ETHERNITY
NETWORKS

Building Innovative Programmable Networking Solutions

Annual Report and Financial Statements For the Year Ended 31 December 2022

Ethernity Networks Ltd

Company registration number: 51-347834-7.

Ethernity Networks, headquartered in Israel, Ethernity Networks (AIM: ENET.L OTCQB: ENETF) provides innovative, comprehensive networking and security solutions on programmable hardware that increase telco/cloud network infrastructure capacity. Ethernity's semiconductor logic offers data processing functionality for different networking applications, innovative patented wireless access technology, and fibre access media controllers, all equipped with control software with a rich set of networking features. Ethernity's solutions quickly adapt to customers' changing needs, improving time-to-market, and facilitating the deployment of 5G over wireless and fibre infrastructure.

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.

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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*	

Secretary

Mark Reichenberg

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Chairman's Statement

I am pleased 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 understand the Company's strategy, the challenges and the current dynamic environment in which the Company operates. I believe that the general strategic direction the Company has taken was in line with the market direction in the past year. The continued level of interest and engagement with more significant market players was proof to me that the strategic direction of the Company was the right one.

2022 was not without its challenges for Ethernity, and while the Company continued with its strategic direction, the remaining impacts of COVID-19, the components shortage, the instability in the world stock markets and the world financial economic inflation and uncertainty had an effect on planned deliveries during the year, resulting in revenue delays. Revenue increased by 11.46% for the 2022 financial year to $2.94 million (FY 2021 $2.63 million), while gross margin for the year was $1.60 million (2021 $1.94 million) and an operating loss of $8.70 million (2021 $6.32 million). This is further expanded upon in the Financial Report section of this Annual Report.

Outlook

The first six months of the current year have presented unexpected challenges, due to delays in expected orders from existing customers. As a result, the Company was required to undertake a placing in May 2023 to provide short term working capital, and has taken several steps to reduce cash burn, including cuts to resources. The Company is also changing its business model to meet the current situation, as described by the CEO in his report. Notwithstanding the challenging market conditions, positive progress has been made in the current year with a number of customer engagements, as recently demonstrated by our $1.5 million order from our existing fixed wireless customer.

Yosi Albagli
Chairman

30 June 2023

Chief Executive's Statement

During 2021 and 2022 Ethernity Networks enjoyed very active years in contracts signed and market acceptance of our product and solutions offerings, as evidenced by the major growth in sales of our DPU SoC during 2022 resulting in an increase in FPGA product sales of 200%. Yet, on the other hand, the Company faced new challenges due to the world wide component shortage, especially, as the Company had planned to introduce its complete system product to the market, which required tight supply chain management.

During the year under review, the Company continued its main focus of delivering complete solutions, including network operating systems, and hardware. We further continued development of our ENET 5200 FPGA System-on-Chip (SoC) Quad XGS-PON OLT devices as per the $3 million contract with an Asian broadband network OEM, first announced on 18 October 2021, which will enable two types of PON (XGS-PON and GPON) for use in the OEM's 5G fronthaul products, as well as other fiber access deployments, which resulted in a follow on $4.6 million contract for Fiber-To-The-Room FPGA SoC Device (announced on 20 September 2022).

The Company continued the UEP system product development targeting the estimated $2 billion cell site router market, where over and above the 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. In March 2023, the Company announced the delivery of the first release of the product to an existing microwave OEM customer, who plans commencing field trials during Q3/2023, with the initiation of deployment production targeted in Q4/2023.

Further to this, following on from the successful rollout of our DPU SoC delivered for the Company's American fixed wireless broadband solution customer, the customer signed a further $340k contract to adapt Ethernity's solution for the customer's first-generation product with extended performance into a second-generation product.

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, which is 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.

Over the last decade, the Company ENET DPU SoC devices have been deployed into 850,000 systems over more than 20 different platforms, with different solutions and configurations into Ethernet access devices, broadband access, aggregation platforms, wireless access, cellular base stations and the aviation market.

The Company has built extensive knowledge in the wireless and cellular market, and over the last decade signed multiple licensing contracts for use of our ENET Flow Processor IP with vendors developing products and systems. The Company 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.

Current Trading

During the first half of 2023, we continued to progress with releases of our new products including 10G and GPON intellectual property ported on FPGA, and the release of the UEP bonding product.

Notably to date in 2023, the following has been achieved:

- First release of the UEP bonding product provided to our existing Bonding OEM customer, with the customer planning to commence field trials during Q3/2023 and initiate deployment during Q4/2023, followed by mass deployment during 2024.
- The Asian vendor's XGS-PON OLT platform that embeds Ethernity's XGSPON MAC FPGA SoC, plans to commence deployment during this year.
- The FTTR gateway was completed, however we expect delays in deployment by the customer, due to the customer's own constraints, therefore FTTR revenues for the current year from the customer are uncertain.
- The Company built a new plan for a two layer PON solution that utilizes the FTTR platform with more functionality and at a higher price to serve high-rise buildings such as Multi-Dwelling-Units (MDUs).
- Received a purchase order for $1.5 million from its existing fixed wireless customer to supply the Company's data processing system-on-chip (SoC) in staged deliveries during Q3 2023.
- The Company is in discussions regarding the licensing of its PON technology with other potential vendors.

Outlook

The discounted fundraising undertaken in May 2023 resulted in the Company modifying its business both in terms of costs and the revenue model, to progress the Company towards generating positive cash flows from operations in the latter half of 2023 without requiring the need for further funding, as it has proven difficult under current market conditions to raise funds at a fair value representing the underlying IP and signed contracts. We appreciate that raising funds under such conditions may impair existing shareholder value.

With that in mind it was decided to take careful steps towards generating positive cash flow from operations during FY2023, which will include a combination of a modified business model, a reduction in costs, combined with the anticipated growth in licensing sales.

The PON technology business model will be converted into a licensing model that will position the Company to generate 100% gross margin on the licensing revenues and, together with the cost reductions being implemented within the development area, it is anticipated to reduce resource costs by 35%. Once these plans are implemented, the Company anticipates it will be sufficiently funded to allow it to generate further growth business for the UEP 2025 with link bonding.

While it is a challenging period due to the world financial situation, I am encouraged by the fact that there is demand for our PON offerings that have captured interest from larger corporations, and I am hopeful to engage in multiple design wins for our PON technology, that will fulfil our further anticipated growth during 2024.

David Levi
Chief Executive Officer

30 June 2023

Financial Review

Financial Performance

Through the past financial year we continued to progress our current strategy of becoming a supplier of customised and differentiated solutions and technology. The Company has made significant progress during 2022 in the commercialisation of its Data Processing Unit (DPU) System-on-Chip (SoC) devices with a 200% growth over 2021 and the development of the Passive Optical Networks (PON) SoC devices which has been proven in the accomplishments, engagements, contracts and progress over the past year.

During 2022, the following highlights were achieved that are expected to support revenue growth in 2023 and onward:

- The Company's sales of its DPU SoC increased by 200% with the majority being the shipment of the ENET DPU SoC to its U.S. fixed wireless system provider customer, with 2023 orders remaining on track for supply, and an increased forecast from the customer for 2024;
- the Company signed a contract for a second-generation platform, based on a scaled-up version of the Company's DPU SoC offering, with its U.S. fixed wireless OEM customer;
- the Company progressed with the delivery of the $3 million GPON and XGS-PON OLT SoC contract for its Chinese/Indian OEM, and is now progressing with the customer for deployment;
- the Company signed a follow-on contract of $4.6 million with that customer for delivery of a PON device for Fiber-to-the-Room deployment;
- the Company delivered a UEP2025 for testing and integration with an existing prominent microwave wireless OEM customer and is working with the customer on joint go-to-market plans.

The knock-on effect of COVID-19 pandemic continued to create challenges in aligning ourselves with the issues within the markets in which we operate, and our customers goals. Planned deliveries were affected which was specifically caused by the worldwide components shortage during the year and the supply of components in all marketplaces continues to be an issue. Whilst the Company took immediate steps to secure components needed for delivery on its order commitments for its 2022 deliveries, the impact was also felt by our customers and suppliers who inevitably pushed out their planned deliveries. This did impact on the realisation of planned revenues for 2022, resulting in approximately $0.6 million of revenue delays for the remainder of the 2022 year as a result of delays in projects resulting from component shortages, and certain customers informing the Company that they were not ready to receive milestone deliveries as had previously been anticipated.

Highlights

- Revenues increased by 11.5% to $2.94m (2021: $2.64m)
- Gross margins declined by 17.82% to $ 1.60m (2021: $1.94m)
- Gross Margin percentage declined to 54.41% (2021: 73.80%)
- Operating costs before amortisation of intangible assets, depreciation charges, provisions and other non-operational charges increased by 15.5% to $8.0m (2021: $6.9m)
- EBITDA Loss increased by 29.27% to a loss of $6.4m (2021: loss of $ 4.98m)
- Cash funds raised during the year of $2m before costs (2021: $11.2m)

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 to recognise the Research and Development costs as an intangible asset but recognising these as an expense and charged against income in the year incurred.

For the years ending 31 December 2020 and 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. This process was repeated by management for the financial year under review, 31 December 2022, 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 financial year ended 31 December 2022 is presented as follows:

	US Dollar For the year ended 31 December			
EBITDA	**2022**	**2021**	**Increase (Decrease)**	**%**
Revenues	**2,937,424**	**2,635,420**	**302,004**	**11.46**
Gross Margin as presented	**1,598,328**	**1,944,903**	**-346,575**	**-17.82**
Gross Margin %	*54.41*	*73.80*	*0*	
Operating (Loss) as presented	**-8,117,844**	**-6,327,475**	**-1,790,369**	**28.30**
Adjusted for:				
Add back Amortisation of Intangible Assets	961,380	961,380	0	0
Add back Share based compensation charges	221,362	77,583	143,779	185.32
Add back vacation accrual charges	35,646	-27,519	63,165	229.53
Add back impairments	599,200	80,000	519,200	649.00
Add back depreciation charges on fixed assets	108,581	86,168	21,087	26.01
Add back IFRS operating leases depreciation	339,561	173,675	165,886	95.52
EBITDA	**-6,431,146**	**-4,976,188**	**-1,454,958**	**29.24**

The EBITDA losses increased during the 2022 year from $4.98 million in 2021 to $6.43 million in 2022. The increase in the EBITDA losses were driven mainly by increases in Research and Development costs of $1.07m which arose largely as a result of staff resources being increased for the new product developments during the 2022 financial year. Increases in General and Administrative costs of $236,000 before IFRS fixed assets and lease depreciation derived mainly from increases in property costs and the increase in listed company fees and costs. Marketing and Sales expenses increased slightly by $123,000 as marketing activities abroad increased as trade shows and conferences re-opened subsequent to COVID-19.

These EBITDA losses are anticipated to start reducing during the latter half of 2023 as the future gross margins and margin percentages increase based on the revised business model are realised.

Summarised trading results

	US Dollar Audited For the year ended 31 December			
Summarised Trading Results	**2022**	**2021**	**Increase (Decrease)**	**%**
Revenues	**2,937,424**	**2,635,420**	**302,004**	**11.46**
Gross Margin	**1,598,328**	**1,944,903**	**-346,575**	**-17.82**
Gross Margin %	*54.41*	*73.80*		
Operating (Loss)	**-8,696,876**	**-6,327,475**	**-2,369,401**	**37.45**
Financing costs	-573,388	-3,074,452	2,501,064	-81.35
Financing income	1,267,652	228,404	1,039,248	455.00
(Loss) before tax	**-8,002,612**	**-9,173,523**	**1,170,911**	**-12.76**
Tax benefit (reversal of previous deferred tax benefit)	0	-186,772	186,772	-100.00
Net comprehensive (loss) for the year	**-8,002,612**	**-9,360,295**	**1,357,683**	**-14.50**

The operating loss before finance charges and after IFRS adjustments increased by $2.40 million over 2021, attributable mainly as explained above to the increase in R&D costs, asset impairments and a lower gross margin percentage. The effect of the finance costs and incomes, which resulted in the Comprehensive loss for the year reducing by $1.36 million over 2021, are based on IFRS recognition, and not a cash cost, are expanded on further in this report.

Financial Review

Revenue Analysis

Revenues for the twelve months ended 31 December 2022 increased by 11.5% to $2.94 million (2021: $2.64 million) after additional year end IFRS adjustments and deferrals of approximately $600,000 in revenues to 2023 as outlined above.

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 based on the revised business model as presented in the CEO report.

Margins

The gross margin percentage reduced to 54.4% in 2022 from 73.8% in 2021, related mainly to increased component costs incurred in securing components for deliveries. The gross margin will vary according to the revenue mix as IP Licensing, Royalty and Design Win revenues generally achieve an approximate 100% gross margin before any sales commissions are accounted for.

Operating Costs and Research & Development Costs

After adjusting for the amortisation of the capitalised Research and Development Costs, 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	**2022**	**2021**	**Increase (Decrease)**	**%**
Total R&D Expenses	6,618,795	5,550,912	1,067,883	19.24
R&D Intangible asset amortisation	-961,380	-961,380		
Vacation accrual expenses	-21,700	33,921	-55,621	-163.97
Share Based Compensation IFRS adjustment	-160,134	-54,962	-105,172	191.35
Research and Development Costs net of amortisation, Share Based Compensation, IFRS adjustments and Vacation accruals	**5,475,581**	**4,568,491**	**907,090**	**19.86**
Total G&A Expenses	2,523,916	1,721,873	802,043	46.58
Share Based Compensation IFRS adjustment	-51,627	-10,750	-40,877	380.25
Vacation accrual expenses	-3,189	2,181	-5,370	246.22
Impairment losses of financial assets	-599,200	-80,000	-519,200	649.00
Fixed Assets Depreciation Expense	-108,581	-86,168	-21,087	24.08
Depreciation Leases IFRS16	-339,561	-173,675	-165,886	95.52
General and Administrative expenses, net of depreciation, Share Based Compensation, IFRS adjustments, Vacation accruals and impairments.	**1,421,758**	**1,373,461**	**48,297**	**3.62**
Total Marketing Expenses	1,167,534	1,044,905	122,629	11.74
Share Based Compensation IFRS adjustment	-9,601	-11,871	2,270	-19.12
Vacation accrual expenses	-10,757	-8,583	-2,174	25.33
Marketing expenses, net of Share Based Compensation and Vacation accruals.	**1,147,176**	**1,024,451**	**122,725**	**11.98**
Total	**8,044,423**	**6,964,985**	**1,079,438**	**15.50**

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 $907,090 against 2021. These increases were mainly attributable to the increase in the basic payroll component as planned of approximately $873,000 over 2021.

The increase in General and Administrative costs over 2021 to $1,421,666 after adjusting for depreciation, share based compensation, IFRS adjustments, impairments and vacation accruals amounted to approximately 3.62% or $49,623. A portion of this increase of $31,800 resulted mainly from the increase in fees and costs for UK Brokers/Nominated Advisers due to the Company's previous Nominated Adviser foregoing their license in April 2022 with duplicated fees being paid in Q1 and Q2 of 2022. There were increases in payroll costs of $44,495, with other increases in costs offset by other savings. By the very nature of expenditure accounted for under the General and Administrative costs there remains 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 as a result of the COVID-19 pandemic and the further modest decrease in 2021 over 2020 of $27,931, Sales and Marketing costs increased marginally from 2021 by $122,725. This increase resulted mainly from increased marketing activity and attendance at market events of approximately $95,000 while the return to 100% payroll and related costs accounted for an increase of approximately $26,000.

Financing Costs

The continued material levels of financing costs and finance income has come about due to the continued recognition and realization of funds inflows, outflows and IFRS valuations of the $2 million Subscription Agreement entered into with the 5G Innovation Leaders Fund LLC on the 25 February 2022 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 transactions detailed below, although they are 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 the 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 2021 and further in 2022 being;

a. The resulting issue of warrants at 60p (60p Warrants) from the over-subscribed Placing and Subscription to raise £4.2 million, from the 27th to 29th of September 2021. It is to be noted that these Warrants were not exercised and lapsed on 4 April 2023.

b. The Share Subscription Agreement with the 5G Innovation Leaders Fund LLC of $2 million entered into on 25 February 2022.

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 a. above represents the outstanding 60p Warrants which have not been exercised as of 31 December 2022, however these expired on 4 April 2023 and at the year ended 31 December 2022 had a fair value of nil.

The above outlined treatment results in the finance expense charged to the Income Statement, however it should be noted that the expense is not an actual cash expense.

Financial Review

The Finance income $1,214,993 relates to the fair valuation adjustment to the 60p Warrants referred to above having been reduced to nil and the previous liability relating thereto being reduced to nil. As stated above, any adjustments to the liabilities are taken through the income statement, however these are non-cash adjustments.

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

Financing expenses for the full year ended December 31 2022			
The Company completed a $2 million Subscription Agreement with the 5G Innovation Leaders Fund LLC on the 25 February 2022.			
5G Innovation Leaders Fund	$	60,000	Face value premium of $60,000 on $2,000,000 funded to the Company in February 2022
	$	74,437	Adjustment to fair value of $320,000 settled portion in October 2022
	$	96,555	Adjustment to fair value of remaining unsettled share subscription agreement as at December 31 2022
Total 5G Fund	**$**	**230,992**	

Financing Income for the full year ended December 31 2022			
Peterhouse Capital September 2021 placing	**$**	**1,214,993**	Reversal of prior valuation of 60p Warrants issued

Operating Loss and Net Comprehensive Loss for the Year

Whilst a portion of the revenues have been deferred from 2022 to 2023 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 strengthened its balance sheet via the $2 million Share Subscription Agreement entered into with the 5G Innovation Leaders Fund LLC ("5G Fund"), a U.S.-based specialist investor in February 2022.

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

- Increases in trade receivables reflect the activity in the second half of the financial year from the announced contracts.
- Inventories increased almost threefold, as a result of procurement of components inventory due to the worldwide component shortage.
- Intangible assets continue to reduce in carrying value due to the amortisation policy with an estimated 5.5 years of amortisation remaining.
- Trade payables increased by approximately $134,000 over 2021 due to advance purchasing of components for delivery commitments in the latter portion of the reporting year and 2023.
- Resulting from the funding received on the 5G Fund agreement the liability on the convertible share subscription, including IFRS adjustments increased from $0 at 31 December 2021 to $1,820,181 at 31 December 2022. The difference between

the amount per the balance sheet and the face value of the $1,740,000 unconverted liability at 31 December of $80,181 represents the IFRS valuation differential of the liability at year end. This additional amount does not however add to the face value of the liability for settlement purposes, but rather is extinguished on the settlement and closure of the instrument.

- Other liabilities represent in the main the accrual of payroll and the related costs, short term portion of the lease liability and other accrued expenses at year end.

The balance sheet quick and current ratios of the Company for 2022, excluding the "liabilities" relating to the Share Subscription Agreement and Warrants, reduced to 1.59 and 1.26 respectively (2021 4.20 and 4.07 respectively). This change is due to the reduction of cash reserves at year end 31 December 2022 effecting both the quick and current ratios, while the increase in inventories contributed further to the decline in the quick ratio.

The net cash utilised and cash reserves are carefully monitored by the Board. Cash utilised in operating activities for the year is $8,333,302 (2021 $5,386,653), 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 $715,815 as of 31 December 2022, which have been bolstered by the fundraising activities carried out during January and May of 2023.

Short term borrowings of $428,935 (2021 $422,633) arose mainly from trade financing facilities 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 $5,462,800 (2021: $6,424,180) 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 ended 31 December 2022, 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 11 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 remainder of the 5 year lease commitment plus the 5 year renewal option that the Company has the right to and benefit of.

Financial Review

Summary of Fundraising Transactions Liabilities in terms of IFRS Recognition

At year end, the remaining $1,740,000 face value of the $2,000,000 of the funding initiated in February 2022 relating to the 5G Fund is recognised in the balance sheet.

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 2022, the liability in terms of the financing transaction entered into during the 2022 financial year is:

Liability as at 31 December 2022		
5G Innovation Leaders Fund	$1,836,555	Remaining liability to 5G representing fair value of the shares not yet called for allocation of the $2,000,000 share subscription funded in February 2022. The face value of the outstanding amount at 31 December 2022 is $1,740,000 against which future allotments of shares will be made. The differential of $96,555 fair value adjustment is recognised under the requirements of IFRS as a finance cost, no shares are allotted against this, nor is cash paid out for this.
	$1,836,555	

Subsequent Financial Events

Subsequent to the financial year end, the Company completed fundraising transaction as follows:

a. On 17 to 19 January 2023, the Company completed a Placing and the Broker Option raising a gross amount of million £1.65 million (before expenses).

   This included investors in the Placing receiving one warrant for every placing share subscribed for, exercisable at a price of 15p per share. These warrants will be exercisable for a period of 24 months from the date of grant.

   In terms of the Placing and Broker Option, and under the authorities granted to the directors at the EGM of 9 February 2023, Company has granted 23,571,430 warrants to investors in the Placing and Broker Option.

   The warrants contain an accelerator clause such that the Company may serve notice ("Notice") on the Warrant holders to exercise their Warrants in the event that the closing mid-market share price of the Company's Ordinary Shares trade at 20p or more over a consecutive five-day trading period from date of Admission. In the event the Company serves Notice, any Warrants remaining unexercised after seven calendar days following the issue of the Notice will be cancelled.

b. On 11 to 12 May 2023, the Company completed a further Placing, Subscription and Broker Option raising a gross amount of £783,500 (before expenses).

c. On 25 May 2023, the Company announced a variation of the exercise price of the warrant instruments that were granted in connection with the fundraise undertaken by the Company in January 2023 as per a. above.

   The initial 15p exercise price of the Warrants represented a premium of over 400% to the closing midmarket price of an Ordinary Share on 24 May 2023. The Directors considered therefore that it would be appropriate to amend the exercise price of the Warrants to a level that is more attractive to Warrant holders and which would still provide meaningful funding to the Company should the Warrants be exercised in full.

   The Company therefore on 24 May 2023, varied the exercise price of the 23,571,430 Warrants from 15p to 6p per new ordinary share in the Company, representing a 107% premium to the closing mid-market price of an Ordinary Share on 24 May 2023. In addition, the accelerator clause as noted under a. above, was varied from 20p to 7.5p, applicable on the same basis as outlined above.

All of the terms of the Warrants remain unchanged and as announced on 17 January 2023. The expiry date of the Warrants remains as 8 February 2025.

COVID-19 Impact and Going Concern

Currently, with the impact of COVID-19 worldwide reduced significantly the Company has continued its planned strategies. With the still ongoing worldwide components shortage we remain acutely aware of the risk of an impact in delays in the timing of revenues and cash inflows, as well as delays in supplies not only to the Company but its customers, whose product deployment could be materially impacted.

In the presentation of the annual financial statements for the year ended 31 December 2022, the Company makes reference to going concern within the audit report. Reference to this is further made in Note 2 to the Annual Financial Statements presented herein.

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 25 to 76 of this Annual Report.

Mark Reichenberg

Chief Financial Officer
30 June 2023

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, management, and entrepreneurship in the communications high-tech 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 and as CTO of Cassiopeia Space Systems Inc. Yosi is a Cum Laude graduate of The Technion – Israel Institute of Technology with a BSc degree in Civil Engineering, a graduate of Computer science of the Tel Aviv University and a veteran of the Israeli navy, in which he taught electronics.

David Levi (Chief Executive Officer)

David has over 28 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, CA(SA), 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 more than 35 years of experience in finance, equity transactions, strategic planning, operations and management having held various senior financial director and leadership positions in retail, wholesale, logistics, managed healthcare 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 28 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 30 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 & Senior Vice President of Bar Ilan University in Israel managing an approximately 1.5 billion NIS budget, responsible for all non-academic activities such as human resources, IT, operations and maintenance, finance, development, asset management, marketing and all campus services, a board member of Birad Ltd (Bar-Ilan Research & Development commercialising Bar Ilan University inventions), a member of the steering committee of Unbox Ventures and board member of "Psifas" the Israeli national Genome project. Prior to that Zohar held several C-level positions as CEO of Hagihon Company Ltd, CFO 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). Zohar 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)*

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, Hong Kong-quoted China New Energy Ltd 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 at least annually as required, with the most recent Company update being 18 May 2022, 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), Chen Saft-Feiglin, Zohar Yinon and Richard Bennett who was appointed as an Independent Non-Executive director on 7 April 2022. 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 Chairman of the Nomination Committee *(Companies Law precludes the Chairman from being a member of the Audit and Remuneration Committees)*
David Levi	Chief Executive Officer Nomination Committee member
Mark Reichenberg	Chief Financial Officer and Company Secretary Nomination Committee member
Shavit Baruch	Vice President R&D
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)* Audit and Risk Committee member Remuneration Committee member Nomination Committee member

Biographical details of all the Directors are set out on pages 14 to 15.

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 2022, the Board met formally on seven 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 Board members attended all of the board meetings in their capacity as Directors. All Directors receive a board pack comprising 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 2022 was as follows:

	Board	Audit & Risk Committee	Remuneration Committee	Nominations Committee
Number of meetings	**7**	**3**	**1**	**1**
Yosi Albagli	7		1 (as invitee)	1
David Levi	7	1 (as invitee)		1
Mark Reichenberg	7	3 (as invitee)		1
Shavit Baruch	7			
Chen Saft-Feiglin	7	3	1	
Zohar Yinon	7	3	1	
Richard Bennett *(Note 1)*	5	2		

Note.

1. Appointed 7 April 2022

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, in his capacity as director, 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.Messrs. Levi, Reichenberg, Baruch, Yinon and Saft-Feiglin will stand for re-election in 2023.

Following the re-appointment of Messrs. Levi, Reichenberg and Baruch by the Board on 22 June 2023 for the interim period until the Annual General Meeting to be held on 14 August 2023, the Annual General Meeting will seek to re-elect the aforementioned directors in accordance with the Articles for a further three year term as follows:

- To re-elect David Levi as a director for a three year term commencing from 22 June 2023 and ending on 22 June 2026.
- To re-elect Mark Reichenberg as a director for a three year term commencing from 28 June 2023 and ending on 28 June 2026.
- To re-elect Shavit Baruch as a director for a three year term commencing from 22 June 2023 and ending on 22 June 2026.

Yosi Albagli was formally appointed as the Independent Non-Executive Chairman on 10 March 2021 for an initial period of three years and as such only becomes eligible for re-election in 2024.

Richard Bennett was formally appointed as an Independent Non-Executive Director on 7 April 2022 for an initial period of three years and as such only becomes eligible for re-election in 2025.

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 QCA 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 CFO. The Committee is chaired by Zohar Yinon with the remaining members being Chen Saft-Feiglin and Richard Bennett post his appointment as a Non-Executive Director on 7 April 2022, with Mark Reichenberg the CFO serving as an interim member of the committee up to the appointment of Richard Bennett on 7 April 2022. 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 2022, the Committee met on three occasions and the matters considered included the following:

- Consideration of the Company's annual audited financial statements for the year ended 31 December 2021, 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 2022, review of going concern and reporting, 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 30 June 2022.
- Recommending the appointment of new Internal Auditors and the internal audit plan for the remainder of the 2022 year.

Corporate Governance Statement

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, who served until the appointment of Richard Bennett on 7 April 2022.

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 2022, the Remuneration Committee met formally on one occasion to finalise for recommendation to the Board of Directors the executive director remuneration and incentive packages for 2022. David Levi was excluded from all discussions, meetings and deliberations in this regard.

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, the Committee comprised the Non-Executive Chairman Yosi Albagli, the Chief Executive Officer David Levi, Mark Reichenberg the CFO, and subsequent to his appointment on 7 April 2022 as Independent Non-Executive Director, Richard Bennett joined the Committee.

During the year ended 31 December 2022, the Nominations Committee met formally on one occasion in March 2022 to formalise and recommend the appointment of Richard Bennett as Independent Non-Executive Director to replace Neil Rafferty, as subsequently approved and appointed by the Board on 7 April 2022 and ratified in the Annual General Meeting of the shareholders on 16 May 2022.

Other board members 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; and
- 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 presented their 2021 review report to the Audit and Risk Committee during the year under review. Their report for the previous year focussed on data security and cyber threats:

- Review of the business, identify key high risk areas and review controls.
- Identify risks.
- Assess risks and present findings.
- Preparation and agreement of an implementation plan addressing the high risk recommendations.

The Audit and Risk Committee agreed with the Internal Auditors that the review for 2022 would focus on the R&D Department structures and project management. The work on the report was completed in December of 2022, and the report was finalised and presented to the Audit and Risk Committee in February 2023, with the following actions decided:

- The significant items were highlighted
- The Audit and Risk Committee recommended to the Board that the significant items be addressed and it was agreed that an action plan be presented by management to the Board and the key items addressed during the first half of the 2023 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 2022.

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 29. No dividend is proposed for the year.

Risk Management

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

Directors

The current Directors of the Company are:

Joseph Albagli *Independent Non-Executive Chairman*

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)

* 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 28C 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 the Director's Reports) 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; 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.

Worldwide Components Shortage

In light of the continued duration of the worldwide components shortage which continued to present further challenges for the Company, this led to the Company taking significant steps to secure sufficient critical components for its 2022 and 2023 deliveries to certain contracted customers and continues in the process of securing components required to meet it and its customers delivery plans. Due to excessive lead times on these component deliveries, this resulted in a significant investment by the Company in its inventory holdings during the year under review, along with additional pressure on the cash resources of the Company.

The cash resources of the Company were strengthened by a further Share Subscription Agreement entered into on 25 February 2022 for $2 million with the 5G Innovation Leaders Fund LLC, allowing the Company to contribute towards meeting its planned operational objectives and planned cash requirements during 2022. To further allow the Company to support the growing number of engagements for its offerings towards successful developments, field deployments, and for general working capital purposes, the Company closed out an additional Placings of shares on 19 January 2023, raising £1.65 million before expenses, and raising £783,500 before expenses on 12 May 2023.

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

The Board continues to closely monitor the components and cash resources 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 2022 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 2022 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.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial statements, which indicates that the Company incurred a net comprehensive loss of 8 million US dollars and negative cash flows from operating activities of 7.6 million US dollars during the year ended 31 December 2022. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 2022. 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.
In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be key audit matters to be communicated in our report.

Key audit matter	Description of Key audit matter and why it is a matter of most significance in the audit	Description of auditor's response and key observations
Impairment of 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 10). 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, reviewing the reasonableness of key assumptions used, the most recent and updated management expectations and forecasts, 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 skepticism 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, safeguards applied.

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 2022 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, June 30, 2022

Statements of Financial Position

For the year ended 31 December 2022

	Notes	US dollars 31 December 2022	2021
ASSETS			
Current			
Cash	5	715,815	7,060,824
Trade receivables	6	1,299,072	1,545,598
Inventories	7	773,076	284,810
Other current assets	8	343,872	240,964
Current assets		3,131,835	9,132,196
Non-Current			
Property and equipment	9	810,326	660,069
Intangible asset	10	5,462,800	6,424,180
Right -of -use asset	11	2,816,641	3,156,202
Other long term assets		35,689	38,956
Non-current assets		9,125,456	10,279,407
Total assets		12,257,291	19,411,603
LIABILITIES AND EQUITY			
Current			
Short Term Borrowings	12	428,935	422,633
Trade payables		785,583	651,758
Liability related to share subscription agreement	15.F.[3]	1,836,555	–
Warrants liability	15.F.[2]	–	1,214,993
Other current liabilities	11,13	1,121,909	1,097,359
Current liabilities		4,172,982	3,386,743
Non-Current			
Lease liability	11	2,505,777	3,069,721
Non-current liabilities		2,505,777	3,069,721
Total liabilities		6,678,759	6,456,464
Equity	15		
Share capital		21,904	21,140
Share premium		40,786,623	40,382,744
Other components of equity		1,225,391	1,004,029
Accumulated deficit		(36,455,386)	(28,452,774)
Total equity		5,578,532	12,955,139
Total liabilities and equity		12,257,291	19,411,603

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

Statements of Comprehensive Loss

For the year ended 31 December 2022

	Notes	US dollars For the year ended 31 December 2022	2021
Revenue	17,27	2,937,424	2,635,420
Cost of sales		1,339,096	690,517
Gross margin		1,598,328	1,944,903
Research and development expenses	18	6,618,795	5,550,912
General and administrative expenses	19	2,523,916	1,721,873
Marketing expenses	20	1,167,534	1,044,905
Other income	21	(15,041)	(45,312)
Operating loss		(8,696,876)	(6,327,475)
Financing costs	22	(573,388)	(3,074,452)
Financing income	23	1,267,652	228,404
Loss before tax		(8,002,612)	(9,173,523)
Tax expense	24	–	(186,772)
Net comprehensive loss for the year		(8,002,612)	(9,360,295)
Basic and diluted loss per ordinary share	25	(0.11)	(0.14)
Weighted average number of ordinary shares for basic loss per share		76,013,296	67,492,412

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

Statements of Changes in Equity
For the year ended 31 December 2022

	Notes	Number of shares	Share Capital	Share premium	Other components of equity	Accumulated deficit	Total equity
Balance at 1 January 2021		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	15.F.[1]	706,667	220	70,893	–	–	71,113
Net proceeds allocated to the issuance of ordinary shares	15.F.[2]	13,149,943	4,053	4,280,265	–	–	4,284,318
Exercise of warrants	15.F.[2]	3,500,010	1,072	2,007,606	–	–	2,008,678
Shares issued pursuant to share subscription agreement	15.F.[3]	10,221,621	3,204	6,742,848	–	–	6,746,052
Expenses paid in shares and warrants	15.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
Employee share-based compensation		–	–	–	221,362	–	221,362
Exercise of employee options	15.F.[1]	–			–	–	–
Shares issued pursuant to share subscription agreement	15.F.[3]	2,695,593	752	383,733	–	–	384,485
Expenses paid in shares and warrants	15.F.[5]	37,106	12	20,146	–		20,158
Net comprehensive loss for the year		–	–	–	–	(8,002,612)	(8,002,612)
Balance at 31 December 2022		78,084,437	21,904	40,786,623	1,225,391	(36,455,386)	5,578,532

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

Statements of Cash Flows

For the year ended 31 December 2022

	US dollars For the year ended 31 December	
	2022	2021
Operating activities		
Net comprehensive loss for the year	(8,002,612)	(9,360,295)
Non-cash adjustments		
Depreciation of property and equipment	108,581	86,168
Depreciation of right of use asset	339,561	173,675
Share-based compensation	221,362	77,583
Amortisation of intangible assets	961,380	961,380
Amortisation of liabilities	(396,434)	39,042
Deferred tax expenses	–	186,772
Foreign exchange losses on cash balances	381,480	30,214
Capital Loss	–	70
Income from change of lease terms	–	(8,929)
Revaluation of financial instruments, net	(984,001)	2,691,145
Expenses paid in shares and options	20,158	196,626
Net changes in working capital		
Decrease (Increase) in trade receivables	246,526	(767,537)
Increase in inventories	(488,266)	(111,316)
Increase (decrease) in other current assets	(102,908)	84,068
Increase (decrease) in other long-term assets	3,267	(2,831)
Increase in trade payables	133,825	361,583
Decrease in other liabilities	(12,261)	(24,071)
Net cash used in operating activities	(7,570,342)	(5,386,653)
Investing activities		
Deposits to other long-term financial assets	–	(28,618)
Purchase of property and equipment	(258,838)	(194,195)
Net cash provided (used) by investing activities	(258,838)	(222,813)
Financing activities		
Proceeds from share subscription agreement	2,000,000	3,177,306
Proceeds allocated to ordinary shares	–	5,016,494
Proceeds allocated to warrants	–	1,472,561
Issuance costs	(9,952)	(390,398)
Proceeds from exercise of warrants and options	–	1,367,388
Proceeds from short term borrowings	527,790	900,192
Repayment of short-term borrowings	(493,338)	(887,585)
Repayment of lease liability	(158,849)	(136,180)
Net cash provided by financing activities	1,865,651	10,519,778
Net change in cash	(5,963,529)	4,910,312
Cash beginning of year	7,060,824	2,180,726
Exchange differences on cash	(381,480)	(30,214)
Cash end of year	715,815	7,060,824

Statements of Cash Flows
For the year ended 31 December 2022

	US dollars For the year ended 31 December	
	2022	2021
Supplementary information:		
Interest paid during the year	13,321	13,468
Interest received during the year	1,507	41
Supplementary information on non-cash activities:		
Recognition of right-of-use asset and lease liability	–	3,776,886
Shares issued pursuant to share subscription agreement	384,485	6,746,052
Expenses paid in shares and warrants	20,158	83,436

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

Notes to the Financial Statements

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.

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. An 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 revenues anticipated in terms of the material contracts signed in the 2021 and 2022 financial years, the funds raised during the year ended 31 December 2022 and to date, expected inflows from the exercise of the 6p (£0.06) Warrants, 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.

During the latter portion of 2021 and through 2022, 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 latter portion of the 2022 and 2023 financial years, and into 2024. In September 2022, the Company noted that its cash reserves were approximately $4.2m at 30 June 2022. During the year ended December 31, 2022, the Company incurred a net comprehensive loss of $ 8 million and negative cash flows from operating activities of $7.6million. The Company recognises that its cash reserves remain under pressure until the customer commitments in terms of the signed contracts are met from the end of H1 2023 and in mitigating this, in January 2023 the Company raised net funds (after costs) of $1.9m via both a Placing and Subscription with associated Warrants, and further in May 2023, raised further net funds via a Placing of $0.9m.

Further to this, in May and June 2023 the Company entered into significant cost reduction exercises to align the internal resources with the current contracts and expected deliveries thereon, with further cost reductions to be implemented in July and August 2023 as the demand on resources reduces. These steps, in conjunction with the reasonable expectation that the Company has reasonable access to raise further financing and funding during the year, are expected to produce short to medium term reductions in the use of cash resources as well as boost the cash reserves, with the anticipation that the resultant revenue flows in the second half of 2023 will start producing positive monthly cash flows during this period continuing in to 2024.

Based on the abovementioned cash position, signed contracts, cost reduction measures undertaken, 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. The Directors recognise that their expectations are based on the projected revenues and expenses remaining as forecast, however should events occur that could materially impact the forecasts and cashflows of the Company, including but not limited to disruptions in the supply of inventories or delays imposed by

Notes to the Financial Statements

customers, as a result a material uncertainty exists that may cast a significant 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 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 2022, 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 were approved and authorised for issue by the board of directors on 30 June 2023.

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:

	2022	2021
New Israeli Shekel ("NIS")	0.284	0.322
Sterling	1.204	1.351
Euro	1.066	1.132

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".

Notes to the Financial Statements

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 to 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 10).

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 a 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 a 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 21).

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 the 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.

Notes to the Financial Statements

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, including derivative financial instruments entered into by the Company, including warrants derivative liability related to warrants with an exercise price denominated in a currency other than the Company's functional currency and also including the Company's liability to issue a variable number of shares, which include certain embedded derivatives (such as prepayment options) under a share subscription agreement – see Note 15.

Separated embedded derivatives are 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.

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 measures, 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.

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 15.F.[3]., the Company has determined to designate its liability with respect to the 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.

Notes to the Financial Statements

For the purpose 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 26.

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.

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.

Notes to the Financial Statements

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.

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 24.

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 value in use. To determine the value in use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable discount rate, in order to calculate the present value of those

Notes to the Financial Statements

cash flows. The data used for impairment testing procedures are linked to the Company's latest approved budget, see also Note 10.

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 the 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 2024 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:

- Amendments to IAS 12 Income Taxes–Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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.

Notes to the Financial Statements

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

- 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 an additional 5 years – see Note 11.

Estimation uncertainty

- Impairment of non-financial assets

In assessing impairment of non-financial assets (primarily, internally developed intangible assets), management estimates the recoverable amount of each asset or cash generating units (if relevant) based on expected future cash flows and uses an interest rate to discount them (i.e.,the value in use. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. See Note 10 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 15).

NOTE 5 – CASH

Cash consist of the following:

	US dollars 31 December	
	2022	2021
In Sterling	89,695	5,817,800
In U.S. Dollar	205,285	622,042
In Euro	2,751	6,638
In New Israeli Shekel	418,084	614,344
	715,815	7,060,824

NOTE 6 – TRADE RECEIVABLES

Trade and other receivables consist of the following:

	US dollars 31 December	
	2022	2021
Trade receivables	1,373,718	1,422,280
Unbilled revenue	504,354	353,318
Less: provision for expected credit losses	(579,000)	(230,000)
Total receivables	1,299,072	1,545,598

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 26A.

NOTE 7 – INVENTORIES

	US dollars 31 December	
	2022	2021
Components and raw materials	613,218	165,095
Finished cards	159,858	119,715
Total inventories	773,076	284,810

NOTE 8 – OTHER CURRENT ASSETS

Other current assets consist of the following:

	US dollars 31 December	
	2022	2021
Prepaid Expenses	203,955	167,291
Deposits to suppliers	1,857	9,065
Government institutions	129,659	39,650
Other current assets	8,401	24,958
Total other current assets	343,872	240,964

Notes to the Financial Statements

NOTE 9 – 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 2022	881,112	164,813	49,237	11,193	1,106,355
Additions	241,362	11,316	6,160	–	258,838
Balance 31 December 2022	1,122,474	176,129	55,397	11,193	1,365,193
Depreciation	–	–	–	–	–
Balance 1 January 2022	(286,980)	(143,204)	(16,096)	(6)	(446,286)
Depreciation	(91,596)	(12,308)	(3,377)	(1,300)	(108,581)
Balance 31 December 2022	(378,576)	(155,512)	(19,473)	(1,306)	(554,867)
Carrying amount 31 December 2022	743,898	20,617	35,924	9,887	810,326

	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.

NOTE 10 – INTANGIBLE ASSET

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

	US dollars Total
Gross carrying amount	
Balance 1 January 2022	9,550,657
Additions	–
Balance 31 December 2022	9,550,657
Amortisation	
Balance 1 January 2022	3,126,477
Amortisation	961,380
Balance 31 December 2022	4,087,857
Carrying amount 31 December 2022	5,462,800

	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

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 2022. Such analysis revealed a similar calculation as that determined as at 31 December 2021 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 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.

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The valuation method determined, to best reflect the fair value of the intangible assets, was the Discounted Cash Flow ("DCF") to be generated from such assets between 2023 through 2032.

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 28.3% (post-tax 23.5%).

NOTE 11 – 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 2022	3,158,849	95,702	3,254,551
Terminations	–	(95,702)	(95,702)
Balance 31 December 2022	3,158,849	–	3,158,849
Accumulated depreciation			
Balance 1 January 2022	(26,324)	(72,025)	(98,349)
Terminations	–	95,702	95,702
Depreciation expense	(315,884)	(23,677)	(339,561)
Balance 31 December 2022	(342,208)	–	(342,208)
Total right-of-use assets as at 31 December 2022	2,816,641	–	2,816,641

		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

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	
	2022	2021
Current	207,161	170,350
Non-current	2,505,777	3,069,721
	2,712,938	3,240,071

C. 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 2022 were as follows:

	Minimum lease payments due US dollars		
	2023	**2024-2031**	**Total**
Lease payments	416,709	3,402,870	3,819,579
Finance charges	(209,548)	(897,091)	(1,106,639)
Net present values	207,161	2,505,779	2,712,940

NOTE 12 – SHORT- TERM BORROWINGS

Borrowings include the following financial liabilities:

	Annual % Interest rate(1)	US dollars 31 December	
	2022	**2022**	2021
Bank borrowings (2)	P+4.5%	428,935	422,633
Total short- term borrowings		428,935	422,633

(1) The loans bore variable interest of prime + 4.5%. The above interest rate is the weighted average rate as of 31 December 2022. The loans were fully repaid by March 2023.

(2) The Company has obtained a facility for invoice trade financing of up to approximately $430,000 which will allow acceleration of cash flows on invoicing receipts.

Notes to the Financial Statements

NOTE 13 – OTHER CURRENT LIABILITIES

Other short-term liabilities consist of:

	US dollars 31 December	
	2022	2021
Salaries, wages and related costs	426,211	415,787
Provision for vacation	235,442	226,210
Accrued expenses and other	121,770	86,761
Deferred revenue	20,337	72,667
Short term lease liability	207,161	170,350
Related parties (see Note 28.A.)*	110,988	125,584
Total other short-term liabilities	1,121,909	1,097,359

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

NOTE 14 – IIA ROYALTY LIABILITY

During the years 2005 through 2012, the Company received grants from the Israel Innovation Authority ("IIA") totaling 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 $3.1 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, 2022 and 2021. Such contingent obligation has no expiration date.

As of 31 December 2022, the Company has repaid approximately $532,000 (2021: $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 $3,100,000 as at 31 December 2022 (2021: $3,000,000).

NOTE 15 – EQUITY

A. Details regarding share capital and number of shares at 31 December 2022 and at 31 December 2021 are:

Share capital:

	US dollars 31 December	
	2022	2021
Ordinary shares of NIS 0.001 par value	21,904	21,140
Total share capital	21,904	21,140

Number of shares:

	31 December	
	2022	2021
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	78,084,437	75,351,738

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 2022 was $9,952 (2021: $375,732).

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 16.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. Total net proceeds from the issuance amounted to approximately $17,800,000. 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 could have been exercised at an exercise price of £1.40 (see Note 16.C.) These options expired on 29 June 2022.

F. Shares issued during the accounting periods

During the year ended 31 December 2022, 2,732,699 (2021: 27,883,241) ordinary shares were issued, as follows:

		Number of shares issued during year ended 31 December	
	Note	**2022**	2021
Exercise of employee options	[1]	–	706,667
Issuance of ordinary shares)issued together with warrants(	[2]	–	13,149,943
Exercise of warrants	[2]	–	3,500,010
Shares issued pursuant to share subscription agreement	[3]	2,695,593	10,221,621
Expenses paid for in shares and warrants	[5]	37,106	305,000
		2,732,699	27,883,241

Notes to the Financial Statements

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

Date options exercised	a price of options	Number of shares issued during year ended 31 December 2022	2021
11 January 2021	$ 0.10	–	220,000
16 February 2021	£ 0.12	–	6,667
11 October 2021	$ 0.10	–	480,000
		–	706,667

The amount received by the Company upon the exercise of these options during the year ended 31 December 2021 was $71,113– see Note 16.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 2022 and their fair value of zero (2021: $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 2022, 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.

Notes to the Financial Statements

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	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. All of these warrants were exercised in 2020. See Note 16.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.

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 26.B.

Notes to the Financial Statements

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:

	Amount converted		
Notice date of conversion	GBP	USD	Shares Issued
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.

Activity for year ending 31 December 2022

In February 2022, the Investor signed a new share subscription with the Company, subscribing for a further $2.0 million, with a total face value of $2,060,000. In March 2022 the full $2.0 million was funded as a prepayment for the subscription shares.

The number of subscription shares to be issued is determined by dividing the face value of the subscription amount by the Settlement Price.

The Settlement Price is equal to the sum of (i) the Reference Price and (ii) the Additional Price.

The Reference Price is the average of the 3 daily volume-weighted average prices ("VWAPs") of Shares selected by the Investor during a 15 trading day period immediately prior to the date of notice of their issue, rounded down to the next one tenth of a penny. The Additional Price is equal to half of the excess of 85% of the average of the daily VWAPs of the Shares during the 3 consecutive trading days immediately prior to the date of notice of their issue over the Reference Price.

The Investor converted the following subscription amount during 2022 as follows:

Notice date of conversion	Amount converted – USD	Shares Issued
22 September 2022	320,000	2,695,593

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 2022 amounted to $74,437.

[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 the amount of $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 8. 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 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 Note 16.E.a below.

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 16.E.d and 28D.

As part of the agreed remuneration as non-Executive Chairman for the period from 10 March 2021 to 28 February 2022, Joseph Albagli is entitled to receive ordinary shares equal to a monthly amount of £1,250. On 14 April 2022 the Company issued 37,106 ordinary shares in lieu of the $20,158 owing to Joseph Albagli for the above-mentioned period. See Note 28.C.

NOTE 16 – 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

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				
	17 Feb 2022	17 Feb 2022	17 Feb 2022	23 Nov 2021	18 Mar 2021
Number of options granted	130,000	400,000	351,000	486,000	240,000
Exercise price in $	0.545	0.395	0.395	0.598*	0.461
Recipients of the options	Employees	Employees	Employees	Employees	Employees
Approximate fair value at grant date (in $):					
Total benefit	35,902	116,762	102,458	122,161	47,198
Per option benefit	0.29	0.29	0.29	0.25	0.20
Assumptions used in computing value:					
Risk-free interest rate	2.98%	2.98%	2.98%	1.67%	1.71%
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	70%	70%	70%	35%	35%
Expected term (in years)	10.0	10.0	10.0	8.7	9.4
Expensed amount recorded for year ended:					
31 December 2021	–	–	–	11,880	14,780
31 December 2022	22,477	75,322	44,277	59,309	6,603

The remaining value of these options at 31 December 2022, which have yet to be recorded as expenses, amount to $159,127 (2021: $160,991).

As some of these employees left the employ of the company prior to 31 December 2022, their options were cancelled.

* 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	
	2022	2021
Total expensed amount recorded	221,362	77,583
Total capitalised amount recorded	–	–
Total	221,362	77,583

The following tables present a summary of the status of the employee option grants by the Company as of 31 December 2022 and 2021:

	Number	Weighted average exercise price (US$)
Year ended 31 December 2022		
Balance outstanding at beginning of year	2,951,920	0.27
Granted	881,000	0.42
Exercised	–	0.10
Forfeited	(141,000)	0.36
Balance outstanding at end of the year	3,691,920	0.31
Balance exercisable at the end of the year	2,333,503	

	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	

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

Notes to the Financial Statements

The following table summarises information about employee options outstanding at 31 December 2022:

Exercise price	Outstanding at 31December 2022	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Exercisable at 31 December 2022	Weighted average remaining contractual life (years)
$0.10	1,128,920	0.5	0.10	1,128,920	0.5
$0.20	129,000	4.2	0.20	129,000	4.2
£0.12	73,000	7.6	0.16	73,000	7.6
£0.20	370,000	7.9	0.26	246,667	7.9
£0.21	140,000	7.5	0.26	105,000	7.5
£0.21	200,000	7.9	0.27	166,667	7.9
£0.29	311,000	9.1	0.39	14,250	9.1
£0.29	400,000	9.1	0.39	100,000	9.1
£0.33	175,000	7.6	0.46	43,750	7.6
£0.40	130,000	5.6	0.54	32,500	5.6
£0.45	455,000	7.6	0.60	113,750	7.6
£1.05	40,000	4.2	1.28	40,000	4.2
£1.40	30,000	4.7	1.83	30,000	4.7
£1.00	60,000	5.5	1.32	60,000	5.5
£1.00	50,000	6.6	1.25	50,000	6.6
	3,691,920			2,333,503	

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

Exercise price	Outstanding at 31December 2022	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Exercisable at 31 December 2022	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 fair value of options granted to employees was determined at 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).

C. 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. Such warrants expired on 29 June 2022.

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

a. In September 2020 the Company entered into a share subscription agreement as described in Note 15.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. Approximately $23,000 was amortised to finance expenses in 2020 with the balance of approximately $67,000 amortised in 2021.

b. 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.F.5. and 28.D.

c. Upon the successful equity raise concluded in September 2021, as described in Note 15.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 2022, none of these warrants have been exercised.

d. On 14 April 2022 the Company issued 37,106 ordinary shares to the Company's non-executive chairman in lieu of $20,158 owing as part of his agreed remuneration. See also Note 15.F.[5] and Note 28.C.

NOTE 17 – REVENUE

	US dollars Year ended 31 December	
	2022	2021
Sales	2,546,289	2,225,134
Royalties	232,805	251,953
Maintenance and support	158,330	158,333
Total revenue	2,937,424	2,635,420

NOTE 18 – RESEARCH AND DEVELOPMENT EXPENSES

	US dollars Year ended 31 December	
	2022	2021
Employee remuneration, related costs and subcontractors (*)	5,458,163	4,435,744
Maintenance of software and computers	134,651	115,149
Insurance and other expenses	57,006	31,874
Amortisation	961,380	961,380
Grant procurement expenses	7,595	6,765
Total research and development expenses	6,618,795	5,550,912
(*) Including share based compensation.	160,134	54,962

Notes to the Financial Statements

NOTE 19 – GENERAL AND ADMINISTRATIVE EXPENSES

	US dollars Year ended 31 December	
	2022	2021
Employee remuneration and related costs (*)	689,721	581,776
Professional fees	496,865	510,295
Rentals and maintenance	282,706	289,786
Depreciation	446,816	259,843
Travel expenses	8,608	173
Impairment losses of trade receivables	599,200	80,000
Total general and administrative expenses	2,523,916	1,721,873
(*) Including share based compensation.	51,627	10,750

NOTE 20 – MARKETING EXPENSES

	US dollars Year ended 31 December	
	2022	2021
Employee remuneration and related costs (*)	903,834	833,896
Marketing expenses	258,094	203,930
Travel expenses	5,606	7,079
Total marketing expenses	1,167,534	1,044,905
(*) Including share based compensation.	9,601	11,871

NOTE 21 – 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 22 – FINANCING COSTS

	US dollars Year ended 31 December	
	2022	2021
Bank fees and interest	35,150	32,147
Lease liability financial expenses	227,246	30,195
Revaluation of liability related to share subscription agreement measured at FVTPL	230,992	2,884,254
Revaluation of warrant derivative liability	–	–
Expenses allocated to issuing warrants	–	127,856
Expenses allocated to share subscription agreement	80,000	–
Total financing costs	573,388	3,074,452

NOTE 23 – FINANCING INCOME

	US dollars Year ended 31 December	
	2022	2021
Revaluation of proceeds due on account of shares (financial asset measured at FVTPL)	–	49,723
Revaluation of warrant derivative liability	1,214,993	108,723
Lease liability financial income	–	8,929
Interest received	1,507	41
Exchange rate differences, net	51,152	60,988
Total financing income	1,267,652	228,404

NOTE 24 – 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 2022, the Company has carry-forward losses for Israeli income tax purposes of approximately $31 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 2021	186,772	–	186,772
Deductions	(186,772)	–	(186,772)
Balance at 31 December 2021	–	–	–
Deductions	–	–	–
Balance at 31 December 2022	–	–	–

Notes to the Financial Statements

D. Theoretical tax reconciliation

For the years ended 31 December 2022 and 2021, 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	
	2022	2021
Loss before tax	8,002,612	9,360,295
Tax expense (benefit) at statutory rate	23%	23%
Expected tax expense (benefit) at statutory rate	(1,840,601)	(2,152,868)
Changes in taxes from permanent differences in share-based compensation	50,913	17,844
Increase in loss carryforwards – not affecting the deferred tax asset	1,789,688	2,135,024
Income tax expense	–	186,772

NOTE 25 – 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	
	2022	2021
Loss for the year attributable to ordinary shareholders	(8,002,612)	(9,360,295)

	Number of shares Year ended 31 December	
	2022	2021
Weighted average number of ordinary shares used in the computation of basic loss per ordinary share	76,013,296	67,492,412

B. As the Company has losses attributable to the ordinary shareholders, the effect on diluted loss per ordinary share is anti-dilutive and therefore the outstanding warrants and employee options have not been taken into account – see Note 16.

NOTE 26 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. Financial risk and risk management

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 the operations of the Company.

Currency basis of financial instruments

	US dollars 31 December 2022				
	NIS	GBP	Euro	US $	Total
Assets					
Cash	418,084	89,695	2,751	205,285	715,815
Trade receivables	259,368	–	–	1,039,704	1,299,072
	677,452	89,695	2,751	1,244,989	2,014,887
Liabilities					
Short term borrowings	428,935	–	–	–	428,935
Trade payables	626,256	21,909	–	137,418	785,583
Liability related to share subscription agreement	–	–	–	1,836,555	1,836,555
Non-current lease liabilities	2,505,777	–	–	–	2,505,777
	3,560,968	21,909	–	1,973,973	5,556,850
	(2,883,516)	67,786	2,751	(728,984)	(3,541,963)

	US dollars 31 December 2021				
	NIS	GBP	Euro	US $	Total
Assets					
Cash	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

Notes to the Financial Statements

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%	2022	5%	10%
Cash	(51,053)	(25,527)	510,530	25,527	51,053
Trade receivables	(25,937)	(12,968)	259,368	12,968	25,937
Short term borrowings	42,894	21,447	(428,935)	(21,447)	(42,894)
Trade payables	64,817	32,408	(648,165)	(32,408)	(64,817)
Non-current lease liabilities	250,578	125,289	(2,505,777)	(125,289)	(250,578)
Total	281,299	140,649	(2,812,979)	(140,649)	(218,299)

	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	(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

- **Credit risk**

All of the cash and cash equivalents and other short-term financial assets as of 31 December, 2022 and 2021 were deposited with one of the major banks in Israel.

Trade receivables as of 31 December 2022 and 2021 were from customers in Israel, the U.S., and Asia, which included the major customers as detailed in Note 27. 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 2022, 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 a few customers, for which a provision has been made. As at 31 December 2022, the provision for expected credit losses was $579,000 (2021: $230,000) – see Note 6 for more details.

	US dollars
Balance at 1 January 2021	150,000
Additions	80,000
Reductions	–
Balance at 31 December 2021	230,000
Additions	589,000
Reductions	(240,000)
Balance at 31 December 2022	579,000

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 2022 and 2021 were lease liabilities which are serviced monthly. The short-term borrowings at 31 December 2022 and 2021 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.

As at 31 December 2022, the Company's non-derivative financial liabilities have contractual maturities as summarized below:

	US dollars 31 December 2022			
	Within 6 months	6 to 12 months	1 to 3 years	later then 3 years
Short term borrowings	428,935	–	–	–
Trade payables	785,583	–	–	–
Other short-term liabilities	686,039	228,709	–	–
Lease liabilities	101,516	105,645	467,331	2,038,446
Total	2,002,073	334,354	467,331	2,038,446

As at 31 December 2022, the Company's derivative financial liabilities have contractual maturities as summarized below:

	US dollars 31 December 2022	
	Within 8 months	later then 8 months
Liability related to share subscription agreement	1,836,555	–
Total	1,836,555	–

Notes to the Financial Statements

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, 2022 and 2021, 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, 2022 and 2021 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 2021	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)
Recognition in asset (liability)	–	(2,000,000)	–
Liability exchanged for shares issued	–	320,000	–
Revaluation Adjustment	–	(156,555)	1,214,993
Fair Value at 31 December 2022	–	(1,836,555)	–

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 September 2020 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 at 31 December 2021, this liability had been extinguished – see Note 15.F.[3].

Pursuant to the February 2022 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 by dividing the face value of the subscription amount by the Settlement Price. The Settlement Price is equal to the sum of (i) the Reference Price and (ii) the Additional Price. The Reference Price is the average of the 3 daily volume-weighted average prices ("VWAPs") of Shares selected by the Investor during a 15 trading day period immediately prior to the date of notice of their issue, rounded down to the next one tenth of a penny. The Additional Price is equal to half of the excess of 85% of the average of the daily VWAPs of the Shares during the 3 consecutive trading days immediately prior to the date of notice of their issue over the Reference Price – see Note 15.F.[3].

Warrants liability

This liability is valued at the fair value of the £0.60 Warrants as described in detail in Note 15.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.

Notes to the Financial Statements

NOTE 27 – 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	
	2022	2021
Asia	290,800	598,858
Europe	131,000	130,000
Israel	429,954	760,559
United States	2,085,670	1,146,003
	2,937,424	2,635,420

	% Year ended 31 December	
	2022	2021
Asia	9.9%	22.7%
Europe	4.5%	4.9%
Israel	14.6%	28.9%
United States	71.0%	43.5%
	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	
	2022	2021
Customer A	58%	29%
Customer B	10%	14%
Customer C	8%	14%
Customer D	6%	12%
Customer E	5%	10%
	88%	78%

NOTE 28 – 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.

Baruch Shavit had an amount due to him for compensation originating in prior years. As at 31 December 2022, the Company owed a balance of $110,988 (2021: $125,584) to him – see Note 13.

One of the founders participated in the equity and warrant issue in September 2021 as follows – see Note 15.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 15.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

C. Remuneration of key management personal including directors for the year ended 31 December 2022

Name	Position	Salary and benefits (US dollars)	Share based compensation (US dollars)	Total (US dollars)
David Levi	Chief Executive Officer (2)	288,495	37,661	326,156
Mark Reichenberg	Chief Financial Officer (2)	201,038	3,173	204,211
Shavit Baruch	VP Research & Development (2)	276,691	37,661	314,352
Chen Saft-Feiglin (1)	Non Executive Director	18,318	–	18,318
Zohar Yinon (1)	Non Executive Director	18,806	–	18,806
Joseph Albagli (3)	Non Executive Chairman	34,582	18,532	53,114
Richard Bennett (1)(4)	Non Executive Director	13,379	–	13,379
		851,308	97,027	948,335

(1) Independent director.

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

(3) As part of the agreed compensation, monthly shares equal to the value of £1,250 are accrued. On 14 April 2022 – 37,106 shares accrued to that date have been allotted. The remaining accrued shares as of year-end have not yet been allotted.

(4) Appointed 7 April 2022.

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

Name	Position	Salary and benefits (US dollars)	Share based compensation (US dollars)	Total (US dollars)
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's 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.

Directors' equity interests in the Company as at 31 December 2022

	Shares	Options and warrants		
Name	Direct holdings	Unexercised vested options	Unvested options	Total options and warrants
David Levi	9,587,160	110,710	150,000	260,710
Shavit Baruch	5,091,667	110,710	150,000	260,710
Joseph Albagli	47,106	–	–	–
Mark Reichenberg	–	175,667	33,333	209,000
	14,725,933	397,087	333,333	730,420

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
	14,528,827	263,753	66,667	253,431	583,851

NOTE 29 – RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Lease Liabilities	Short Term Borrowings	Total
1 January 2022	3,240,071	422,633	3,662,704
Cashflow			
– Repayments	(158,849)	(493,338)	(652,187)
– Proceeds	–	527,790	527,790
Non-cash movement			
– Exchange rate differences	(368,284)	(28,150)	(396,434)
31 December 2022 (*)	2,712,938	428,935	3,141,873

(*) Including current maturities of $207,161

	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

For financial liabilities to be settled through issuance of ordinary shares see notes 15.F and 26B.

Notes to the Financial Statements

NOTE 30 – SUBSEQUENT EVENTS

1. In January and February 2023, the Company, through a placing agent, issued 23,571,430 ordinary shares and 23,571,430 warrants, at a price of £0.07 for each share and corresponding warrant, raising gross proceeds of £1.65m (approx. $2m). The warrants expire on 8 February 2025 and initially were exercisable at a price of £0.15. The warrants contain an accelerator clause, whereby should the closing mid-market price of the Company's shares equal or exceed £0.20 over consecutive 5 trading days, then the Company may serve notice on the Warrant holders to exercise their warrants within 7 calendar days, following which the un-exercised warrants will be cancelled. In May 2023, the Company reduced the exercise price of these warrants to 6p (from 15p) and the accelerator trigger may be activated based on a price of 7.5p (instead of 20p). Two of the Company's officers participated in this share placement as follows:

			Subscription details	
Officer	Position	Amount	Shares	Warrants
David Levi	Chief Executive Officer	£ 212,000	3,028,571	3,028,571
Shavit Baruch	VP Research & Development	£ 46,814	668,771	668,771
		£ 258,814	3,697,342	3,697,342

2. Concurrent with the share placement in 1. above, 573,429 warrants were issued to the placing agent. These warrants are exercisable at £0.07 and expire in January 2025.

3. In January 2023, the Company issued 2,388,771 ordinary shares in lieu of £167,214 (approx. $204K) owing for outstanding fees to service providers. These shares have a one year lock-up.

4. In February 2023, an Extraordinary General Meeting of the Company approved an increase of the Company's authorised share capital to 200,000 New Israeli Shekel, consisting of 200,000,000 ordinary shares.

5. In May 2023, the Company, through a placing agent, issued 26,116,667 ordinary shares at a price of £ 0.03 for each share, raising gross proceeds of £783,500 (approx. $975K). Two of the Company's officers participated in this share placement as follows:

		Subscription details	
Officer	Position	Amount	Shares
David Levi	Chief Executive Officer	£ 25,000	833,334
Joseph Albagli	Non Executive Chairman	£ 2,500	83,334
		£ 27,500	916,668

6. Concurrent with the share placement in 5. above, 772,500 warrants were issued to the placing agent. These warrants are exercisable at £ 0.03 and expire in May 2025.

7. In May 2023, the Investor described in Note 15.F.[3] converted an additional $230,000 into 6,629,236 ordinary shares at a conversion price of 2.8p.

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