at the rate of	
	10%	5%	2021	5%	10%
Cash and cash equivalents	(643,878)	(321,939)	6,438,782	321,939	643,878
Trade receivables	(42,469)	(21,234)	424,685	21,234	42,469
Short term borrowings	42,263	21,132	(422,633)	(21,132)	(42,263)
Trade payables	54,168	27,084	(541,683)	(27,084)	(54,168)
Warrants liability	87,298	43,649	(872,977)	(43,649)	(87,298)
Non-current lease liabilities	306,972	153,486	(3,069,721)	(153,486)	(306,972)
Total	(195,646)	(97,822)	1,956,453	97,822	195,646

	US dollars Sensitivity to changes in exchange rates of the non US dollar currencies to the US dollar				
	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor Increase at the rate of		Book value 31 December	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor Decrease at the rate of	
	10%	5%	2020	5%	10%
Cash and cash equivalents	(202,833)	(101,416)	2,028,325	101,416	202,833
Short term borrowings	41,173	20,586	(411,726)	(20,586)	(41,173)
Trade payables	23,196	11,598	(231,958)	(11,598)	(23,196)
Liability related to share subscription agreement	84,194	42,097	(841,944)	(42,097)	(84,194)
Warrants liability	28,625	14,313	(286,253)	(14,313)	(28,625)
Non-current lease liabilities	14,613	7,307	(146,130)	(7,307)	(14,613)
Total	(11,032)	(5,515)	110,314	5,515	11,032

- Credit risk

All of the cash and cash equivalents and other short-term financial assets as of 31 December, 2021 and 2020 were deposited with one of the major banks in Israel.

Trade receivables as of 31 December 2021 and 2020 were from customers in Israel, the U.S., Asia and countries of the European Union, which included the major customers as detailed in Note 26. The Company performs ongoing reviews of the credit worthiness of customers, the amount of credit granted to customers and the possibility of loss therefrom. The Company includes an adequate allowance for impairment losses (expected credit loss). As at 31 December 2021, more than 90% of net trade receivables were less than 90 days old.

- 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.

In measuring the expected credit losses, the trade receivables have been assessed by management on a collective basis as well as on a case by case basis. Trade receivables are written off when there is no reasonable expectation of recovery. Management have indicated a concern regarding the receivable from one customer, for which a provision has been made. As at 31 December 2021, the provision for expected credit losses was $230,000 (2020: $150,000) – see Note 6 for more details.

- Liquidity risk

The Company financed its activities from its operations, issuing shares and warrants, shareholders' loans and short and long-term borrowings from the bank. For further details on the Company's liquidity, refer to Note 2. All the non-current liabilities at 31 December 2021 and 2020 were lease liabilities which are serviced monthly. The short-term borrowings at 31 December 2021 and 2020 and the trade payables and other current liabilities are expected to be paid within 1 year. It is therefore not expected that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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, 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

Certain instruments (cash and cash equivalents, other short-term financial assets, trade receivables and debit balances) are of a current nature and, therefore, the balances as of 31 December, 2021 and 2020, approximate their fair value.

Financial instruments included in current liability items

Certain instruments (credit from banking institutions and others, trade payables and credit balances, suppliers and service providers and balances with shareholders) – in view of the current nature of such instruments, the balances as at 31 December, 2021 and 2020 approximate their fair value. Other instruments are measured at fair value through profit or loss.

Financial instruments' fair value movements

The reconciliation of the carrying amounts of financial instruments classified within Level 3 (based on unobservable inputs) is as follows:

	US dollars Financial asset	US dollars Financial liabilities	
	Proceeds due on account of shares issued	Liability related to share subscription agreement	Warrants liability
Balance at 1 January 2020	–	–	–
Recognition in asset (liability)	196,259	(1,164,190)	(82,251)
Revaluation Adjustment	105,399	(578,783)	(267,976)
Exchange rate differences	–	(25,105)	–
Issuance of shares	–	926,134	–
Warrants exercised	–	–	63,974
Fair Value at 31 December 2020	301,658	(841,944)	(286,253)
Recognition in asset (liability)	–	(3,485,349)	(1,585,751)
Proceeds received for shares issued	(355,818)	–	–
Revaluation Adjustment	49,723	62,193	108,724
Exchange rate differences	4,437	90,744	–
Issuance of shares	–	4,174,356	–
Warrants exercised	–	–	548,287
Fair Value at 31 December 2021	–	–	(1,214,993)

Both the financial assets and the two types of financial liabilities are measured at fair value through profit and loss.

Measurement of fair value of financial instruments

The following valuation techniques are used for instruments categorised in Level 3:

Liability related to share subscription agreement

The fair value of the liability related to share subscription agreement is categorised as level 3 of the fair value hierarchy.

The liability is valued by adding:

– the number of shares that the Investor would receive from a unilateral exchange for his outstanding subscription amount, multiplied by the current share price of the Company, and

– the outstanding subscription amount that the Company may choose to repay in cash amount.

Pursuant to the share subscription agreement, the investor has the right, at its sole discretion to require the Company to issue shares in relation to the subscription amount outstanding (or a part of it), under which, the number of shares to be issued for such settlement, shall be determined using an average five daily VWAP share price of the Company's shares as selected by the Investor, during the 20 trading days prior to such settlement notice ("Conversion Price"). However, the Company has certain rights to make cash payments in lieu of the above share settlement, yet the Investor is entitled to exclude from such cash payment, up to 30% of the cash settlement amount see Note 14.F.[3].

Notes to the Financial Statements

For the year ended 31 December 2021

Warrants liability

This liability is valued at the fair value of the £0.60 warrants as described in detail in Note 14.F.[2]. Should the Company's share price increase, then the warrants' fair value will increase by a lower amount, as is inherent in the Black Scholes option pricing model. In addition, as the Company has a "put" warrant which is triggered under certain circumstances when the Company's share price reaches £0.80, the value of the warrants will not increase indefinitely for the 12 month period that the "put" option is in place.

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, share premium and all other equity reserves attributable to the equity holders of the Company.

NOTE 26 – 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	
	2021	2020
Asia	598,858	335,000
Europe	130,000	–
Israel	760,559	262,119
United States	1,146,003	1,256,613
	2,635,420	1,853,732

	% Year ended 31 December	
	2021	2020
Asia	22.7%	18.1%
Europe	4.9%	–
Israel	28.9%	14.1%
United States	43.5%	67.8%
	100.0%	100.0%

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

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

	% Year ended 31 December 2021	2020
Customer A	29%	52%
Customer B	14%	13%
Customer C	14%	12%
Customer D	12%	7%
Customer E	10%	6%
	78%	89%

NOTE 27 – RELATED PARTIES

A. Founders

In April 2017, the employment agreement of the two founders of the Company Mr. David Levi and Mr. Baruch Shavit, was amended, in terms of which each of them, in addition to their salary, 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. Such bonus is dependent on their continual employment by the Company.

Each founder had an amount due to them for compensation originating in prior years – see Note 12. These amounts were settled during 2021.

One of the founders participated in the equity and warrant issue in September 2021 as follows – see Note 14.F.[2].

	Number of securities purchased in September 2021		GBP amount paid
Founder	Shares	£0.60 warrants	for shares and £0.60 warrants
David Levi	253,431	253,431	88,701

The two founders participated in the equity and warrant issue in July 2020 as follows – see Note 14.F.[2].

	Number of securities purchased in July 2020			GBP amount paid		
Founder	Shares	£0.20 warrants	£0.30 warrants	for shares and £0.20 and £0.30 warrants	upon exercise of £0.20 warrants in December 2020	upon exercise of £0.30 warrants in May 2021
David Levi	1,333,334	666,667	666,667	160,000	133,334	200,000
Baruch Shavit	333,334	166,667	166,667	40,000	33,333	50,000
	1,666,668	833,334	833,334	200,000	166,667	250,000

B. Chief Financial Officer

Mr. Reichenberg, the CFO of the Company, received 109,000 ESOP options on his appointment in March 2017, vesting over four years, exercisable at $0.20 per option and with an expiration date in March 2027.

In November 2020 Mr. Reichenberg received 100,000 ESOP options, vesting over three years, exercisable at £0.20 per option and with an expiration date in November 2030, the fair value of which, amounted to $12,292 at the date of grant.

Mr. Reichenberg was initially appointed as a director of the Company on 29 June 2017 and was reappointed on 22 June 2020.

Notes to the Financial Statements

For the year ended 31 December 2021

C. Remuneration of key management personal including directors for the year ended 31 December 2021

		US dollars		
Name	Position	Salary and benefits	Share based compensation	Total
Graham Woolfman[1][3]	Non-Executive Chairman	6,912	–	6,912
David Levi	Chief Executive Officer[2]	237,510	–	237,510
Mark Reichenberg	Chief Financial Officer[2]	200,011	8,133	208,144
Shavit Baruch	VP Research & Development[2]	237,432	–	237,432
Neil Rafferty[1][4]	Non Executive Director	51,268	–	51,268
Chen Saft-Feiglin[1]	Non Executive Director	18,327	–	18,327
Zohar Yinon[1]	Non Executive Director	18,079	–	18,079
Joseph Albagli[5]	Non-Executive Chairman	26,615	16,625	43,240
		796,155	24,758	820,912

(1) Independent director.

(2) Key management personnel as well as director. Long-term employee benefits and termination benefits account for less than 12.5% of their salary and benefits.

(3) Resigned 17 November 2020, resignation effective from 18 February 2021.

(4) Resigned 1 December 2021.

(5) Appointed 10 March 2021. As part of the agreed compensation, every month shares equal to the value of £1,250 are accrued. The shares have not yet been allotted.

Remuneration of key management personal including directors for the year ended 31 December 2020

		US dollars		
Name	Position	Salary and benefits	Share based compensation	Total
Graham Woolfman[1][3][5]	Non-Executive Chairman	44,469	44,510	88,979
David Levi	Chief Executive Officer[4]	206,320	–	206,320
Mark Reichenberg[1]	Chief Financial Officer[4]	145,564	8,791	154,355
Shavit Baruch	VP Research & Development[4]	206,321	–	206,321
Neil Rafferty[1][3]	Non Executive Director	32,370	37,766	70,136
Chen Saft-Feiglin[2][3]	Non Executive Director	15,928	–	15,928
Zohar Yinon[2][3]	Non Executive Director	14,638	–	14,638
		665,610	91,067	756,677

(1) Reappointed 22 June 2020.

(2) Reappointed with effect from 15 November 2020.

(3) Independent director.

(4) Key management personnel as well as director. Long-term employee benefits and termination benefits account for less than 12.5% of their salary and benefits.

(5) Resigned 17 November 2020.

D. Directors' equity interests in the Company as at 31 December 2021

	Shares	Options and warrants			
Name	Direct holdings	Unexercised vested options	Unvested options	Unexercised £0.60 warrants	Total options and warrants
David Levi	9,437,160	60,710	–	253,431	314,141
Shavit Baruch	5,091,667	60,710	–	–	60,710
Mark Reichenberg	–	142,333	66,667	–	209,000
	14,833,827	263,753	66,667	253,431	583,851

Directors' equity interests in the Company as at 31 December 2020

	Shares			Options and warrants			
Name	Direct holdings	Beneficial holdings	Total shares held	Unexercised vested options	Unvested options	Unexercised £0.30 warrants	Total options and warrants
Graham Woolfman*		10,715	10,715	–	–	–	–
David Levi	8,767,900	–	8,767,900	60,710	–	666,667	727,377
Shavit Baruch	5,000,000	–	5,000,000	60,710	–	166,667	227,377
Mark Reichenberg***	–	–	–	81,750	127,250	–	209,000
Neil Rafferty**	7,143	–	7,143	–	–	–	–
	13,775,043	10,715	13,785,758	203,170	127,250	833,334	1,163,754

* 165,000 shares awarded 29 December 2020, issued 6 January 2021, with a fair value of $44,510.

** 140,000 shares awarded 29 December 2020, issued 6 January 2021, with a fair value of $37,766.

*** 100,000 options granted 19 November 2020 with a fair value of $12,292.

NOTE 28 – RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Lease Liabilities	Short Term Borrowings	Total
1 January 2021	306,783	411,726	718,509
Cashflow			
– Repayments	(136,180)	(887,585)	(1,023,765)
– Proceeds	–	900,192	900,192
Non-cash movement			
– Terminations	(130,120)	–	(130,120)
– Additions	3,158,849	–	3,158,849
– Exchange rate differences	40,739	(1,700)	39,039
31 December 2021 (*)	3,240,071	422,633	3,662,704

(*) Including current maturities of $266,531

	Lease Liabilities	Short Term Borrowings	Total
1 January 2020	458,431	1,012,731	1,471,162
Cashflow			
– Repayments	(151,648)	(1,237,998)	(1,389,646)
– Proceeds	–	636,993	636,993
31 December 2020 (*)	306,783	411,726	718,509

(*) Including current maturities of $160,653

For financial liabilities to be settled through issuance of ordinary shares see notes 14.F and 25B.

NOTE 29 – SUBSEQUENT EVENTS

On 25 February 2022, the Company entered into a share subscription deed with 5G Innovation Leaders Fund LLC ("5G Fund"), a U.S.-based institutional investor, in relation to the issue of new ordinary NIS 0.001 shares ("Shares"), to raise $2,000,000. The 5G Fund made one investment of $2,000,000 for new Shares ("Subscription Shares") valued at $2,060,000. The investment under the Agreement will be made by way of a prepayment for Subscription Shares, to be issued, at 5G Fund's request, within 18 months of the date of the prepayment. The number of Subscription Shares to be issued will be determined by dividing the gross subscription amount by the Settlement Price.

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