24 June 2021

Ethernity Networks Ltd.

(Ethernity or the "Company")

Results for the Year Ended 31 December 2020 and Notice of Annual General Meeting

Ethernity Networks Ltd (AIM: ENET.L), a leading supplier of networking processing technology ported on FPGA (field programmable gate array) for virtualised networking appliances , today announces its results for the year ended 31 December 2020.

Financial Highlights

- Revenues increased by 38.0% to $1.85m (2019: 19.6% to $1.34m)

- Gross margins increased by 37.5% to $1.58m (2019: 41.6% to $1.15m)

- Gross Margin remained constant at 85.4% (2019 85.6%)

- Operating costs before amortisation of intangible assets, depreciation charges, provisions and other non-operational charges decreased by 23.0% to $5.27m (2019: 14.1% to $6.85m)

- EBITDA loss (adjusted in 2019 for R&D capitalisation) reduced by 34.2% to a loss of $3.72m (2019: $3.47m before additional capitalised R&D costs)

- Cash funds raised during the year of $3.29m

Operational 2020 and Post-period highlights

Operational Highlights

- Ethernity and TietoEVRY joint offering in February 2020, to boost 5G performance with UPF/VPP acceleration

- Further progress for the Company's 5G UPF offering in China with additional engagements

- New design contract for Ethernity flow processor technology with a North American tier-1 telecom OEM signed in April 2020

- New contract in August 2020 with existing OEM customer, based in St Petersburg, to upgrade an existing hardware platform with new FPGA-firmware

- In September 2020, signed a contract to provide an Indian telecom OEM with end-to-end system functionality including Hardware design, delivery of Cell Site Router Data plane on FPGA SoC, and complete Router Software Stack for 60Gbps and 360Gbps appliance platforms

- Order from new tier-1 North American aerospace OEM customer in November 2020 to provide ENET's Avionic Ethernet Switch firmware and software, integrated into Ethernity's (UEP) device

- Recognized as a vendor to watch in Gartner Market Trends

Post-period Highlights

- Subject to accounting and revenue recognition, revenue for first Half of 2021, is expected to be approximately $1m, 2.5 times higher than revenue in H1 20.

- Exercise and close of Warrants from the July 2020 placing

- Total funds raised by the Company from July 2020 to date, from the placing, warrants and the Share Subscription Agreement of £5.4m (~$7.3m)

- Significant interest from operators, server vendors and integrators in Ethernity's DU NIC, which embeds vRouter data plane offload that can be equipped with our own or Third party vRouter software stack, as a result of which we shipped an early version of our ACE-NIC to Tier-1 server vendors, adapted to support Fronthaul and Midhaul requirements within the DU. Progressing towards trials during H2 21, with vendors anticipating deployment in 2022

- In recognition of the innovative vRouter offering for DU, in May 2021, Ethernity's 5G DU Aggregation and vRouting on FPGA SmartNIC solution was shortlisted for a prestigious 2021 Global Mobile ("GLOMO") Award
- Production orders received for the Company's ENET Flow Processor FPGA systems-on-chip (SoCs) from an American wireless broadband solution manufacturer, for deployment by the customer of their product into the market. Total of $2m in orders received from the customer for 2021/2022

- New Patent granted in March 2021 that enables Ethernity to overcome operator issues with wireless transmission that are interrupted or slowed due to inclement weather.

- Following receipt of the Patent, the Company has introduced the the UEP-20 based bonding solution and went through different testing and interoperability with radio equipment vendors. Dependent on the vendors' success in selling their radio equipment with our UEP-20 bonding solution for currently deployed radio installations, we expect to obtain orders for current UEP-20 to connect thousands of links in the range of $800k to $1M in the next 12 months.

- Furthermore, the Company is in commercial closing legal discussions with a customer on a $930,000 contract for a customised UEP-60 solution, the majority of which will be recognised in 2022. Based on the customers estimates of deployment, this contract could generate annual revenues of up to $3.0m from 2022 onwards. The total UEP-20 and customised UEP-60 with bonding function revenue for 2022 is estimated at $2.5m.

- With the residual COVID-19 disruptions worldwide and the current exponential outbreak of COVID-19 in India and Taiwan, there remains elements of uncertainty over the timing of near-term events due to the challenges faced by our customers regarding both timing of component supply and the meeting of their own plans. This may result in the Company encountering customer driven delays in deliverables dates and revenue recognition during the 2021 which could subsequently result in the deferral of revenues from 2021 to 2022

David Levi, Chief Executive, said *"I am encouraged by our progress to date on the execution of our strategy for delivering functional acceleration coupled with virtual software appliances, and by the fact that finally the telecom cloud and NFV market has been realised and is now positioning towards mass deployment, allowing the Company to fulfil its goals. I am hopeful that the growing momentum around our 5G UPF, 5G DU and UEP based wireless backhaul Networking unit with an integrated bonding solution, will lead to the realisation of large scale growth in the coming years"*

Annual Report and Notice of AGM

The annual report and accounts for the year ended 31 December 2020 is being posted to shareholders shortly and is available on the Company's website at www.ethernitynet.com. The notice of annual general meeting, to be held at 9.00 a.m. UK time (11.00 a.m. Israel time) on 2 August 2021, will be despatched in due course and made available on the Company's website.

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About Ethernity (www.ethernitynet.com)

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

The information contained within this announcement is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

Chairman's Statement

It gives me great pleasure to present this, my first Chairman's report since my appointment as Chairman of the Board on 10 March 2021.

At the outset, I see my role as Chairman as not only ensuring that the formalities of board procedure, governance and independence are maintained. I am here to stand with and behind the Board and to mentor management in areas of executing the strategy and plans of the Company drawing on my years of industry and board leadership experience.

Since my appointment as Chairman, I have spent considerable time with the CEO David Levi and members of the Board and management so as to fully appreciate the Company strategy. I firmly believe that the direction of diversifying the Company's offering to include systems and solutions in addition to IP licensing and services is the correct strategy and this has been proven in the accomplishments and engagements attained over the past year. The continued level of engagement with more significant market players as well as progress being made to date is proof to me that the strategic direction of the Company is the right one and carries my full support.

We are progressing in achieving the desired mix of revenue streams from network solutions in addition to IP licenses and services. With the existing technology and resources available in the Company and the immense opportunities in the market for 5G deployment, I am comfortable that with the plan built and strategy in place the Company will be able to achieve its objectives of becoming a provider of advanced network solutions.

Having reviewed the past year, Ethernity has continued to develop its technology so as to become a provider of advanced network solutions to the market. In H1 2020, the Company experienced some delays in signing new contracts due to the COVID-19 situation yet managed to perform to expectations. It was anticipated that H2 2020 financial year would show a significant increase over H1 and the Company succeeded to recover and grow its revenue by approximately four times over H1 2020, increasing revenues from H1 of $359,375 to a FY 2020 revenue of $1,853,732 (FY 2019 $1,343,844) for the full year.

The Company has continued to test and develop its product both with OEMs and end-users including national telecoms operators. These initial testing phases have progressed well and the Company now anticipates that these will lead to larger scale field trials prior to eventual commercial deployments. Furthermore, there has been significant progress toward the implementation of OpenRAN, along with the continued anticipated demand for FPGA-based virtualised routing and other telecom applications. We are excited by the progress we have achieved and the inroads we are making toward meeting the Company's growth ambitions. We believe that with our available technology and by integrating additional functionality on our existing DU implementation that will result in additional savings for the telecom operators, we will maintain our edge over the other solution providers in this market.

Revenues for 2020 were $1.85m (2019 $1.34m) with a gross margin of $1.58m (2019 $1.15m) and an operating loss of $5.09m (2019 operating loss $6.74m before capitalisation of costs to Intangible Assets) respectively. This is further expanded upon in the Financial Report section of this Annual Report. The Company continues to invest significantly in planned Research and Development.

Fundraising

During the year under review the Company announced that it would need to raise additional funds so as to meet the Company's operational and development goals. These efforts were successfully achieved during the second half of the year, with funds raised via a placing in July 2020 which included the issue of warrants, the exercise and completion of which at almost 100% was concluded in May 2021. Furthermore, the Company successfully concluded a Share Subscription Agreement with the 5G Innovation Leaders Fund LLC ("5G Fund"), a U.S.-based specialist investor, in relation to the issue of new ordinary NIS 0.001 shares ("Shares"), to raise up to £3.2m.

The July 2020 placing raised £2.66m, inclusive of warrants which closed on 12 May 2021, and which included £0.62m from the Executive Directors. As of the date of this report, the Company has received via the Share Subscription Agreement £2.45m of the £3.2m as well as a further £0.26m against the initial allotment shares, being a total of £2.71m.

These fundraising efforts have significantly strengthened the financial position of the Company and leaves the Company well-resourced to meet its operational and development goals.

At the Annual General Meeting held on 14 September 2020, resolutions were approved, inter alia, granting the Directors share issuance authorities in line with other growth companies on the AIM market to provide the Company with greater flexibility and funding options.

COVID-19

The Company had previously stated that in light of the continued uncertainty on the potential impact and duration of the COVID-19 pandemic, the Board had taken certain steps to both safeguard the well-being of staff and to position the Company for the future. These steps were successfully undertaken, and the Company managed to maintain its operational capacity and deliverables during the extremely difficult time the world endured due to COVID-19. I am pleased to report that due to the exceptional efforts of both the Israeli government and the population in general, the country has all but overcome the pandemic inside of its borders and the Company managed to continue meeting its deliverables within the constraints of its customers.

Thanks

The Board is very appreciative of the considerable efforts of the CEO, the CFO, the VP R&D and all our management and staff, who work tirelessly towards the development, sales, and administrative goals of the Company. I thank them especially during these testing times for their continuing hard work and commitment to the Company.

I would further like to thank the Board for the opportunity to Chair the Company and compliment the executive management on their tireless efforts in securing the financial future and growth of the Company during a very difficult and trying 2020.

Outlook

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

Yosi Albagli

Chairman
24 June 2021

Chief Executive's Statement

Business and Market Overview

Ethernity Networks continues to operate in a market which is undergoing significant change. This includes the growing use of FPGA devices for networking appliances and the transition to disaggregated 5G and Open RAN networks which will provide higher data throughput and will utilise Cloud Native Architecture based on computer Servers and Virtualised Software. The Company's disaggregated FPGA-based products and innovative IP coupled with software appliances covers the Open RAN space from tower to core. These will all contribute to the Company to positioning itself as a key player in this market.

While during H1 2020 we continued our 5G UPF engagement with various partners, operators and OEMs we experienced a challenging period, as due to COVID-19 our planned fund raise in Q1 was delayed. Furthermore customers delays in their procurement and project plans resulted in a need for a fundraise which was completed in July 2020 with significant support from the Company's Directors. This, together with a Share Subscription Agreement with 5G Innovation Leaders Fund LLC (5G Fund) in September and the additional warrants from the July placement resulted in a significant boost to the Company's cash reserves, ending the 2020 year with sufficient cash reserves for 2021. Subsequently during H1 21 additional funds were received from both the warrants relating to the July placement and the share Subscription facility to further support our growth plan.

Subsequent to the delays experienced in H1 20, we recovered well during second half of 2020 and grew the revenue by approximately four times over H1 20 and over the same period in 2019. A notable contract during H2 was a contract with an Indian OEM that licensed our UEP-60 (60Gbps) and UEP-300 (300Gbps) design including hardware design, the ENET Flow Processor FPGA firmware and Routing Software Stack for 60Gbps and 300Gbs Cell Site Router. Upon deployment of the products this will further result in recurring revenues from both FPGA SoC and the software, however with the current COVID-19 situation in India we anticipate a number of months delay in the fabrication of the licenses based products. The Company will propose the UEP-60 and the UEP-300 as customised version to global vendors which is planned to serve as one of our growth engines over the forthcoming years, to be positioned as differentiated Cell Site Gateway with various FPGA loads for Fronthaul, Midhaul (CU to DU) and Backhaul (bonding).

UPF is the User Plane Functions element on the 5G core, and this market is classified as Virtual Evolve Packet Core (vEPC) that combines control software and data plane handling, where data plane handling is managed by the UPF element. The global virtualised Evolved Packet Core (vEPC) market is priced on a per subscriber licenses/service and therefore is expected to grow from USD 3.9 billion in 2020 to USD 13.7 billion by 2026,

https://www.prnewswire.com/news-releases/global-virtualized-evolved-packet-core-vepc-market-2020-2027-us-market-is-estimated-at-1-2-billion-while-china-is-forecast-to-grow-at-44-1-cagr-301266800.html

Ethernity currently proposes its ACE-NIC100 as a functional acceleration card for UPF software, however in collaboration with TietoEVRY we plan to propose a joint offering that will include the UPF software element that allows us to supply into a larger market for Private 5G market and IoT.

During 2020 we continued our 5G UPF solution engagements with operators, OEMs and partners based on the ACE-NIC100 Functional Acceleration Card, and we are currently in progress towards field trials for end of 2021 and plan for deployment during 2022. Our 5G UPF offering employs the ACE-NIC100 to offload User Plane traffic forwarding from the CPU resulting in reductions of latency, power and cost.

Furthermore, in Q4 20 we introduced our DU NIC offering that runs in complete R&D synergy to our activities related to the Cell site router appliances (UEP-60 and UEP-300), that over and above the Fronthaul aggregation and timing synchronisation technology offers notable and innovative solution that can offload vRouter functions from the server, reducing the need for external Cell site Router, and allows the building of a complete Cloud native offering. This offering was nominated as one of 4 nominees at the 2021 GLOMO Awards (Global Mobile Awards) under the category *Best Mobile and Network Breakthrough product of the year* on 24 May 2021. A recent report published and as highlighted in our Blog *https://ethernitynet.com/market-for-dus-in-openran/* calls for 1 million DUs in use by 2024 (excluding China), representing an average 400,000 DUs per year during 2023/24. In this market Ethernity is positioned as a differentiated and innovative offering with integrated routing and security offload that utilises our existing IP.

Resulting from the market's intentions for 5G NFV based deployment and OpenRAN along with the Company's growing engagements with server vendors, integrators, operators and OEMs for our ACE-NIC family that embeds a Router-on-NIC implementation, the Company has continued and is now focussing its efforts on the ACE-NIC offering and other appliances based on the ACE-NIC, various FPGA firmware and software stack, with the intention being to capture a greater market share of the upcoming 5G market.

Current Trading

During H1 2021 our activities have progressed in multiple domains:

- Subject to accounting and revenue recognition, revenue for first Half of 2021, is expected to be approximately $1m that is 2.5 times more than revenue in H1 2020.
- With Xilinx who supply the FPGA device used by Ethernity along with procurement from other sources, we have succeeded to secure supply for the majority of FPGA's required for 2021 so as to fulfill our FPGA SoC orders.
- Following on from our market update of 2 December 2020, we received a $400,000 order for our ENET FPGA SoC for Point to multi point fixed wireless platforms. Further to this order the Company has received further orders resulting in total orders received to date of $2m, with $740,000 to be delivered during 2021 and the balance of $1.26m in 2021. We are hopeful these orders will increase with further engagements through the product deployment and introduction.
- **UPF:**
  - Ethernity continues to progress on the collaboration with TietoEVRY in bringing a joint UPF offering that includes a UPF software and acceleration card as a complete UPF product to serve the 5G Private Networks.
  - Ethernity is currently engaged with an Asian service provider that has completed integration of our ACE-NIC with their UPF data plane and who now plans larger field trials during Q4 21 with deployment expected during 2022.
  - Chinese open UPF testing for private 5G market is planned for Q4 21 through our OEM customers that integrated their UPF software and the ACE-NIC100, with anticipated deployment during 2022.
- **Distribution Unit** : Our DU NIC that embeds vRouter data plane offload that can be equipped with our own routing software stack, gained significant interest from operators, server vendors and integrators and as a result we shipped an early version of our ACE-NIC adapted to support Fronthaul and Midhaul requirements within the DU, progressing towards trials during H2-21 who anticipate deployment in 2022. Such recognition resulted in with the understanding by the market that Ethernity provides an offering for the Open RAN that will result in a seamless cloud native deployment for Open RAN versus current offerings in the market that are based on physical Cell Site Router
- **Virtual Router**: The Company is collaborating with a Tier1 Networking vendor on a joint offering that will include their well-known Cloud native virtual router software package and our ACE-NIC100, that will offload the router data plane. Within the framework of the collaboration, Ethernity will benefit from the inclusion in their substantial market position that they hold with system integrators and service providers.
- The Company was granted a Patent for wireless bonding. Practically, this patent enables Ethernity to overcome operator issues with wireless transmission that are interrupted or slowed due to inclement weather. The primary applications for this patent are SD-WAN and wireless backhaul deployments.
- Following the introduction of the UEP-20 based bonding solution the Company went through different testing and interoperability with radio equipment vendors, and dependent on the vendors' success in selling their radio equipment with our UEP-20 bonding solution for currently deployed radio installations, we expect to obtain orders for current UEP-20 to connect thousands of links in the range of $800k to $1M in the next 12 months.
- Furthermore the Company is in commercial closing legal discussions with a customer on a $930,000 contract for a customised UEP-60 solution, the majority of which will be recognised in 2022. Based on the customers estimates of deployment, this contract could generate annual revenues of up to $3.0m from 2022 onwards. The total UEP-20 and customised UEP-60 with bonding function revenue for 2022 is estimated at $2.5m.
- We are also in discussions relating to various other UEP customised offerings and further licensing for our Software and firmware.

Outlook

As detailed, NFV deployment is now here to stay and will become the norm as 5G networks will be based on NFV and virtualisation technologies, with a need to support extensive performances. With the new virtualisation concept that has finally been accepted and adopted by the market, 5G will supply 10 times more in throughput than 4G and alongside the virtualisation concept functionality acceleration card as provided by Ethernity, this will be a key element in the 5G network.

The Company revenue during 2021 and 2022 will be derived from mixture of sales of FPGA SoC embedding our ENET flow processor firmware, routing software stack, customised UEP offerings, and the FPGA Smart NIC solution for UPF and DU, with anticipated contracts during 2021, leading to confirmed orders for 2022.

Our DU and UEP offerings are offerings of combined hardware (or FPGA Firmware) that will be equipped with our routing software stack, of which the first version is schedule for release by Q3 21 followed by an advanced version planned for 2022. The Company anticipates that as soon as the Company completes the development of the routing software stack integration, orders for customised UEP routing platforms together with vRouter offload and DU based FPGA Smart NIC (ACE-NIC) offerings for deployment into cloud native environments, Open RAN and 5G core will increase in exponentially.

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

I am encouraged by the fact that finally the telecom cloud and NFV market has been realised and is now positioning towards mass deployment, allowing the Company to fulfil its goal. I am hopeful that the growing momentum around our 5G UPF, 5G DU, UEP based wireless backhaul networking unit with an integrated bonding solution will lead to the realisation of large scale growth in the coming years.

Considering the worldwide components shortage issue that albeit has been currently resolved for the Company, along with the residual COVID-19 disruptions worldwide and the current exponential outbreak of COVID-19 in India and Taiwan, there remains elements of uncertainty over the timing of near-term events due to the challenges faced by our customers regarding both timing of component supply and the meeting of their own plans. We recognise that this may result in the Company encountering customer driven delays in deliverables dates and revenue recognition during 2021 which could subsequently result in the deferral of revenues from 2021 to 2022. However, this is not expected to affect our high-level growth plans and further investment in R&D. Furthermore as highlighted above we anticipate securing orders for 2022, and along with the 2021 carry over, will result in achieving the planned growth for 2022 from the current existing customer base and that the market evolution, uptake and deployments as have been long anticipated will now be realised from the latter half of this year and the long anticipated and expected growth will now come to fruition.

David Levi
Chief Executive Officer
24 June 2021

Strategic Review

The industry's 5G mobile network deployment plans for 2021 is constructed using the underlying principles of Network Function Virtualisation (NFV), Software Defined Networks (SDN) and Edge Computing resulting in 5G ultimately being a flexible, programmable, and distributed cloud network.

We live in an age of massive demand for data. Today's devices and associated applications, whether streaming media, online gaming, online storage for data backup, remote surgery, or artificial intelligence demand far greater throughput than today's networks can provide, and they also require that the data be served with high availability, security, and reliability. To meet the ever-increasing application needs, operators have begun using Edge Computing to locate the content closer to the end users and performing faster security authorisations with SDN/NFV technology that, when coupled with infrastructure improvements, allows delivery of 10 to 100 times more throughput.

NFV is part of a larger trend known as disaggregation, which has enabled the industry to move toward agile networks. Whereas once the standard was for networks to rely on ASIC (application-specific integrated circuit) based monolithic hardware appliances that bundled proprietary software into a vendor-locked device and integrated only with other offerings from that vendor, disaggregation has changed the paradigm to overcome such limitations.

Thanks to the use of X86 as a standard platform for server hardware, today's networks can disaggregate software applications from the underlying hardware bare metal server. Software-based functions run on top of CPUs inside standard servers from any of several different vendors, and open stacks that are used to communicate between virtual machines for application and service chaining dictate the overall appliance functionality that runs on the server.

Disaggregation within the data centre provides the flexibility to choose a software vendor separately from the choice of a hardware server platform, moving the industry away from monolithic ASIC-based appliances. It ensures that the resulting appliance is futureproof because the software can be upgraded or replaced without needing to replace the hardware that hosts it.

FPGAs are the natural hardware solution for NFV, as they are flexible, quick to market, efficient, scalable, and comes with different size options to serve different markets and solutions. FPGA platforms are being widely deployed in automotive, aerospace, industrial, storage, and networking systems.

Gartner's February 2020 research report entitled "Market Trends: Function Accelerator Cards Disrupting Traditional Ethernet Adapter Market" defines Function Accelerator Cards (FACs) as "a class of network interface hardware that help improve and accelerate server availability, bandwidth performance and data transport efficiency in a network, besides enabling connectivity to a network. While all FACs are essentially NICs, not all NICs are FACs." The report also defines the size of the market, by claiming that "by 2023, we estimate that one in three NICs (network interface cards) shipped will be a FAC," and further adds that "as 5G adoption also starts to grow, FACs will also be handy at the edge for offloading NFV functions. Product leaders at semiconductor providers must, therefore, optimise their NIC hardware for capabilities to support such use cases and redraw their product roadmaps for traditional NICs to include FAC functionalities."

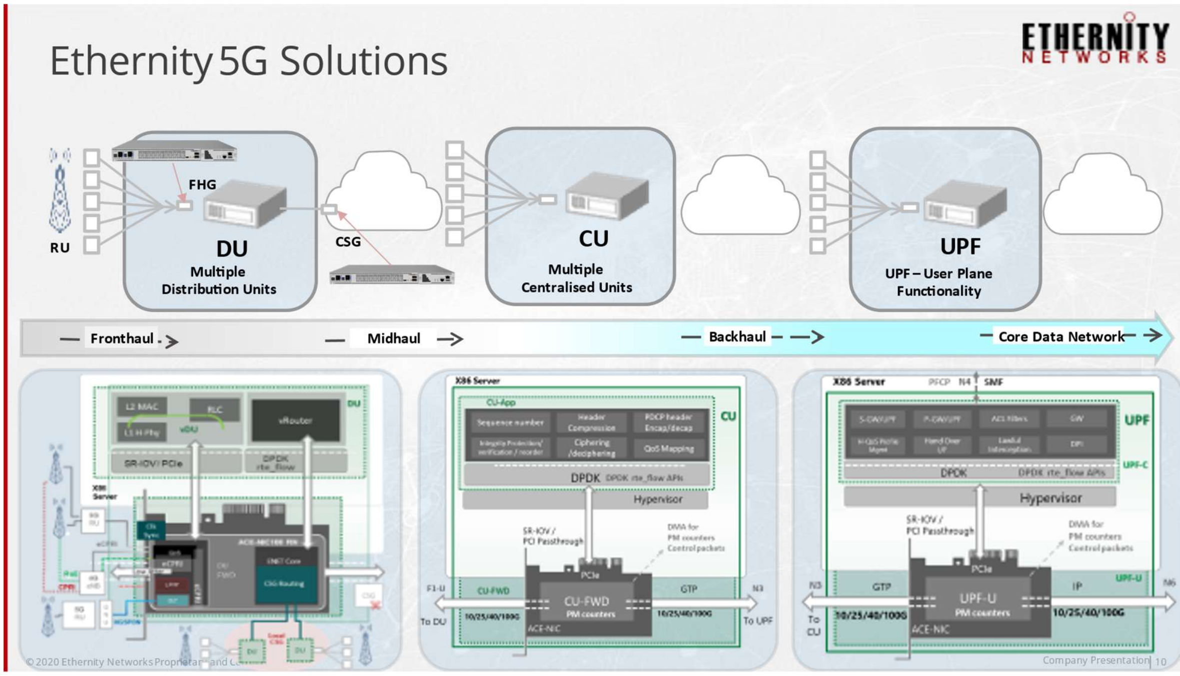
Ethernity's FAC delivers the FPGA SmartNIC hardware, the functional acceleration FPGA firmware code, DPDK APIs to allow connectivity to any virtual network function (VNF) for acceleration, and control software supporting the majority of today's L2/L3 network control protocols operating seamlessly on top of the FPGA data plane code.

FPGA SmartNICs are often considered as high-end and expensive compared to SmartNICs that are based on multicore programmable ASICs, but Ethernity's approach to the SmartNIC market enables the use of FPGA SmartNICs at the same price point of ASIC-based multicore devices such as those offered by Mellanox and Broadcom. The goal is to change the paradigm and to allow FPGA SmartNICs to capture larger market share compared to ASIC-based SmartNIC offerings.

While there are other FPGA SmartNIC providers, most only provide the physical hardware FPGA card coupled with a piece of FPGA reference design code. Others provide solutions specifically for data centres, focusing on flow classification and load balancing. Ethernity is actually the only vendor today that provides a complete network processing for implementation of router and security engine on FPGA (versus an ASIC offering), as well as offering a complete Router-on-NIC for FPGA SmartNIC that can operate with control software. Such an offering is uniquely positioned far beyond the functionality provided by general-purpose multicore programmable ASIC-based SmartNICs by providing complete router data plane functionality coupled with other unique data processing elements on top of the general SmartNIC functions.

Ethernity's 5G offering.

The Networking and security FPGA IP that the Company holds well serves the entire 5G network from the tower to the core of the network, including offerings for different gateway appliances together with offerings for DU, CU and UPF as highlighted in the diagram below.



The depth of Ethernity's IP for the 5G market presents an outstanding technology offering for the 5G User data traffic processing, allowing the Company to provide solutions for special deployment scenarios that will result in significant added value for the service provider.

Following the execution of the UPF offering the Company progressed with an offering for a 5G Distribution Unit (DU) in conjunction with the UEP based offering for customised Cell Site Router

The UPF and CU Smart NIC offering can operate well in conjunction with FPGA offering, however the standard DU NIC business is served by different semiconductor company offerings such as Intel, NVIDIA and others, as currently the OpenRAN service providers it represents provides a large enough volume business for ASICs. ASIC based NIC cards are offered by the said semiconductors vendors or vendors that manufacture NIC cards based on the said ASICs. To cope with the limited functionality offered on off the shelf ASICs, Ethernity positioned its DU FPGA NIC offering as a differentiated offering, through the introduction of the embedded router data plane to offload vRouter and distributed CU security offload, together with the other features that are included on standard ASICs, allowing us to serve this large market with a differentiated offering and higher margin based FPGA. In addition, our Sync and timing Technology today offers superior performance versus that which is proposed by the standard ASIC based offering. The result is that we may also see business opportunities for our DU NIC card without routing. For this such configuration offering we intend on collaborating with the FPGA vendors in a joint go-to-market plan which will allow us to meet the target price versus cheaper ASIC offerings, but with excellence of DU offload and the Sync/timing solution.

The DU market will be served by Ethernity in one or all of the following business models:

1. Sell the Company's proprietary ACE-NIC FPGA NIC hardware (and future generations), that will embed the Company's IP and software stack, which may result in the Company requiring additional working capital to fund the manufacturing process for large volumes.
2. For high volume NIC deployments such as DU market as indicated above, the Company will seek to build a disaggregate business where hardware will be delivered directly to the customer through a 3rd party FPGA vendor and the Company will sell the software, allowing reduced costs for the customer and the ability to propose a joint competitive offering to the customer.
3. Subsequent to obtaining a large enough market share, given that the Company holds a complete ownership over the code running on the FPGA without any dependency on 3rd parties, the Company may consider converting the FPGA design to an ASIC with the intention of entering and capturing a larger market segment at higher margins.

In summary the unique positioning of Ethernity Networks as a leading innovator of software-defined network processing and security solutions on programmable hardware, that will include a complete Virtual Networking Function software control stack, will uniquely position the Company to serve the network disaggregation market. This will be achieved due to offering accelerated performance software based solutions for the server, utilising our UEP and FPGA NIC as the hardware platform for the innovative software and firmware solution.

With this strategy, the progress achieved to date together with the recent increases in customer interest in and acceptance of our complete UPF, DU equipped with vRouter Offload and our Router software stack, I firmly believe that the direction undertaken of diversifying the Company's offerings to include systems and solutions in addition to IP licensing and services is the correct strategy, and this has been proven in the accomplishments and engagements achieved during the past year.

Financial Review

Financial Performance

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

Obviously, as with most companies worldwide, the onset of the COVID-19 pandemic created a new set of challenges, not only within the management of the Company, but in aligning ourselves with the issues within the markets in which we operate and our customers goals. I am pleased to report that the Company managed to achieve its expectations and weather the Covid storm albeit contracts were delayed or put on hold by customers. Fortunately in Israel due to the quick government and social reaction we managed to focus on our projects with minimal upheaval, both to our operational capabilities and remaining deliverables.

The Company reported on 26 June 2020 that in light of the change in status of various engagements and funding expectations, the Company would need to secure additional short-term funding in the latter half of H2 2020 either via short term finance arrangements or an additional issue of equity. Subsequent to this we successfully raised funding through a placing, including warrants, and the entering into a Share Subscription Agreement with the 5G Innovation Leaders Fund LLC to raise up to £3.2m. The effect of these financial transactions are further addressed under the "Balance Sheet" section within this review below.

Highlights

- Revenues increased by 38.0% to $1.85m (2019: 19.6% to $1.34m)
- Gross margins increased by 37.5% to $1.58m (2019: 41.6% to $1.15m)
- Gross Margin remained constant at 85.4% (2019 85.6%)
- Operating costs before amortisation of intangible assets, depreciation charges, provisions and other non-operational charges decreased by 23.0% to $5.27m (2019: 14.1% to $6.85m)
- EBITDA Loss (adjusted in 2019 for R&D capitalisation) reduced by 34.2% to a loss of $3.72m (2019: $3.47m before additional capitalised R&D costs)
- Cash funds raised during the year of $3.3m

Key financial results

Recognition of Research and Development Costs.

In line with the change in policy adopted by the Company from 1 July 2019 the Company has continued the policy of no longer continuing recognising the costs as an intangible asset but rather recognising these as an expense and charged against income in the year incurred. The Company may at some future point once again elect to recognise the Research and Development costs as an intangible asset in terms of the principles outlined under IAS 38.

Furthermore, as reported in 2019, an independent Fair Value report was commissioned by the management to support the management assertion that the underlying value of the intangible asset exceeded the carrying value on the balance sheet. This was undertaken by Somekh Chaikin KPMG (an Israeli member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative) and the report concluded and supported the management assertion that no impairment of the intangible asset on the Balance Sheet is required, which assertion the management continue to support.

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.

The EBITDA for the year under review for the financial year ended 31 December 2020 would be presented as follows:

	US Dollar	
	For the year ended 31 December	
	2020	2019
Revenues	**1,853,732**	**1,343,844**
Gross Margin as presented	1,582,279	1,150,832
Gross Margin %	*85.36%*	*85.64%*
Operating (Loss) Profit as presented	**(5,088,929)**	**(4,542,773)**
Add R&D Expenses taken to Intangible Asset 2019		(2,193,408)
Adjusted Operating Loss	**(5,088,929)**	**(6,736,181)**
Adjusted for:		
Add back Amortisation of Intangible Assets	952,606	743,752
Add back Share based compensation charges	18,209	69,654
Add back vacation accrual charges	81,732	(14,454)
Add back depreciation charges on fixed assets	156,011	151,977
Add IFRS operating leases depreciation	155,862	122,729
EBITDA	**(3,724,509)**	**(5,662,523)**

The EBITDA losses reduced significantly during the 2020 year. The R&D operational costs component in 2019 was $2,855,896 after taking into account the half year capitalisation of $2,193,408 to the Intangible Asset. When removing the effect of this amount in 2019, the R&D operating costs would have been $5,049,308 as compared to $4,037,904 for 2020. Removing the amortisation of the Intangible Asset, these costs would have been $4,314,552 in 2019 and $3,085,298 in 2020. This is indicated in the improvement in cash based operational costs within the operations of the Company, which included the prompt cash conservation measures taken by management in early 2020 in response to the COVID-19 pandemic outbreak.

These EBITDA losses will continue to decrease as the future revenues increase, albeit there are anticipated increases in both R&D resource costs and the renewal of marketing activities that were halted due to COVID-19 and the ban on international travel.

Summarised trading results

	US Dollar	
	Audited	
	For the year ended 31 December	
	2020	2019
Revenues	**1,853,732**	**1,343,844**
Gross Margin	**1,582,279**	**1,150,832**
Gross Margin %	*85.36%*	*85.64%*
Operating (Loss) Profit	**-5,088,929**	**-4,542,773**
Financing costs	-1,462,740	-93,584
Financing income (expenses)	298,016	88,325
(Loss) Profit before tax	-6,253,653	-4,548,032
Tax benefit (reversal of previous deferred tax benefit)		-613,228
Net comprehensive (loss) income for the year	**-6,253,653**	**-5,161,260**
Basic and Diluted earnings per ordinary share	**-0.17**	**-0.16**

Weighted average number of ordinary shares for basic earnings per share	**36,590,988**	**32,556,686**

Revenue Analysis

Revenues for the twelve months ended 31 December 2020 increased by 38.0% to $1.854m (2019: $1.344m). This result is a positive reflection of the upward trend anticipated due to the increased customer engagements.

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

Margins

Gross margins remained above the 60%-70% levels that the Company models its forecasts on, with the 2020 gross margin being 85.4% as compared to 85.6% in 2019. As always, the gross margin will vary according to the revenue mix as Royalty and Design Win revenues generally achieve an approximate 100% gross margin before any sales commissions are accounted for.

As the revenue mix as noted above evolves, this will have a downward pressure on gross margins as revenues from ~100% margin sources become less prominent in the mix, being replaced by cost active product sales.

Operating Costs and Research & Development Costs

As noted above, during the latter half of 2019, the Company revised its treatment of capitalising its Research and Development. After adjusting for the capitalised Research and Development Costs amortisation costs of the Development Intangible asset, Depreciation and Share Based Compensation adjustments the resultant increases (decreases) in Operating costs, as adjusted would have been:

	31 December 2020 **US$**	**31 December 2019** **US$**	**Increase (Decrease)** **US$**	**%**
Research and Development Costs including capitalised costs, net of amortisation, Share Based Compensation and Vacation accruals	3,049,659	4,289,690	(1,240,031)	(28.91%)
General and Administrative expenses, net of depreciation, Share Based Compensation, Vacation accruals, impairments.	1,170,082	1,122,577	47,505	4.23%
Marketing expenses, net of Share Based Compensation and Vacation accruals.	1,052,382	1,433,405	(381,023)	(26.58%)
Total	5,272,123	6,845,672	(1,573,549)	(22.99%)

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

Research and Development costs before amounts charged to income for the amortisation of the capitalised Research and Development intangible asset, the overall comparable costs against 2019 reduced significantly by $1,240,031. This reduction came from the payroll reduction costs as a result of the COVID-19 measures put in place by the Company.

The increase in General and Administrative costs over 2019 amounted to approximately 4.2% or $47,505. Overall there were operational savings achieved of approximately $91,000, however these savings were significantly offset due to the increased fees incurred on the fundraising and investor relations costs, resulting in a net increase of $47,505. By the very nature of expenditure accounted for under the General and Administrative costs there was very little scope for further savings due to the fixed nature of such expenses.

Sales and Marketing costs declined significantly over the previous year primarily due to the impact of COVID-19 on the payroll and the cessation of almost all travel and marketing events. The resulting effect of this was a reduction of payroll and related costs of approximately $327,000 and reductions in travel and conference costs of approximately $134,000. The total costs reduced by 24.5% equating to a reduction of approximately $352,110 for the year as compared to the previous year.

Financing Costs

The significant increase in financing costs has come about due to the two equity events referred to below and under the section "Balance Sheet".

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

Referring to the two fundraise deals the Company completed during the year of 2020 being;

a. Issuance of the Share and Warrants bundle (Peterhouse Capital Limited)

b. Share Subscription Agreement (5G Innovation Leaders Fund)

It has been determined that in terms of IFRS-9, both 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 both cases the equity differential based on allotment price and fair value at time of allotment charges to the income statement.

The liability in respect of deal a. above represents the outstanding 30p Warrants which had not been exercised as of 31 December 2020.

The liability in respect of deal b. represents the cash advances the Company has received during 2020 and as of 31 December 2020 still has not allotted shares against the advances in settlement of the debt.

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

The Finance income is the mirror image to the above and relates to the 880,000 "Allotment Shares" the Company issued in advance as part of the Share Subscription Agreement, the cash payment for which the Company was due to receive at a date subsequent to the actual allotment date of the shares, up to and including the final date of the Agreement. The increase in value of the asset, being the increase in the value of the Allotment Shares at the time of allotment versus the value at 31 December 2020 is recognised as finance income in the Income Statement.

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

Financing expenses for the Year 2020		
5G Innovation Leaders Fund		
The Company has received two tranches in 2020 as part of the deal, £500K (first tranche) and £400K (second tranche). The below expenses are split between the two tranches as well as general expenses which relate to the entire funding deal.		
First Tranche	$ 60,951	Face value premium of £47,000 for first tranche (£500K).
	$ 219,334	Upon share allotment of 1,184,834 shares, the Company adjusted liability which was extinguished to Fair Value right before allotment. The adjustment portion is recognised as finance expenses.

Financing expenses for the Year 2020		
	$ 118,496	Upon share allotment of 826,087 shares, the Company adjusted liability which was extinguished to Fair Value right before allotment. The adjustment portion is recognised as finance expenses.
	$ 19,130	Remaining liability from first tranche as of Year End has been adjusted to Fair Value, the adjustment is recognised as finance expenses.
Second Tranche	$ 51,911	Face value premium of £38,000 for second tranche (£400K)
	$ 78,308	Liability from second tranche as of Year End has been adjusted to Fair Value, the adjustment is recognised as finance expenses.
Entire Deal	$ 23,292	Initial finance fees for entire deal of $90K are being amortising throughout the entire deal term. In 2020 the company expensed 25.88% of the $90K Prepaid Finance Expenses to finance expenses
Total 5G Fund	**$ 571,422**	
Peterhouse Capital	$ 8,386	Recording a portion of initial fundraise expenses (prorated a portion which relates to the Warrants and not the shares, as those need to be recognised in the Income Statement)
	$ 576,068	The liability in respect of the **20p** warrants was adjusted to Fair Value right before the exercise which took place in December 2020. This adjustment portion is recognised as a finance expense.
	$ 267,976	Revaluing **30p** warrants liability as of 31 December 2020 to fair value. The adjustment is recorded as finance expenses.
Total Peterhouse	**$ 852,430**	
Financing Income for the Year 2020		
5G Innovation Leaders Fund	**$ 105,400**	Recording adjustment to cash due for 880,000 shares, valued at 25.10p per share which is the conversion price at Year End. Asset is worth more at year end then it was on allotment, and therefore the increase in value is recorded as finance income

Operating Loss and Net Comprehensive Loss for the Year

After taking the above into account along with discontinuing the capitalisation of Research and Development costs from 1 July 2019, the Operating Loss for the year was in line with expectations, with the operating loss in 2020 of $5,088,929 in comparison to the loss of $4,542,773 in 2019 (2019 $6,736,181 before recognition of R&D costs as an Intangible Asset).

Balance Sheet

Post the announcement of 26 June 2020 wherein the Company stated that the Company will need to secure additional short term funding in the latter half of H2 2020 either via short term finance arrangements or an additional issue of equity, the Company succeeded to raise funds via two equity deals, being:

- In July 2020 a Placing and Subscription raising:
  a. Placing and Subscription to raise £780,000 along with a further £100,000 via a Broker Option through the issue of new Ordinary Shares. This included strong support of Directors and staff with participation for £240,000 in the Subscription, and

b. Investors received warrants on a 1 for 1 basis, exercisable at 20p and 30p.

- On 25 September the Company entered into a Share Subscription Agreement with 5G Innovation Leaders Fund LLC ("5G Fund"), a U.S.-based specialist investor, in relation to the issue of new ordinary NIS 0.001 shares ("Shares"), to raise up to £3,200,000.

To date, the Company raised in total from the Placing and Subscription in July £2,66m, all of which closed on 12 May 2021 from the initial issue of shares and the exercising of the related Warrants, which included £616,667 from the Directors. As of the date of this report, the Company has received via the 5G Fund £2,450,000 of the £3,200,000 as well as a further £256,766 against the initial allotment shares, being a total of £2,706,766.

These fundraising efforts have significantly strengthened the financial position of the Company.

Summary of Fundraising

At year end, the resultant assets and liabilities relating to these transactions are:

Asset as of 31 December 2020			
5G Innovation Leaders Fund	$	301,658	Recording Fair Values at Year-end for 880,000 shares issued to 5G. Equity valued at 36.05p market price. Cash due for shares, valued at 25.10p per share which is the conversion price at Year End.
	$	66,709	Initial finance fees for entire deal of $90K are being amortising throughout the entire deal term. In 2020 The company expensed 25.88% of the $90K Prepaid Finance Expenses to finance expenses, the remaining 74.12% is an asset at Year end
	$	**368,367**	
Liability as of 31 December 2020			
5G Innovation Leaders Fund	$	165,299	Liability to 5G represents the first tranche of £500K less the shares allotted against it by year end. Liability has been revaluated at Fair Value due to the difference between market price and conversion price at Year End.
	$	676,645	Liability to 5G represents the second tranche of £400K, revaluated at fair value due to the difference between market price and conversion price at Year End.
	$	**841,944**	
Peterhouse Capital	**$**	**286,253**	Represents liability of outstanding 30p Warrants less cancelled Warrants. (Warrants were exercised in 2021)

The balance sheet quick and current ratios of the Company for 2020, excluding the "liabilities" relating to the Share Subscription Agreement and Warrants, remain sound at 1.90 and 1.81 respectively (2019 1.88 and 1.81 respectively).

The net cash utilised and cash reserves are carefully monitored by the Board, who continue to assess, that subject to action to reduce and carefully manage cash, cash resources remain sufficient to meet the current and future adjusted planned requirements. This monitoring and ongoing evaluation was significantly prevalent during the year under review due to the COVID-19 pandemic, whereby the Company implemented immediate plans to reduce and manage cash consumption during the year. Cash utilised in operating activities for the year is $3,594,827 (2019 $3,330,637), the increase in consumption being mainly related to the increase in trade receivables. Gross cash reserves remained positive at $2,180,726 including financial instruments as of 31 December 2020, (2019 $3,670,745), which reserves had been substantially bolstered from a low of $540,000 in June 2020 during the second half of 2020 due to the equity transactions. The reserves were further bolstered during the first half of 2021 due to further investments received from the exercise of the 30p Warrants and Share Subscription Agreement outlined earlier in this report. Cash reserves were in line with forecast outcomes after taking into account the funds raised.

Short term borrowings of $411,726 (2019 $1,012,731) arose mainly from trade financing facilities raised during 2020 via the Company's bankers. This is a "rolling facility" and utilised by the Company on specific customer transactions only.

The Intangible Asset on the Balance Sheet at a carrying value of $7,385,560 (2019 $8,436,010) 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. In 2019, the Company undertook a third party assessment by Somekh Chaikin KPMG (an Israeli member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative) to assess the fair value of the Intangible Asset. Management reviewed the fair value as of 31 December 2020 giving due consideration to the changes in the business over the past 12 months, including inter-alia increased activities, signed contracts, collaborations, the growing acceptance of the Company in the markets in which it operates, along with the increases in cash resources and anticipated future revenues. Considering these factors and giving credence to both IFRS guidance and IAS 36 management are in their view, satisfied with the fair value of this Intangible Asset (approximately $27m - see Note 9 of the 2019 Annual Financial Statements), and that the fair value substantially exceeds the carrying value of the Intangible Asset on the balance sheet, and there is no requirement for any further impairments.

COVID-19 Impact and Going Concern

Currently, with the impact of COVID-19 in Israel having being reduced significantly the Company has resumed its planned strategies including the enhancement of the development resources. We remain acutely aware of the COVID-19 situation in the geographies that we trade and have development engagements, specifically in India and Taiwan, and as such realise the risk of an impact in delays in the timing of revenues as well as delays in supplies not only to the Company but its customers, whose product deployment could be materially impacted. Without modifying their opinion, the auditors make reference to the existence of a material uncertainty in relation to going concern within the audit report, drawing attention to Note 2 of the Audited Financial Statements enclosed in this Annual report.

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 of this Annual Report.

Mark Reichenberg
Chief Financial Officer
24 June 2021

Board of Directors

Joseph (Yosi) Albagli (Non-Executive Chairman)

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

David Levi (Chief Executive Officer)

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

Mark Reichenberg CA(SA) (Chief Financial Officer)

Mark is a qualified Chartered Accountant from South Africa. Previously Mark held the position of VP Business Development and Corporate Affairs Officer of the Magnolia Silver Jewellery Group Limited, was the CFO of GLV International Ltd, and prior to that, held the position of Group Financial Director of Total Client Services Ltd, a company listed on the Johannesburg Stock Exchange. Mark has held various senior financial director positions in retail, wholesale and logistics. Mark holds a B. Acc degree from the University of the Witwatersrand (WITS) in South Africa.

Shavit Baruch (VP Research and Development)

Shavit has over 25 years of experience in the telecom and datacom industry, with vast technical experience in ATM, Ethernet and SONET/SDH, both at 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.

Neil Rafferty (Independent Non-Executive Director)

Neil has over 30 years of experience in the telecoms and technology sectors holding a variety of senior executive positions with AT&T, Global One and Cisco Systems. He has run businesses in Switzerland and The Netherlands and was CEO of Easynet plc (listed on the London Stock Exchange until it was acquired). Latterly he has been advising companies across a variety of sectors helping them implement growth strategies as well as sitting on a number of Boards. Neil holds a BA (Hons) degree from Newcastle Polytechnic.

Chen Saft-Feiglin (Independent Non-Executive Director)

Chen is a lawyer and notary admitted in Israel with more than 25 years of experience in commercial law, insolvency and recovery procedures, as well as many years of experience as a business and family mediator and family business consultant. Chen is the founder and owner of Chen Saft, People, Processes and Enterprises, providing consulting services for family firms and enterprises, mediation in commercial disputes, and divorce mediation. Previously, Chen was a partner at Saft Walsh Law Offices, a niche law practice handling corporate, M&A, insolvency, private client work and general representation of foreign clients (private and corporate) in Israel. Chen holds an LLB from Bar Ilan University and an MBA majoring in business and managerial psychology from the College of Management Academic Studies. Chen served as a Lieutenant in the Israel Defense Forces.

Zohar Yinon (Independent Non-Executive Director)

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

Corporate Governance Statement

Introduction

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

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

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

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

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

Further details of the Company's approach to the 10 principles of the Code and how it applies these principles, which is updated regularly as required with the most recent Company update being 10 March 2021, can be found on the Company`s Website section for Investors at https://ethernitynet.com/investors/#1454056723887-bab53599-82b7 .

The Directors and the Board

The Board is comprised of three executive directors, David Levi, Mark Reichenberg and Shavit Baruch, and of four non-executive directors, Joseph (Yosi) Albagli (Chairman), appointed on 10 March 2021, Neil Rafferty, Chen Saft-Feiglin and Zohar Yinon. The balance between executive and non-executive directors encourages a diversity of views, and ensures the independence of the directors, not allowing any group to dominate the Board's decision making.

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

The detailed composition of the board is as follows:

Joseph (Yosi) Albagli	Independent Non-Executive Chairman (Appointed 10 March 2021) Chairman of the Nomination Committee *(Companies Law precludes the Chairman from being a member of the Audit and Remuneration Committees)*
David Levi	Chief Executive Officer (re-elected 22 June 2020) Nomination Committee member
Mark Reichenberg	Chief Financial Officer and Company Secretary (re-elected 22 June 2020)
Shavit Baruch	Vice President R&D (re-elected 22 June 2020)
Neil Rafferty	Independent Non-Executive Director (re-elected 22 June 2020) Audit and Risk Committee member Remuneration Committee member Nomination Committee member
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

Biographical details of all the Directors are set out above.

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 2020, the Board met formally on sixteen occasions. Board members also hold ad hoc discussions amongst themselves between formal Board meetings to discuss governance, financial, operational, and other business matters. A majority of the Board members constitutes the legal quorum for a board meeting, and all but three Board members attended all of the board meetings. All Directors receive a board pack comprising of an agenda and all relevant operational information in advance of each meeting.

Attendance at Board and Committee meetings by members of the Board during the year ended 31 December 2020 was as follows:

	Board	***Audit Committee***	***Remuneration Committee***	***Nominations Committee***
Number of meetings	***16***	***7***	***2***	***1***
Graham Woolfman *(Note 1)*	16	7 (as invitee)	2 (as invitee)	1
David Levi	16	2 (as invitee)	2 (as invitee)	-
Mark Reichenberg	15	7 (as invitee)	2 (as invitee)	1 (as invitee)
Shavit Baruch	16	1 (as invitee)	1 (as invitee)	-
Neil Rafferty	16	7	2	1
Chen Saft-Feiglin	15	6	2	1 (as invitee)
Zohar Yinon	13	6	2	1 (as invitee)

Note.
1. Resigned 17 November 2020, effective 17 February 2021

The increase in the number of Board meetings held during the year under review over the previous year arose due to significant circumstances that could have had a material impact on the Company and its operations, these being:

- Continued review and evaluation of the impact of COVID-19 on the Company and its operations.
- Review of financial reserves and fund requirements.
- Fundraising activities undertaken by the Company during the latter half of 2020.

Reviews of activities to ensure reserves were maintained at adequate levels to meet the planned development resources for product and solutions deliverables.

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

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

Board Committees

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

Audit and Risk Committee

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

The Audit and Risk Committee, which comprises the Independent Non-Executive and External Directors (excluding the Chairman) and by permanent invite the Chairman and the CFO. The Committee is chaired by Zohar Yinon with the remaining members being Neil Rafferty and Chen Saft-Feiglin. 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 2020, the Committee met on seven occasions and the matters considered included the following:

- The discussion and approval of the audit work plan for the 2019 year end audit, Fair Value report and the treatment of Capitalisation of the Research and Development costs, an update on the cash flow status and review of going concern requirements.
- Review of final timing regarding release of the Audited Financial Statements for 31 December 2019, discussions on the Fair Value report regarding the Intangible Assets, going concern reporting under COVID-19 along with best market practice and additional new IFRS reporting requirements.
- Consideration of the Company`s annual audited financial statements for the year ended 31 December 2019 and recommendation to the Board for publication thereof.
- Review of the Interim Unaudited Financial Statements as at 30 June 2020, review of going concern and reporting, the COVID-19 continuing situation and formal recommendation to the Board for the Issuance of the Interim Unaudited Financial Statements as at 30th June 2020.
- Presentation by the Internal Auditors of their report, initial audit planning for the 2020 annual results and possible complexities surrounding the various fund raising transactions that had taken place during the year.

Remuneration Committee

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

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

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

- Recommending to the Board the adoption of or variations to a 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 2019, the Remuneration Committee met formally on two occasions and confirmed the following.

- Options to be granted in terms of the Company's Employee Share Option Scheme were approved and recommended to the Board for ratification.
- Review of options to be awarded to key members of staff including award of options to the CFO, share based compensation to non-executive directors, and recommendation of these actions to the Board of Directors.

Nominations Committee

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

During the year under review, this Committee comprised the Chief Executive Officer, David Levi and the Independent Non-Executive Directors Graham Woolfman and Neil Rafferty and was chaired by Graham Woolfman until December 2020.

During the year ended 31 December 2020, the Nominations Committee met on one occasion to deal with the process of the recruitment of a new Independent Non-Executive Chairman and confirm the brief regarding the recruitment requirements and process. In this instance, the Committee was temporarily reconstituted with Neil Rafferty in the Chair and the other members being David Levi, Chen Saft-Feiglin and Zohar Yinon.

Subsequent to the appointment of Yosi Albagli as Chairman in March 2021, the Committee has reverted back to its original composition of the Company Chairman, now Yosi Albagli, as the Chairman of the Committee and the remainder of the members being David Levi, the CEO and Neil Rafferty the Independent Non-Executive Director.

Internal Control

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

The Company's key internal financial control procedures include:

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

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

Internal Audit

The new Internal Auditors, PKF Amit Halfon, appointed in November 2019 presented their maiden report to the Audit and Risk Committee during the year under review. Due to the size and nature of the Company, the Audit and Risk Committee had agreed with the Internal Auditors that the initial review would comprise the following:

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

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 2020.

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 in the Statement of Comprehensive Loss further on in this report. 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**

Neil Rafferty *Independent Non-Executive Director**

Chen Saft-Feiglin *External Director***

Zohar Yinon *External Director***

* Reelected 22 June 2020

** Re-elected 14 September 2020, effective 15 November 2020. 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 28 of the financial statements.

Statement Of Directors' Responsibilities In Respect Of The Annual Report And The Financial Statements

Directors' Responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- recognise the possible impact of COVID-19 on the Company as a whole; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Website Publication

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

COVID-19 and Going Concern

In light of the continued duration of the COVID-19 pandemic that prevailed through the entire year of 2020, and the uncertainty on the potential ongoing and future impact, the Board took certain steps to both safeguard the well-being of staff and to position the Company for the future. Where possible a work-from-home policy was implemented and all non-discretionary expenditure was curtailed. The Company also took prudent steps to mitigate any impact through certain short-term cash conservation measures, including a reduction by all directors of up to 50% of their remuneration, with 20% of the reduction deferred.

The implementation of these cash management measures expected to allow the Company to meet its planned objectives in the absence of a prolonged uncertain outlook due to the effects of COVID-19. However, the Company recognises that revenues are likely to be delayed due to COVID-19 uncertainty, including where engaged customers' functions are affected through remote working arrangements. The Board continues to closely monitor the situation and will take further action, as appropriate, to manage its working capital position and strengthen the balance sheet to support the execution of the Company's plans.

On 8 April 2020 and further on 6 May 2020, the Company announced that the rapid pace of developments in connection with COVID-19 had caused levels of uncertainty and that, in common with many other companies, it may need to seek alternative sources of funding, including having applied for a grant from the Israel Innovation Authority. On 17 June 2020 the Company advised the market in an update that the application for the grant from the Israel Innovation Authority had been declined. The Company went on to state that it had taken prompt action to institute further cash conservation measures, which include a reduction in R&D resources that are not tightly coupled to the deliveries around Ethernity's 5G UPF-based ACE-NIC100 product offering in order to maintain the Company's momentum in this area.

Furthermore, in light of the situation regarding the Israel Innovation Authority grant the Board reviewed the Company's product developments to focus resources and solutions on its key markets and customers. The revised focus will delay further developments in products outside of Ethernity's key focus on NFV (network function virtualisation) and the 5G market.

Due to not receiving the Innovation Authority grant the Company announced it would seek access to additional funding in order to trade to its revised plan, strengthen its position in the market, maximise its ability to secure contracts and conclude negotiations on terms favourable to the Company. The Company has raised at total of $7,258,615 from the date of that announcement to the date of this report.

Independent auditor's report

To the Shareholders of
Ethernity Networks Ltd.

Opinion

We have audited the financial statements of Ethernity Networks Ltd. (the "Company"), which comprise the Statement of financial position as of 31 December 2020 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 2020 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 6.2 million US dollars and negative cash flows from operating activities of 3.6 million US dollars during the year ended 31 December 2020. 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.

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 2020. 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.

	Description of Key Audit Matter and why a matter of most significance in the audit	Description of Auditor's Response and Key Observations
Intangible assets	The intangible assets include development costs that are directly attributable to a project's development phase. Such intangible assets not yet available for use are required to be tested for impairment irrespective of	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).

	whether 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	Such assessment included the evaluation of the competence of management in accordance with ISA 500 (Audit Evidence). The assessment also included testing of evidence obtained from various areas of the audit including cash flows forecasts of revenue, expenses and profitability, the appropriateness of discount rates used related to the capitalised intangible assets, the most recent and updated business plans, Valuation model, working capital, useful life and the compliance with the requirements of 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, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the year ended 31 December 2020 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, 24 June 2021

STATEMENTS OF FINANCIAL POSITION

		US dollars	
		31 December	
	Notes	**2020**	**2019**
ASSETS			
Current			
Cash and cash equivalents	5	2,180,726	1,116,922
Other short-term financial assets	6	-	2,553,823
Trade receivables	7	778,061	427,162
Inventories		173,494	166,905
Other current assets	8	626,690	362,791
Current assets		**3,758,971**	**4,627,603**
Non-Current			
Property and equipment	9	552,112	525,542
Deferred tax assets	24	186,772	186,772
Intangible asset	10	7,385,560	8,436,010
Right -of -use asset	11	292,219	448,081
Other long term assets		7,507	5,167
Non-current assets		**8,424,170**	**9,601,572**
Total assets		**12,183,141**	**14,229,175**
LIABILITIES AND EQUITY			
Current			
Short Term Borrowings	12	411,726	1,012,731
Trade payables		290,175	325,240
Liability related to share subscription agreement	15.F.[3]	841,944	-
Warrants liability	15.F.[2]	286,253	-
Other current liabilities	11,13	1,275,849	1,126,007
Current liabilities		**3,105,947**	**2,463,978**
Non-Current			
Lease liability	11	146,130	306,783

Non-current liabilities		**146,130**	**306,783**
Total liabilities		**3,252,077**	**2,770,761**
Equity	15		
Share capital		12,495	8,039
Share premium		26,849,698	23,396,310
Other components of equity		1,161,350	892,891
Accumulated deficit		(19,092,479)	(12,838,826)
Total equity		**8,931,064**	**11,458,414**
Total liabilities and equity		**12,183,141**	**14,229,175**

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

STATEMENTS OF COMPREHENSIVE LOSS

	Notes	US dollars For the year ended 31 December 2020	2019
Revenue	17, 27	1,853,732	1,343,844
Cost of sales		271,453	193,012
Gross profit		1,582,279	1,150,832
Research and development expenses	18	4,037,904	2,855,896
General and administrative expenses	19	1,591,079	1,426,376
Marketing expenses	20	1,082,560	1,434,670
Other income	21	(40,335)	(23,337)
Operating loss		**(5,088,929)**	**(4,542,773)**
Financing costs	22	(1,462,740)	(93,584)
Financing income	23	298,016	88,325
Loss before tax		**(6,253,653)**	**(4,548,032)**
Tax expense	24	-	(613,228)
Net comprehensive loss for the year		**(6,253,653)**	**(5,161,260)**
Basic and diluted loss per ordinary share	25	**(0.17)**	**(0.16)**
Weighted average number of ordinary shares for basic loss per share		36,590,988	32,556,686

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

STATEMENTS OF CHANGES IN EQUITY

	Notes	Number of shares	Share Capital	Share premium	Other components of equity	Accumulated deficit	Total equity
			US dollars				
Balance at 1 January 2019		**32,556,686**	**8,039**	**23,396,310**	**760,849**	**(7,677,566)**	**16,487,632**
Employee share-based compensation		-	-	-	132,042	-	132,042
Net comprehensive loss for the year		-	-	-	-	(5,161,260)	(5,161,260)
Balance at 31 December 2019		**32,556,686**	**8,039**	**23,396,310**	**892,891**	**(12,838,826)**	**11,458,414**
Employee share-based compensation		-	-	-	(79,635)	-	(79,635)
Exercise of employee options	15.F.[1]	338,000	99	33,701	-	-	33,800
Net proceeds allocated to the issuance of ordinary shares	15.F.[2]	7,333,334	2,140	914,595	-	-	916,735
Exercise of warrants	15.F.[2]	3,744,426	1,165	1,632,220	-	-	1,633,385
Shares issued pursuant to share subscription agreement	15.F.[3]	2,466,051	750	984,732	-	-	985,482
Shares issued, not yet paid for *	15.F.[4]	880,000	258	196,259	-	-	196,517
Expenses paid in shares and warrants	15.F.[5]	150,000	44	39,975	-	-	40,019
Net comprehensive loss for the year		-	-	-	-	(6,253,653)	(6,253,653)
Balance at 31 December 2020		**47,468,497**	**12,495**	**27,197,792**	**813,256**	**(19,092,479)**	**8,931,064**

* These shares were not paid for except for the par value of $258 which was paid for.

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

STATEMENTS OF CASH FLOWS

	US dollars	
	For the year ended 31 December	
	2020	2019
Operating activities		
Net comprehensive loss for the year	(6,253,653)	(5,161,260)
Non-cash adjustments		
Depreciation of property and equipment	156,012	151,997
Depreciation of operating lease right of use asset	155,862	122,729
Share-based compensation	18,209	69,654
Amortisation of intangible assets	952,606	734,752
Amortisation of liabilities	-	3,499
Deferred tax expenses	-	613,228
Foreign exchange gains (losses) on cash balances	145,258	(7,878)
Capital Loss	5,275	-
Revaluation of financial instruments, net	1,335,172	-
Expenses paid in shares and options	40,019	-
Net changes in working capital		
(Increase) decrease in trade receivables	(350,899)	214,923
Increase in inventories	(6,589)	(50,893)
Decrease (increase) in other current assets	104,468	46,459
Increase in other long-term assets	(2,340)	(5,167)
(Decrease) increase in trade payables	(35,064)	36,932
Increase (decrease) in other liabilities	140,837	(99,612)
Net cash used in operating activities	**(3,594,827)**	**(3,330,637)**
Investing activities		
Withdrawals from other short-term financial assets	2,553,823	11,529,886
Deposits to other short-term financial assets	-	(6,000,000)
Purchase of property and equipment	(187,857)	(71,482)
Amounts carried to intangible assets	-	(2,238,559)
Net cash provided by investing activities	**2,365,966**	**3,219,845**
Financing activities		
Proceeds from share subscription agreement	1,164,190	-
Proceeds allocated to ordinary shares, net	916,993	-
Proceeds allocated to warrants	82,251	-
Proceeds from exercise of warrants and options	1,027,142	-
Repayment of IIA liability	-	(20,834)
Proceeds from short term borrowings	636,993	1,012,731
Repayment of short-term borrowings	(1,237,998)	(133,497)
Repayment of lease liability	(151,648)	(112,379)
Net cash provided by financing activities	**2,437,923**	**746,021**
Net change in cash and cash equivalents	1,209,062	635,229
Cash and cash equivalents, beginning of year	1,116,922	473,815
Exchange differences on cash and cash equivalents	(145,258)	7,878
Cash and cash equivalents, end of year	2,180,726	1,116,922
Supplementary information:		
Interest paid during the year	9,764	2,727
Interest received during the year	63,059	88,325
Supplementary information on non-cash activities:		
Share-based compensation capitalised to intangible assets	(97,844)	62,388
Recognition of right-of-use asset and lease liability	-	570,810
Shares issued, not yet paid for	196,259	-
Shares issued pursuant to share subscription agreement	985,482	-
Expenses paid in shares and warrants	40,019	-

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.

COVID-19

The Company had previously stated that in light of the continued uncertainty on the potential impact and duration of the COVID-19 pandemic, the Board had taken certain steps to both safeguard the well-being of staff and to position the Company for the future. This included that, in common with many other companies, it may need to seek alternative sources of funding. These steps were successfully undertaken, with total funds raised by the Company from July 2020 to date from the placing, warrants and the Share Subscription Agreement of £5.4m ($7.3m), and the Company managed to maintain its operational capacity and deliverables during the extremely difficult time the world endured due to COVID-19.

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

Considering the worldwide components shortage issue that albeit has been currently resolved for the Company, along with the residual COVID-19 disruptions worldwide and the current exponential outbreak of COVID-19 in India and Taiwan, there remains elements of uncertainty over the timing of near-term events due to the challenges faced by our customers regarding both timing of component supply and the meeting of their own plans. We draw attention to Note 2 following this below.

NOTE 2 - GOING CONCERN

The financial statements have been prepared assuming that the Company will continue as a going concern. Under this assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future unless management intends or has no realistic alternative other than to liquidate the entity or to stop trading for at least, but not limited to, 12 months from the reporting date. The assessment has been made of the Company's prospects, considering all available information about the future, which have been included in the financial budget, from managing working capital and among other factors such as debt repayment schedules. Consideration has been given inter alia, to the 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. This includes the proven success and ability of the Directors to raise further funds either through debt, equity or deferral of liabilities. Cogniscance is given to the Directors current assessment of financial and operational risk and their best estimate of the potential impact of COVID-19 and the availability of components on operations and the continued possible material uncertainties arising therefrom. As of 31 December 2020, the Company incurred an accumulated deficit of 19.1 million dollars and reported net comprehensive loss of 6.3 million dollars and negative cash flows from operating activities of 3.6 million dollars during the year ended December 31, 2020. The Company also has not yet generated material revenues from its operations to fund its activities and is therefore dependent upon external sources for financing its operations.

In January 2020, the Company's forecast for the financial year showed a movement into positive operational cash flow from the end of the first half of 2021, having taken into account the effects of the cash flow enhancement measures announced. However, on 8 April 2020 and further on 6 May 2020, it announced that the rapid pace of developments in connection with COVID-19 had caused levels of uncertainty that may result in the need to seek alternative sources of funding.

The Company renegotiated its short term banking facilities with its bankers, with the resultant new facility being a change from 550,000 NIS short term facility to a NIS 1,600,000 ($497,604) facility consisting of NIS 100,000 ($31,104) short term facilities and a NIS 1,500,000 ($466,500) revolving invoice financing facility

In a further announcement on 17 June 2020 the Company stated that it was likely that the Company would need to seek access to additional funding in order to trade to its revised plan.

Within a month of the 17 June 2020 announcement, the Company confirmed the Placing and subscription to raise an additional £880,000 ($1.10m). In addition, the Company continued to raise further funds during the second half of the financial year ended 31 December 2020, resulting in raising significant additional funds so as to meet the operational and development goals. The funds were raised via a Placing in July 2020 which included the issue of Warrants), the majority or which being exercised and completed in May of 2021. Furthermore, the Company successfully concluded a Share Subscription Agreement with the 5G Innovation Leaders Fund LLC ("5G Fund"), a U.S.-based specialist investor, in relation to the issue of new ordinary NIS 0.001 shares ("Shares"), to raise up to £3,200,000 (approximately $4,100,000).

To date, the Company raised via the Placing in July £2.66 million ($3.55 million) all of which closed on 12 May 2021 from the initial issue of shares and the exercising of the related Warrants, which included £616,667 from the Directors. As of 31 December 2020, the Company raised a total of £2.51m ($3.23m) from the Placing and Share Subscription noted above, with a further £2.86m ($3.97m) to date in 2021, bringing the total funds raised from the time of the June announcement to date of £5.37m ($7.26m).

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.

Notwithstanding as described above, there is material uncertainty that may cast doubt on the Company's ability to continue as a going concern and fulfil its obligations and liabilities in the normal course of business in the near future. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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 2020, 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 and deferred taxes.

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 2020 (including comparative amounts) were approved and authorised for issue by the board of directors on 24 June 2021.

B. Use of significant accounting estimates and assumptions and judgements

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

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

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

Regarding significant judgements and estimate uncertainties, see Note 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:

	2020	**2019**
New Israeli Shekel ("NIS")	0.311	0.289
Sterling	1.366	1.319
Euro	1.227	1.122

E. Cash and cash equivalents

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

F. Property and equipment

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

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

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

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

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

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. An asset is derecognised on disposal or when no further economic benefits are expected from its use.

G. Basic and diluted earnings (loss) per share

Basic and diluted earnings (loss) per share is computed by dividing the income 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".

H. 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.

I. Research and development expenses

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

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

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

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

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

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

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

Effective as from 1 July 2019 and thereafter, the Company concluded that it would no longer continue recognising these costs as an intangible asset due to the uncertainty that exists as to the amounts and timing of revenues to be generated from the intangible assets.

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 change is accounted for as a change in accounting estimate in accordance with IAS 8.

Commencing 1 July 2019, the Company ceased to capitalise development expenses (see Note 10).

J. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item (such as research and development of an intangible asset), it is recognised as ‘other income’ on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

Grants from the Israeli Innovation Authority of the Ministry of Economy (hereinafter – the “IIA”) in respect of research and development projects are accounted for as forgivable loans according to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, as the company might be required to refund such amount through payment of royalties.

Grants received from the IIA are recognised as a liability according to their fair value on the date of their receipt, unless there is reasonable assurance that the amount received will not be refunded. The fair value is calculated using a discount rate that reflects a market rate of interest at the date of initial recognition. The difference between the amount received and the fair value on the date of receiving the grant is recognised as a deduction from the cost of the related intangible asset or as other income, as applicable.

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

Grants which do not include an obligation to pay royalties are recognised as a deduction of the related asset or as other income, as applicable (See Note 21).

K. Financial instruments

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

1. Classification and measurement of financial assets and financial liabilities

Initial recognition and measurement

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

Financial assets - subsequent classification and measurement

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

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

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

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 and borrowings and payables, net of directly attributable transaction costs.

Financial liabilities are measured at amortised cost

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are measured at fair value, and any net gains and losses, including any interest expenses, are recognised in profit or loss.

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments (including warrants derivative liability related to warrants with exercise price denominated in a currency other than the Company's functional currency) entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company designated its liability to issue variable number of shares which include certain embedded derivatives (such as prepayment options) under share subscription agreement at fair value through profit or loss (see Note 15).

2. Derecognition of financial liabilities

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

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

3. Impairment

Financial assets and contract assets

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

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

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

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

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

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 and hedge accounting

Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship, and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

During the reported periods, the Company did not apply hedge accounting.

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 share subscription agreement which include several embedded derivatives in its entirety at FVTPL category.

L. 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.

M. Share-based compensation

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

For purposes of estimating the fair value of the granted equity instruments, the Company takes into consideration conditions which are not vesting conditions (or vesting conditions that are performance conditions which constitute market conditions). Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is 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.

N. Fair Value Measurements

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

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

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

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. 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.

O. Transactions with controlling shareholders

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

P. Revenue recognition

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

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

Identification of the contract

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

1. The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying their obligations thereunder;
1. The Company is able to identify the rights of each party in relation to the goods or services that are to be transferred;
2. The Company is able to identify the payment terms for the goods or services that are to be transferred;
3. 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
4. It is probable that the consideration to which the Company is entitled to in exchange for the goods or services transferred to the customer will be collected.

Identification of performance obligations

On the contract's inception date the Company assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:
1. Goods or services that are distinct; or
2. A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

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

Determination of the transaction price

The transaction price is the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Company takes into account the effects of all the following elements when determining the transaction price; variable consideration (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 by transferring control over promised goods or services to the customer, as applicable.

Contract costs

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

Costs incurred to fulfill a contract with a customer and that are not covered by another standard are recognised as an asset when they: relate directly to a contract the Company can specifically identify; they generate 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.

<u>Contract modification</u>

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

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

The Company accounts for a contract modification as an adjustment of the existing contract since the remaining goods or services after the contract modification are not distinct and therefore constitute a part of one performance obligation that is partially satisfied on the date of the contract modification. The effect of the modification on the transaction price and on the rate of progress towards full satisfaction of the performance obligation is recognised as an adjustment to revenues (increase or decrease) on the date of the contract modification, meaning on a catch-up basis.

<u>Sales of goods</u>

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

Certain contracts provide a customer with a right to return the goods within a specified period. The Company uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied with respect to arrangements that provides such right of return, in order to determine the amount of variable consideration that can be included in the transaction price. Accordingly, the Company recognise amounts subject to right of return only if it is highly probable that there will not be a significant reversal of revenues if the estimate of expected returns changes. As of December 31, 2019 and 2020, there was no significant amount of goods that were subject to right of return.

<u>Contracts with milestone payments</u>

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

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

Amounts received (including up-front payments), which relate to milestones that were non achieved yet, are deferred and presented as deferred revenues.

Multiple element transactions

Some of the Company's contracts with customers contain multiple performance obligations. For these contracts, the Company account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determine the standalone selling prices based on 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 consist of 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 are recognised based on the actual sales of products as reported to the Company on a quarterly basis.

Q. Income taxes

Taxes on income in the statement of comprehensive 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.

R. Operating cycle

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

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

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

An impairment loss is recognised for the amount by which the asset's (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable discount rate, in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit assets and reflect current market assessments of the time value of money and asset-specific risk factors, see also Note 10.

T. Ordinary shares

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

U. Equity and reserves

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

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

V. Provisions, contingent assets and contingent liabilities

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

W. Leased assets

The Company has applied IFRS 16 from 1 January 2019 using the modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application.

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

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

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate

of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

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

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

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

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

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

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

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

X. New or revised Standards or Interpretations

New Standard adopted as at 1 January 2020

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Company.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Company.

Some other accounting pronouncements which have become effective from 1 January 2020 and have therefore been adopted do not have a significant impact on the Company's financial results or position.

Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Partnership

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

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

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

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

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

The Partnership will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Partnership.

Other Standards and amendments that are not yet effective and have not been adopted early by the Partnership include:
• IFRS 17 Insurance Contracts
• Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
• References to the Conceptual Framework
• Proceeds before Intended Use (Amendments to IAS 16)
• Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
• Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)

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

NOTE 4 - SIGNIFICANT MANAGEMENT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY

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

Significant management judgement

- Capitalisation of internally developed intangible assets

  Distinguishing the research and development phases of a new or substantially improved customised research and development project and determining whether the recognition requirements for the capitalisation of development costs are met, requires judgement. After capitalisation (if relevant), management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired (see Note 10). Commencing 1 July 2019, the Company ceased to capitalise development expenses.

Estimation uncertainty

- Impairment of non-financial assets

  In assessing impairment of non-financial assets (primarily, internally developed intangible assets – see Note 10), 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. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

- Useful lives of depreciable assets

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

- Fair value measurement of employees' options and warrants issued to shareholders

  Management uses valuation techniques to determine the fair value of employees' options and shareholder' warrants. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 16).

- 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 AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	US dollars	
	31 December	
	2020	**2019**
In Sterling	1,651,352	36,780
In U.S. Dollar	153,045	41,491
In Euro	4,223	3,862
In New Israeli Shekel	372,106	1,034,789
	2,180,726	1,116,922

NOTE 6 - OTHER SHORT-TERM FINANCIAL ASSETS

Other short-term financial assets consist of the following:

	US dollars	
	31 December	
	2020	2019
12 month deposit	-	2,500,000
Accrued interest (annual interest rate of 2.68%)	-	53,823
	-	2,553,823

NOTE 7 - TRADE RECEIVABLES

Trade and other receivables consist of the following:

	US dollars	
	31 December	
	2020	2019
Trade receivables	838,920	399,404
Unbilled revenue	89,141	102,758
Less: provision for expected credit losses	(150,000)	(75,000)
Total receivables	**778,061**	**427,162**

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 8 - OTHER CURRENT ASSETS

Other current assets consist of the following:

	US dollars	
	31 December	
	2020	2019
Prepaid Expenses	170,547	244,553
Deferred expenses related to share subscription agreement facility – see Note 15.F.[3]	66,709	-
Deposits to suppliers	8,769	9,108
Government institutions	33,397	100,350
Other current assets	45,610	8,780
Proceeds due on account of shares issued – see Notes 15.F.[4] and 26.B.	301,658	-
Total other current assets	**626,690**	**362,791**

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

	US dollars				
	Testing equipment	Computers	Furniture and equipment	Leasehold improve-ments	Total
Gross carrying amount					
Balance 1 January 2019	486,709	237,826	74,284	60,102	858,921
Additions	65,633	4,287	1,562	-	71,482
Balance 31 December 2019	552,342	242,113	75,846	60,102	930,403
Depreciation					
Balance 1 January 2019	(58,126)	(149,798)	(26,522)	(18,418)	(252,864)
Depreciation	(78,614)	(45,579)	(6,618)	(21,186)	(151,997)
Balance 31 December 2019	(136,740)	(195,377)	(33,140)	(39,604)	(404,861)
Carrying amount 31 December 2019	**415,602**	**46,736**	**42,706**	**20,498**	**525,542**

NOTE 10 - INTANGIBLE ASSET

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

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

(*) Relates to a $97,844 reversal of share based compensation, capitalised in prior years – see Note 16.A.

	US dollars Total
Gross carrying amount	
Balance 1 January 2019	7,347,554
Additions (*) (**)	2,300,947
Balance 31 December 2019	9,648,501
Amortisation	
Balance 1 January 2019	477,739
Amortisation	734,752
Balance 31 December 2019	1,212,491
Carrying amount 31 December 2019	**8,436,010**

(*) The additions include $62,388 of share based compensation.

(**) As described in Note 3.I. applicable development costs were capitalised and were recognised as intangible assets. However, as the Company did not meet all the measurement criteria of IAS 38, the Company ceased to capitalise development costs commencing the second half of 2019.

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 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 2020. Such analysis revealed a similar calculation as that determined as at 31 December 2019 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 thought to the following, the Company believes that no further impairment is required.

- The market forecasts for 2020, 2021 and 2022 which are $2m, $6m and $9m respectively;
- The anticipated outcomes of current discussions and engagements with customers;
- The customer projections and where the customer believes engagement, testing, field trials and deployment will take place;
- Signed engagements or commercial discussion phases and anticipated outturns;
- Development resources required to meet all of the above (I remind you this is a Development Company that is now in a new market of NFV which is being driven by 5G, connectivity and other solutions that the Company has developed over the past 17 years and the market is NOW engaging fully on);
- Development cost elements (R&D resources);
- Cash resources required to meet the forecast costs for the developments;
- Current cash resources at the time;
- Requirements if any for raising funds to ensure funds are freely available;
- Ease of fund raising.

The valuation method determined, to best reflect the fair value of the intangible assets, was the Multi-period Excess Earning ("MEEM") to be generated from such assets between 2020 through 2029.

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

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

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

	US dollars		
	Buildings	**Vehicles**	**Total**
Gross carrying amount			
Balance 1 January 2019	-	-	-
IFRS 16 adoption	441,068	-	441,068
Additions	-	129,742	129,742
Balance 31 December 2019	441,068	129,742	570,810
Accumulated depreciation			
Balance 1 January 2019	-	-	-
Depreciation expense	(112,614)	(10,115)	(122,729)
Balance 31 December 2019	(112,614)	(10,115)	(122,729)
Total right-of-use assets as at 31 December 2019	**328,454**	**119,627**	**448,081**

The vehicle right-of-use assets comprises 4 vehicles used by employees, all of which lease terms extend until the second half of 2022.

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

	US dollars	
	31 December	
	2020	**2019**
Current	160,653	151,648
Non-current	146,130	306,783
	306,783	**458,431**

C. In December 2017, the Company committed to a three-year lease agreement for its primary offices in the Industrial area of Lod, Israel. At the termination of the lease, the Company had an option to renew it for a further two years. Such renewal option was considered as reasonably certain to be exercised upon adoption of IFRS 16 and was in fact exercised. In addition, the Company signed two other one year lease agreements for a total of 26 parking bays, with an option to extend them for another year. With the exception of short-term leases and leases of low-value underlying assets (the parking bay leases), each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

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 2020 were as follows:

	Minimum lease payments due		
	US dollars		
	2021	**2022**	**Total**
Lease payments	170,049	149,013	319,062
Finance charges	(9,396)	(2,883)	(12,279)
Net present values	**160,653**	**146,130**	**306,783**

E. Lease payments not recognised as a liability.

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

NOTE 12 - SHORT- TERM BORROWINGS

Borrowings include the following financial liabilities:

	Annual % Interest rate[1] 2020	US dollars 31 December 2020	2019
Bank borrowings [1]	6.2%	411,726	1,012,731
Total short- term borrowings		411,726	1,012,731

(1) The loans bore variable interest of 6.2% (3.3% in 2019). The above interest rate is the weighted average rate as of 31 December 2020. The loan was fully repaid by April 2021.

(2) The Company has an unused credit facility of 100,000 NIS ($31,104). In addition, the Company has obtained a facility for invoice trade financing of up to $430,000 which will allow acceleration of cash flows on invoicing receipts.

NOTE 13 - OTHER CURRENT LIABILITIES

Other short-term liabilities consist of:

	US dollars 31 December 2020	2019
Salaries, wages and related costs	344,352	318,235
Provision for vacation	246,289	159,898
Accrued expenses and other	112,669	70,472
Deferred revenue	28,500	*23,334
Short term lease liability	160,653	151,648
Related parties (see Note 28.A.) **	383,386	402,420
Total other short-term liabilities	1,275,849	1,126,007

* This deferred revenue was recognised over 12 months commencing from August 2019.

** 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 $2.9 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, 2020 and 2019. Such contingent obligation has no expiration date.

As at 31 December 2020, the Company has repaid approximately $526,500 of these grants, in the form of royalties. The maximum amount of royalties that would be payable, if the Company had unlimited revenue attracting royalty obligations, would be approximately $2,900,000 as at 31 December 2020.

NOTE 15 - EQUITY

A. Details regarding share capital and number of shares at 31 December 2020 and at 31 December 2019 are:

Share capital:

	US dollars	
	31 December	
	2020	2019
Ordinary shares of NIS 0.001 par value	12,495	8,039
Total share capital	12,495	8,039

Number of shares:

	31 December	
	2020	2019
Ordinary shares of NIS 0.001 par value - authorised	100,000,000	50,000,000
Ordinary shares of NIS 0.001 par value - issued and paid up	47,468,497	32,556,686

In the first half of 2017, prior to the IPO, the Company effected a 10:1 share split of all its authorised and issued, ordinary and preferred shares. The par value of the Company's shares reduced from NIS 0.01 to NIS 0.001. In addition, the number of all options and warrants granted prior to the share split, increased tenfold and the exercise price reduced by 90%. The shareholder extraordinary general meeting held on 22 June 2020, approved that the authorised share capital be increased from 50 million shares to 100 million shares.

B. Description of the rights attached to the Ordinary Shares

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

C. Share premium

Share premium includes proceeds received from the issuance of shares, after allocating the nominal value of the shares issued to share capital. Transaction costs associated with the issuance of shares are deducted from the share premium, net of any related income tax benefit. The costs of issuing new shares charged to share premium during the year ended 31 December 2020 was $134,736 (2019: zero).

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 share premium – 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 and issued 10,714,286 ordinary shares at a price of £ 1.40 per share, for a total consideration of approximately $ 19,444,000 (£ 15,000,000) before underwriting and issuance expenses. Total net proceeds from the issuance amounted to approximately $17,800,000. Concurrent with the IPO, all the preferred shares that existed as of that date were mandatorily converted into ordinary shares on a 1:1 basis. The Company trades on the AIM Stock Exchange under the symbol "ENET".

Concurrent with the IPO, the Company issued 162,591 five-year options to the IPO broker that may be exercised at an exercise price of £ 1.40 (see Note 16.C.) The Company's last share price as at 31 December 2020 was £ 0.36 (2019: £ 0.44). These options have not yet been exercised.

F. Shares issued during the accounting periods

During the year ended 31 December 2020, 14,911,811 (2019: zero) shares were issued, as follows:

	Note	Number of ordinary shares
Exercise of employee options	[1]	338,000
Issuance of ordinary shares (issued together with warrants)	[2]	7,333,334
Exercise of warrants	[2]	3,744,426
Shares issued pursuant to share subscription agreement	[3]	2,466,051
Shares issued, not yet paid for	[4]	880,000
Expenses paid for in shares and warrants	[5]	150,000
		14,911,811

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

Date options exercised	Exercise price of options	Number of shares issued
22 January 2020	$0.10	138,000
14 August 2020	$0.10	200,000
		338,000

The amount received by the Company upon the exercise of these options was $ 33,800 – see Note 16.A. for further details related to the employee options.

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

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

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

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

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

Upon this successful equity raise being concluded in July 2020, the broker for this transaction received 252,750 one-year warrants exercisable at £ 0.12 per warrant ("Broker Warrants"). The fair-value of these warrants at the time of issuance was approximately $13,000. As at 31 December 2020, all these warrants have been exercised. See Note 16.D.

The total amount received by the Company upon the exercise of the £ 0.20 warrants and the Broker Warrants was approximately $ 993,000. 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 $1,633,385.

In May 2021 the accelerator clause for the £ 0.30 warrants was activated by the Company and 3,500,000 of these warrants were exercised, for which the Company issued the same number of shares, while 166,667 warrants not exercised, were cancelled – see Note 30.5.

[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
Subsequent	By mutual agreement	£ 1,647,000	£ 1,500,000	*
		£ 3,508,000	£ 3,200,000	

* £ 750,000 of the £ 1,500,000 was received on 30 April 2021.

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

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

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

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

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

In March and April 2021, the Investor subscribed for a further $1,950,000 (£ 1,550,000), being the 3rd and 4th closings and half of the subsequent closing, with a total face value of $2,138,289 (£ 1,699,500).

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 other components of equity, which in 2020 amounted to $347,388.

[4] Concurrent with the initial investment by the Investor, the Company issued 880,000 shares to the Investor for the par value of the shares, being $258. The Investor at its discretion, may choose to pay for these 880,000 shares, calculated at the then current Conversion Price. Upon issuance of the shares, the company recognised an amount $196,259, representing the fair value of the investor's obligation to payment for the shares under the caption "proceeds due on account of shares issued" – see Note 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 estimated $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/expense. The Investor paid for these shares in April 2021.

[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 also Note 15.D. below.

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.

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				
	19 Nov 2020	19 Nov 2020	28 Jul 2020	6 Jul 2020	25 Jul 2019
Number of options granted	* 470,000	200,000	104,000	240,000	180,000
Exercise price in $	0.265	0.271	0.158	0.256	1.249
Recipients of the options	employees	employees	employees	employees	employees
Approximate fair value at grant date (in $):					
Total benefit	57,773	24,194	16,047	27,084	36,246
Per option benefit	0.12	0.12	0.15	0.11	0.20
Assumptions used in computing value:					
Risk-free interest rate	0.88%	0.88%	0.59%	0.69%	2.05%
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	35%	35%	35%	35%	40%
Expected term (in years)	10	10	10	10	10
Expensed amount recorded for year ended:					
31 December 2019	-	-	-	-	15,622
31 December 2020	3,274	13,373	6,770	11,832	2,360

As some of these employees left the employ of the company prior to 31 December 2020, their options were cancelled. The remaining value of these options at 31 December 2020 which have yet to be recorded as expenses, amount to $71,783.

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

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

	US dollars	
	Year ended 31 December	
	2020	**2019**
Total expensed amount recorded	18,209	69,654
Total capitalised amount recorded	(97,844)	62,388
Total	(79,635)	132,042

A. The following tables present a summary of the status of the employee option grants by the Company as of 31 December, 2020 and 2019:

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

	Number	**Weighted average exercise price (US$)**
Year ended 31 December 2019		
Balance outstanding at beginning of year	3,145,920	0.42
Granted	180,000	1.25
Exercised	-	-
Forfeited	(230,000)	1.01
Balance outstanding at end of the year	3,095,920	0.43
Balance exercisable at the end of the year	2,521,420	

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

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

The following table summarises information about employee options outstanding at 31 December 2019:

Exercise price	Outstanding at 31 December 2019	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Exercisable at 31 December 2019	Weighted average remaining contractual life (years)
$0.10	2,166,920	3.8	0.10	2,166,920	3.8
$0.20	129,000	7.2	0.20	69,500	7.2
£1.05	40,000	7.2	1.28	20,000	7.2
£1.05	210,000	7.5	1.36	105,000	7.5
£1.43	30,000	7.5	1.84	15,000	7.5
£1.40	30,000	7.7	1.83	15,000	7.7
£1.00	340,000	8.6	1.32	85,000	8.6
£1.00	150,000	9.6	1.25	45,000	9.6
	3,095,920			2,521,420	

The fair value of options granted to employees was determined at of the date of each grant. The fair value of the options granted are expensed in the profit and loss, except for those 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. As of December 31, 2020, such warrants had not been exercised.

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

a. In June 2020, an investment advisory firm was contracted to provide services to the Company and was issued 150,000 shares and 100,000 warrants vesting in 6 month increments over 3 years. This contract was terminated prior to its first anniversary. 16,667 warrants had vested prior the contract being terminated, with the balance of the warrants being cancelled. The fair value of the shares and warrants issued was approximately $40,000. The amount relating to the shares issued was allocated to share capital and share premium, while the warrant's fair value was allocated to share capital – see Note 15.F.[5].

b. Upon the successful equity raise concluded in July 2020, as described in Note 15.F.[2], the broker responsible for this transaction received 252,750 one-year warrants exercisable at £ 0.12 per warrant. The fair-value of these warrants at the time of issuance was approximately $13,000. As at 31 December 2020, all these warrants have been exercised.

c. In September 2020 the Company entered into a share subscription agreement as described in Note 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. As at 31 December 2020 approx. $23,000 had been amortised to finance expenses with the balance of approx. $67,000 reflected as prepaid finance costs.

d. In December 2020, the company agreed to settle amounts due to two directors in lieu of their directors fees amounting to $82,276 through the assurance of 305,000 ordinary shares of the company. The company issued the shares in January 2021– See Notes 28.C and D.

NOTE 17 - REVENUE

	US dollars	
	Year ended 31 December	
	2020	2019
Sales	1,187,294	972,196
Royalties	666,438	371,648
Total revenue	1,853,732	1,343,844

NOTE 18 - RESEARCH AND DEVELOPMENT EXPENSES

	US dollars	
	Year ended 31 December	
	2020	2019
Employee remuneration, related costs and subcontractors (*)	2,977,774	2,049,839
Maintenance of software and computers	90,597	51,472
Insurance and other expenses	11,475	19,833
Amortisation	952,606	734,752
Grant procurement expenses	5,452	-
Total research and development expenses	4,037,904	2,855,896
(*) Including share based compensation of:	6,783	40,858

NOTE 19 - GENERAL AND ADMINISTRATIVE EXPENSES

	US dollars	
	Year ended 31 December	
	2020	2019
Employee remuneration and related costs (*)	406,022	478,908
Professional fees	538,159	388,290
Rentals and maintenance	256,156	266,808
Depreciation	311,873	274,726
Travel expenses	3,869	17,644
Impairment losses of financial assets	75,000	-
Total general and administrative expenses	1,591,079	1,426,376
(*) Including share based compensation of:	11,168	17,861

NOTE 20 - MARKETING EXPENSES

	US dollars	
	Year ended 31 December	
	2020	2019
Employee remuneration and related costs (*)	624,451	643,526
Marketing expenses	449,609	758,580
Travel expenses	8,500	32,564
Total marketing expenses	1,082,560	1,434,670
(*) Including share based compensation of:	258	10,935

NOTE 21 - OTHER INCOME

As described in Note 3.J, 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	
	2020	2019
Bank fees and interest	23,253	16,144
Lease liability financial expenses	15,634	17,584
Revaluation of liability related to share subscription agreement measured at FVTPL	571,423	-
Revaluation of warrant derivative liability	852,430	
Exchange rate differences	-	59,856
Total financing costs	1,462,740	93,584

NOTE 23 - FINANCING INCOME

	US dollars	
	Year ended 31 December	
	2020	2019
Revaluation of proceeds due on account of shares (financial asset measured at FVTPL)	105,399	-
Interest received	63,059	88,325
Exchange rate differences	129,558	-
Total financing income	298,016	88,325

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 are:

	%
2019	23.0
2020	23.0

B. As of 31 December 2020, the Company has carry-forward losses for Israeli income tax purposes of approximately $20 million. According to the revised 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 2019	186,772	613,228	800,000
Deductions (*)	-	(613,228)	(613,228)
Balance at 31 December 2019	186,772	-	186,772
Deductions	-	-	-
Balance at 31 December 2020	186,772	-	186,772

(*) For the year ended 31 December 2019, the Company reduced the carrying amount of the deferred tax assets, for carry-forward tax losses, to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all of that deferred tax asset to be utilised.

D. Theoretical tax reconciliation

For the years ended 31 December 2020 and 2019, 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	
	2020	2019
Loss before tax	6,253,653	4,548,032
Tax expense (benefit) at statutory rate	%23	23%
Expected tax expense (benefit) at statutory rate	(1,438,340)	(1,046,047)
Increase in taxes from permanent differences in share-based compensation	(18,316)	16,020
Increase in loss carryforwards - not affecting the deferred tax asset	1,456,656	1,030,027
Deferred tax expense - reversal of temporary differences	-	613,228
Income tax expense	-	613,228

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	
	2020	2019
Loss for the year attributable to ordinary shareholders	(6,253,653)	(5,161,260)

	Number of shares	
	Year ended 31 December	
	2020	2019
Weighted average number of ordinary shares used in the computation of basic loss per ordinary share	36,590,988	32,556,686

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

	US dollars	
	Year ended 31 December	
	2020	2019
Loss for the year attributable to ordinary shareholders	(6,253,653)	(5,161,260)

	Number of shares	
	Year ended 31 December	
	2020	2019
Weighted average number of ordinary shares	36,590,988	32,556,686
Weighted average number of free shares from share options	1,406,320	1,900,421
Weighted average number of ordinary shares used in the computation of diluted loss per ordinary share	37,997,308	34,457,107

NOTE 26 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. Financial risk management risk

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

- **Exposure to changes in exchange rates**

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

Currency basis of monetary balances

	US dollars				
	31 December 2020				
	NIS	GBP	Euro	US $	Total
Assets					
Cash and cash equivalents	372,750	1,651,352	4,223	152,401	2,180,726
Trade receivables	-	-	-	778,061	778,061
Other current assets	258,323	368,367	-	-	626,690
	631,073	2,019,719	4,223	930,462	3,585,477
Liabilities					
Short term borrowings	411,726	-	-	-	411,726
Trade payables	130,330	101,628	-	58,217	290,175
Liability related to share subscription agreement	-	841,944	-	-	841,944
Warrants liability	-	286,253	-	-	286,253
Other liabilities	1,014,777	-	-	261,072	1,275,849
Non-current lease liabilities	146,130	-	-	-	146,130
	1,702,963	1,229,825	-	319,289	3,252,077
	(1,071,890)	789,894	4,223	611,173	333,400

	US dollars				
	31 December 2019				
	NIS	GBP	Euro	US $	Total
Assets					
Cash and cash equivalents	1,034,789	36,780	3,862	41,491	1,116,922
Other short-term financial assets	-	-	-	2,553,823	2,553,823
Trade receivables	-	-	-	427,162	427,162
Other current assets	362,791	-	-	-	362,791
	1,397,580	36,780	3,862	3,022,476	4,460,698
Liabilities					
Short term borrowings	1,012,731	-	-	-	1,012,731
Trade payables	223,817	32,638	-	68,785	325,240
Other liabilities	1,055,690	-	-	70,317	1,126,007
Non-current lease liabilities	306,783				306,783
	2,599,021	32,638	-	139,102	2,770,761
	(1,201,441)	4,142	3,862	2,883,374	1,689,937

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

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

	US dollars				
	Sensitivity to changes in exchange rates of the non US dollar currencies to the US dollar				
	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor		**Book value**	**Effect on profit (loss)/equity (before tax) from the changes caused by the market factor**	
	Increase at the rate of		**31 December**	**Decrease at the rate of**	
	10%	**5%**	**2020**	**5%**	**10%**
Cash and cash equivalents	(202,833)	(101,416)	2,028,325	101,416	202,833
Other current assets	(62,669)	(31,335)	626,690	31,335	62,669
Short term borrowings	41,173	20,586	(411,726)	(20,586)	(41,173)
Trade payables	23,196	11,598	(231,958)	(11,598)	(23,196)
Liability related to share subscription agreement	84,194	42,097	(841,944)	(42,097)	(84,194)
Warrants liability	28,625	14,313	(286,253)	(14,313)	(28,625)
Other liabilities	101,478	50,739	(1,014,777)	(50,739)	(101,478)
Non-current lease liabilities	14,613	7,307	(146,130)	(7,307)	(14,613)
Total	**27,777**	**13,889**	**(277,773)**	**(13,889)**	**(27,777)**

	US dollars				
	Sensitivity to changes in exchange rates of the non US dollar currencies to the US dollar				
	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor		Book value	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor	
	Increase at the rate of		31 December	Decrease at the rate of	
	10%	5%	2019	5%	10%
Cash and cash equivalents	(107,543)	(53,772)	1,075,431	53,772	107,543
Other current assets	(36,279)	(18,140)	362,791	18,140	36,279
Short Term Borrowings	101,273	50,637	(1,012,731)	(50,637)	(101,273)
Trade payables	25,646	12,823	(256,455)	(12,823)	(25,646)
Other liabilities	105,569	52,785	(1,055,690)	(52,785)	(105,569)
Non-current lease liability	30,678	15,339	(306,783)	(15,339)	(30,678)
Total	**119,344**	**59,672**	**(1,193,437)**	**(59,672)**	**(119,344)**

- **Credit risk**

  All of the cash and cash equivalents and other short-term financial assets as of 31 December, 2020 and 2019 were deposited with one of the major banks in Israel.

  Trade receivables as of 31 December, 2020 and 2019 were from customers in Israel, the U.S., Asia and countries of the European Union, 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 2020, more than 90% of net trade receivables were less than 90 days old.

- **Trade receivables**

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

  In measuring the expected credit losses, the trade receivables have been assessed by management on a collective basis as well as on a case by case basis. Trade receivables are written off when there is no reasonable expectation of recovery. Management have indicated a concern regarding the receivable from one customer, for which a provision has been made. As at 31 December 2020, the provision for expected credit losses was $150,000 (2019: $75,000) - see Note 7 for more details.

Liquidity risk

The Company financed its activities from its operations, issuing shares and warrants, Shareholders' loans and short and long-term borrowings from the bank. For further details on the Company's liquidity, refer to Note 2. All the non-current liabilities at 31 December 2020 and 2019 were lease liabilities which are serviced monthly. The short-term borrowings at 31 December 2020 and 2019 and the trade payables and other current liabilities are expected to be paid within 1 year.

B. Fair value of financial instruments

General

The financial instruments of the Company include mainly trade receivables and debit balances, credit from banking institutions and others, trade payables and credit balances, IIA liability, 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, 2020 and 2019, 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, 2020 and 2019 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		US dollars
	Financial asset		Financial liabilities
	Proceeds due on account of shares issued	Liability related to share subscription agreement	Warrants liability
Balance at 1 January 2019	-	-	-
Fair value at 31 December 2019	-	-	-
Recognition in asset (liability)	196,259	(1,164,190)	(82,251)
Revaluation Adjustment	105,399	(578,783)	(267,976)
Exchange rate differences	-	(25,105)	-
Issuance of shares	-	926,134	-
Warrants exercised	-	-	63,974
Fair Value at 31 December 2020	**301,658**	**(841,944)**	**(286,253)**

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:

Proceeds due on account of shares issued

This asset of 880,000 shares was valued at the Conversion Price as at 31 December 2020 as described in detail in Note 15.F.[4]. As the Conversion Price is calculated by choosing the share price of the lowest 5 days out of the previous 20 trading days, any one day change in the share price of the Company will not have a significant effect on the Conversion Price, if at all.

Liability related to share subscription agreement

This liability is valued as the combination of two parts as described in detail in Note 15.F.[3].

a. The portion that the Company has the right (70% of the amount) to repay to the Investor, is valued at such face value and this liability will not change as long as it has not been converted into shares by the Investor.
b. The remaining 30% of the face value is valued at the fair market value of the shares that the Investor may receive by converting the unconverted subscription amount into shares at the Conversion Price. The two variables in this valuation at any moment in time, are the Conversion Price and the Share Price, with the larger the difference between them, the larger this liability will be. As the Conversion Price is calculated by choosing the share price of the lowest 5 days out of the previous 20 trading days, any one day change in the share price of the Company will not have a significant effect on the Conversion Price, if at all, however any change in the Company's share price will change the value of this liability. The quicker that the share price distances itself from the prevailing Conversion Price, the greater this liability will increase. The longer that the share price takes in moving away from the Conversion Price, the closer this liability will be attracted to its face value.

As only 30% of this liability is sensitive to changes in the Company's share price and such sensitivity is limited to continuous large moves in the Company's share price, any such changes in the share price, have a limited effect on the overall amount of this liability.

Warrants liability

This liability was valued at the intrinsic value of the £ 0.30 warrants as described in detail in Note 15.F.[2]. Should the Company's share price increase, then the warrants intrinsic value will increase by the same amount, however as the Company has a put warrant which is triggered under certain circumstances when the Company's share price reaches £ 0.40, the value of the warrants will not increase indefinitely. Should the Company's share price decrease below £ 0.335 then their intrinsic value will not be used to value the warrants as such value would be lower than the Black Scholes two step method mentioned in the note above. In such circumstance the fair value of these warrants will decrease less than the decrease in the share price of the Company as is inherent in the Black Scholes valuation model.

C. Capital management

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

NOTE 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	
	2020	2019
Asia	335,000	60,840
Israel	262,119	437,479
United States	1,256,613	845,525
	1,853,732	1,343,844

	%	
	Year ended 31 December	
	2020	2019
Asia	18.1%	4.5%
Israel	14.1%	32.6%
United States	67.8%	62.9%
	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	
	2020	2019
Customer A	52%	28%
Customer B	13%	28%
Customer C	12%	21%
Customer D	7%	8%
Customer E	6%	8%
	89%	93%

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.

Each founder has an amount due to them for compensation originating in prior years – see Note 13.

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.

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

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

(1) Reappointed 22 June 2020.
(2) Reappointed with effect from 15 November 2020.
(3) Independent director.
(4) Key management personnel as well as director. Long-term employee benefits and termination benefits account for less than 12.5% of their salary and benefits.
(5) Resigned 17 November 2020.

Remuneration of key management personal including directors for the year ended 31 December 2019

Name	Position	Salary and benefits (US dollars)	Share based compe-nsation (US dollars)	Total (US dollars)
Graham Woolfman	Non-Executive Chairman	47,905	-	47,905
David Levi	Chief Executive Officer	213,994	-	213,994
Mark Reichenberg	Chief Financial Officer	141,735	17,125	158,860
Shavit Baruch	VP Research & Development	214,030	-	214,030
Neil Rafferty	Non Executive Director	38,324	-	38,324
Chen Saft-Feiglin	Non Executive Director	14,981	-	14,981
Zohar Yinon	Non Executive Director	14,532	-	14,532
		685,501	17,125	702,626

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

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

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

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

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

Directors' equity interests in the Company as at 31 December 2019

Name	Shares			Options		
	Direct holdings	Beneficial holdings	Total shares held	Unexercised vested options	Unvested options	Total options
Graham Woolfman	-	10,715	10,715	-	-	-
David Levi	6,767,900	-	6,767,900	60,710	-	60,710
Shavit Baruch	4,500,000	-	4,500,000	60,710	-	60,710
Mark Reichenberg	-	-	-	54,500	54,500	109,000
Neil Rafferty	7,143	-	7,143	-	-	-
Chen Saft-Feiglin	-	-	-	-	-	-
Zohar Yinon	-	-	-	-	-	-
	11,275,043	10,715	11,285,758	175,920	54,500	230,420

NOTE 29 - Reconciliation of liabilities arising from financing activities

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

(*) Including current maturities of $160,653

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

	Lease Liabilities	Short Term Borrowings	Total
1 January 2019	-	133,497	133,497
IFRS 16 adoption as of 1 January 2019 (see Notes 3.W and 11) (*)	441,068	-	441,068
New leases during the year	129,742	-	129,742
Cashflow			
- Repayments	(112,379)	(133,497)	(245,876)
- Proceeds	-	1,012,731	1,012,731
31 December 2019 (**)	458,431	1,012,731	1,471,162

(*) Including current maturities of $102,731

(**) Including current maturities of $151,649

NOTE 30 - Subsequent events

1. In terms of the Extraordinary General Meeting held on 29 December 2020, 165,000 shares were awarded to Graham Woolfman, the then non-executive Chairman and 140,000 shares were awarded to Neil Rafferty a non-executive director. The allotment and issue of these shares was completed on or around 6 January 2021.

2. In January 2021 an employee exercised 220,000 employee options at an exercise price of $ 0.10. The Company received $22,000 proceeds from this option exercise. In February 2021 an employee exercised 6,667 employee options at an exercise price of £ 0.12. The Company received approximately $1,100 (£800) proceeds from this option exercise.

3. On 10 March 2021 Mr. Joseph ("Yosi") Albagli was appointment as non-executive Chairman of the Board, in place of Mr. Graham Woolfman, who resigned as a board member in November 2020.

4. In March and April 2021 the Company received £1,550,000 ($1,950,000) funds pursuant to a share subscription agreement – see Note 15.F.[3]. In April 2021, the Investor converted £1,100,000 ($1,523,500) of subscription amounts, into 3,838,952 shares.

5. In May 2021 the accelerator clause for the £ 0.30 warrants was activated by the Company and 3,500,000 of these warrants were exercised, for which the Company issued the same number of shares, while 166,667 warrants not exercised, were cancelled in terms of the Warrant Instrument - see Note 15.F.[2]. The total amount received by the Company upon the exercise of the £ 0.30 warrants was approximately $ 1,450,000.

   In May 2021, the Directors exercised all their £ 0.30 warrants held. David Levi, CEO exercised 666,667 warrants and Shavit Baruch, Executive Director exercised 166,667 warrants. In addition, on 30 April 2021 each of David Levi and Shavit Baruch disposed of certain Ordinary Shares in order to fund costs associated with the exercise of these warrants. David Levi sold 310,000 shares at £ 0.535 per share and Shavit Baruch sold 75,000 shares at £ 0.526 per share.