THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser duly authorised for the purposes of the Financial Services and Markets Act 2000 (as amended) immediately.

THE WHOLE TEXT OF THIS DOCUMENT SHOULD BE READ AND POTENTIAL INVESTORS SHOULD BE AWARE THAT AN INVESTMENT IN THE COMPANY IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. IN PARTICULAR YOUR ATTENTION IS DRAWN TO THE SECTION ENTITLED "RISK FACTORS" SET OUT IN PART II OF THIS DOCUMENT. ALL STATEMENTS REGARDING THE COMPANY'S BUSINESS, FINANCIAL POSITION AND PROSPECTS SHOULD BE VIEWED IN LIGHT OF THESE RISK FACTORS.

Ethernity Networks Ltd (the "**Company**") and the Directors, whose names appear on page 10 of this document, accept responsibility, individually and collectively, for the information contained in this document and for compliance with the AIM Rules. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Document is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or make any representations other than those contained in this Document and, if given or made, such information or representations must not be relied upon as having been so authorised. Neither the delivery of this Document nor any investment made pursuant to it will, under any circumstances, create any implication that there has not been any change in the affairs of the Company since the date of this Document or that the information in it is correct at any time subsequent to its date.

This document comprises an AIM admission document and has been prepared in accordance with the AIM Rules in connection with an application for admission to trading on AIM of the issued and to be issued ordinary shares in the capital of the Company. This Document does not constitute an offer to the public requiring an approved prospectus under section 85 of FSMA and, accordingly, this Document does not constitute a prospectus for the purposes of FSMA and the Prospectus Rules and has not been pre-approved by the FCA pursuant to section 85 of FSMA. Copies of this Document will be available free of charge to the public during normal business hours on any day (Saturdays, Sundays and public holidays excepted) at the offices of Arden Partners Plc, 125 Old Broad Street, London EC2N 1AR and the registered office of the Company, from the date of this Document until one month from the date of Admission in accordance with the AIM Rules. A copy of this Document will also be available from the Company's website at http://www.ethernitynet.com.

It is expected that Admission will become effective and that dealings in the Enlarged Ordinary Share Capital will commence on 29 June 2017.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this Document. The AIM Rules are less demanding than the listing rules of the UK Listing Authority. No application is being made for admission of the Enlarged Ordinary Share Capital to the Official List of the UK Listing Authority nor any other recognised investment exchange.

Ethernity Networks Ltd

(Incorporated and registered in Israel with registered no. 51-347834-7)

Placing of 10,714,286 Ordinary Shares at 140 pence per Share

and

Admission to trading on AIM

Nominated Adviser and Broker

Arden Partners plc

The Placing is conditional, *inter alia*, on Admission taking place by 8.00 a.m. on 29 June 2017 (or such later date as the Company and Arden Partners Plc may agree, being not later than 31 July 2017). The Placing Shares and the Existing Ordinary Shares will, upon Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions declared, paid or made in respect of the Ordinary Shares after Admission. It is emphasised that no application is being made for the Enlarged Ordinary Share Capital to be admitted to the Official List or to any other recognised investment exchange.

Arden Partners plc ("Arden Partners"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting as nominated adviser and broker to the Company in connection with the proposed admission of the Enlarged Ordinary Share Capital to trading on AIM. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this Document. Arden Partners is not acting for anyone else and will not be responsible to anyone other than the Company for providing the protections afforded to their clients or for providing advice in

relation to the contents of this Document or the admission of the Enlarged Ordinary Share Capital to trading on AIM. No representation or warranty, express or implied, is made by Arden Partners as to the contents of this Document, without limiting the statutory rights of any person to whom this Document is issued. Arden Partners will not be offering advice, nor will they otherwise be responsible for providing customer protections to recipients of this Document or for advising them on the contents of this Document or any other matter. The information contained in this Document is not intended to inform or be relied upon by any subsequent purchasers of ordinary shares in the capital of the Company (whether on or off exchange) and accordingly no duty of care is accepted in relation to them.

Without limiting the statutory rights of any person to whom this Document is issued, no representation or warranty, express or implied, is made by Arden Partners as to the contents of this Document. Apart from the responsibilities and liabilities, if any, which may be imposed on Arden Partners by FSMA or the regulatory regime established thereunder, no liability whatsoever is accepted by Arden Partners for the accuracy of any information or opinions contained in this Document, for which the Directors are solely responsible, or for the omission of any information from this Document for which it is not responsible. In accordance with the AIM Rules for Nominated Advisers, Arden Partners has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, in its opinion and to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with.

This Document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or subscribe for, ordinary shares in any jurisdiction where such an offer or solicitation is unlawful or would impose any unfulfilled registration, publication or approval requirements on the Company. Nothing in this Document shall be effective to limit or exclude any liability for fraud or which otherwise, by law or regulation, cannot be so limited or excluded.

The ordinary shares in the capital of the Company have not been and will not be registered under the US Securities Act of 1933, as amended (Securities Act), or under the securities laws or with any securities regulatory authority of any state or other jurisdiction of the United States or of Australia, Canada, Japan, New Zealand, the Republic of Ireland or the Republic of South Africa, or any province or territory thereof. Subject to certain exceptions, the ordinary shares in the capital of the Company may not be taken up, offered, sold, resold, transferred or distributed, directly or indirectly, and this Document may not be distributed by any means including electronic transmission within, into, in or from the United States, Australia, Canada, Japan, New Zealand, the Republic of Ireland or the Republic of South Africa or to or for the account of any national, resident or citizen of the United States or any person resident in Australia, Canada, Japan, New Zealand, the Republic of Ireland or the Republic of South Africa. The ordinary shares in the capital of the Company may only be offered or sold in offshore transactions as defined in and in accordance with Regulation S promulgated under the Securities Act. Acquirers of ordinary shares in the capital of the Company may not offer to sell, pledge or otherwise transfer such shares in the United States, or to any US Person as defined in Regulation S under the Securities Act, including resident corporations, or other entities organised under the laws of the United States, or non-US branches or agencies of such corporations unless such offer, sale, pledge or transfer is registered under the Securities Act, or an exemption from registration is available. The Company does not currently plan to register the ordinary shares in the capital of the Company under the Securities Act. The distribution of this Document in or into other jurisdictions may be restricted by law and therefore persons into whose possession this Document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This Document should not be copied or distributed by any means including electronic transmission, to persons in Israel, and this Placing is not being made in or into Israel and will not be capable of acceptance in Israel, except to certain persons referred to in Section 15A(b)(1) of the Securities Law, 5728-1968, of Israel ("Israeli Securities Law") and listed in Appendix One thereto (which includes certain mutual, provident and venture capital funds, banks, insurers, portfolio managers, investment advisers, stock exchange members, underwriters, certain corporations fully owned by any of the above and certain individuals and corporations whose equity capital exceeds a certain amount). The Company is not sending, and brokers, dealers, commercial banks, trust companies and other nominees have been instructed not to forward, this Document to Israel, except to such persons referred to above, and subject to the limitations set out in the Israel Securities Law. Should a person or the agent of a person receive this Document in Israel and not be a person referred to above, this Document does not constitute an offer to him/her to sell, or a solicitation from him/her of an offer to purchase, the Ordinary Shares offered by this Document.

IMPORTANT INFORMATION

In deciding whether or not to invest in Placing Shares, prospective investors should rely only on the information contained in this Document. No person has been authorised to give any information or make any representations other than as contained in this Document and, if given or made, such information or representations must not be relied on as having been authorised by the Company, the Directors or Arden Partners. Neither the delivery of this Document nor any subscription or purchase made under this Document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Document or that the information contained herein is correct as at any time after its date.

Investment in the Company carries risk. There can be no assurance that the Company's strategy will be achieved and investment results may vary substantially over time. Investment in the Company is not intended to be a complete investment programme for any investor. The price of Ordinary Shares and any income from Ordinary Shares can go down as well as up and investors may not realise the value of their initial investment. Prospective investors should carefully consider whether an investment in Ordinary Shares is suitable for them in light of their circumstances and financial resources and should be able and willing to withstand the loss of their entire investment (see "Part II: Risk Factors" of this Document).

Potential investors contemplating an investment in Ordinary Shares should recognise that their market value can fluctuate and may not always reflect their underlying value. Returns achieved are reliant upon the performance of the Company. No assurance is given, express or implied, that investors will receive back the amount of their investment in Placing Shares.

If you are in any doubt about the contents of this Document you should consult your stockbroker or your financial or other professional adviser.

Investment in the Company is suitable only for financially sophisticated individuals and institutional investors who have taken appropriate professional advice, who understand and are capable of assuming the risks of an investment in the Company and who have sufficient resources to bear any losses which may result therefrom.

Potential investors should not treat the contents of this Document or any subsequent communications from the Company as advice relating to legal, taxation, investment or any other matters. Potential investors should inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer, or other disposal of Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of Ordinary Shares that they might encounter; and (c) the income and other tax consequences that may apply in their own countries as a result of the purchase, holding, transfer or other disposal of Ordinary Shares. Potential investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

This Document should be read in its entirety before making any investment in the Company.

No legal, business, tax or other advice is provided in this Document. Prospective investors should consult their professional advisers as needed on the potential consequences of subscribing for, purchasing, holding or selling Ordinary Shares under the laws of their country and/or state of citizenship, domicile or residence.

Prospective investors must inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer, redemption or other disposal of the Placing Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer, redemption or other disposal of the Ordinary Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer, redemption or other disposal of the Ordinary Shares.

This Document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or to subscribe for, Placing Shares in any jurisdiction in which such an offer or solicitation is unlawful and this Document is not for distribution in or into the Prohibited Territories. The Placing Shares have not nor will they be registered under the United States Securities Act of 1933 (as amended) or with any securities regulatory authority of any state or other jurisdiction of the United States or under the applicable securities laws of the other Prohibited Territories and, unless an exemption under such Act or laws is available, may not be offered for sale or subscription or sold or subscribed directly or indirectly within the Prohibited Territories for the account or benefit of any national, resident or citizen of the Prohibited Territories. The distribution of this Document in other jurisdictions may be restricted by law and therefore persons into whose possession this Document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdictions.

Restrictions on sales in the United States

THE PLACING SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED ON OR ENDORSED THE MERITS OF THE PLACING OR THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS ADMISSION DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Notice to prospective investors in the European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive other than the United Kingdom (each, a "Relevant Member State"), no Placing Shares have been offered or will be offered pursuant to the Placing to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Placing Shares which has been approved by the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that offers of Placing Shares to the public may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

A. to any legal entity which is a qualified investor as defined in the Prospectus Directive;

B. to fewer than 150, or, if the Relevant Member State has not implemented the relevant provision of the Prospectus Directive, 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) in such Relevant Member State; or

C. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any Placing Shares or to whom any offer is made under the Placing will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of the law of the Relevant Member state implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression "an offer to the public" in relation to any offer of Placing Shares in any Relevant Member State means a communication in any form and by any means presenting sufficient information on the terms of the offer and any Placing Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Placing Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression the "Prospectus Directive" means Directive 2003/71/EC (as amended), to the extent implemented in the Relevant Member State and includes any relevant implementing measure in each Relevant Member State.

Notice to prospective investors in the United Kingdom

This Document is being distributed to, and is directed only at, persons in the United Kingdom who are "qualified investors" within the meaning of section 86(7) FSMA acting as principal or in circumstances to which section 86(2) of FSMA applies: (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO"); and/or (ii) who are high net worth entities falling within Article 49(2)(a) to (d) of the FPO; and (iii) other persons to whom it may otherwise be lawfully be distributed (each a "relevant person"). Any investment or investment activity to which this Document relates is available only to relevant persons and will be engaged in only with such persons. Persons who are not relevant persons should not rely on or act upon this Document.

Notice to prospective investors in Israel

This Document should not be copied or distributed by any means including electronic transmission, to persons in Israel, and this Placing is not being made in or into Israel and will not be capable of acceptance in Israel, except to certain persons referred to in Section 15A(b)(1) of the Securities Law, 5728-1968, of Israel ("Israeli Securities Law") and listed in Appendix One thereto (which includes certain mutual, provident and venture capital funds, banks, insurers, portfolio managers, investment advisers, stock exchange members, underwriters, certain corporations fully owned by any of the above and certain individuals and corporations whose equity capital exceeds a certain amount). The Company is not sending, and brokers, dealers, commercial banks, trust companies and other nominees have been instructed not to forward, this Document to Israel, except to such persons referred to above, and subject to the limitations set out in the Israel Securities Law. Should a person or the agent of a person receive this Document in Israel and not be a person referred to above, this Document does not constitute an offer to him/her to sell, or a solicitation from him/her of an offer to purchase, the Placing Shares offered by this Document.

Forward-looking Statements

This Document contains certain "forward-looking statements", including statements about current beliefs and expectations of the Directors. In particular, the words "expect", "anticipate", "estimate", "may", "should", "plans", "intends", "will", "believe" and similar expressions (or in each case their negative and other variations or comparable terminology) can be used to identify forward-looking statements. Such forward-looking statements are subject to, *inter alia*, the "Risk Factors" in Part II of this Document and involve known and unknown risks and uncertainties and speak only as of the date they are made. These statements are based on the Board's expectations of external conditions and events, current business strategy, plans and the other objectives of management for future operations, and estimates and projections of the Company's financial performance. Though the Board believes these expectations to be reasonable at the date of this Document they may prove to be erroneous. Investors are hereby cautioned that certain important factors could cause actual results, outcomes, performance or achievements of the Company or industry results to differ materially from those expressed or implied in forward-looking statements. Such factors include, but are not limited to, those described in the Risk Factors section of this Document. Save as required by law or the AIM Rules for Companies, the Company undertakes no obligation to publicly release the results of any revisions to any forward-looking statements in this Document that may occur due to any change in the Board's expectations or to reflect events or circumstances after the date of this Document.

Presentation of financial information etc.

The Company publishes its financial statements in US dollars. Throughout this Document, unless otherwise indicated, the following exchange rates have been used:

GBP1.00: US$1.27 (as at close of business on 20 June 2017).

NIS1.00: US$0.28 (as at close of business on 20 June 2017).

The financial information and certain other figures in this Document have been subject to rounding adjustments. Therefore, the sum of the numbers in a table may not conform exactly to the total figure given for that table. In addition, certain percentages presented in this Document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

Certain non-IFRS measures such as "EBITDA" have been included in the financial information contained in this Document as the Directors believe that these provide important alternative measures with which to assess the Company's performance. Investors should not consider EBITDA as an alternative to revenue and operating profit which are IFRS measures. Additionally, the Company's calculation of EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited.

Website

The contents of the Company's website http://www.ethernitynet.com do not form part of this Document. Investors should base their decision on whether or not to invest in Ordinary Shares on the contents of this Document alone.

Defined Terms

Certain terms used in this Document are defined in the "Definitions" section of this Document. Certain technical terms are defined in the "Glossary" section of this Document.

General notice

This Document has been drawn up in accordance with the AIM Rules and it does not comprise a prospectus for the purposes of the Prospectus Rules. It has been drawn up in accordance with the requirements of the Prospectus Directive only in so far as required by the AIM Rules and has not been delivered to the Registrar of Companies in England and Wales for registration.

This Document has been prepared for the benefit only of a limited number of persons all of whom qualify as "qualified investors" for the purposes of the Prospectus Directive, to whom it has been addressed and delivered and may not in any circumstances be used for any other purpose or be viewed as a document for the benefit of the public. The reproduction, distribution or transmission of this Document (either in whole or in part) without the prior written consent of the Company and Arden Partners is prohibited.

Governing law

Unless otherwise stated, statements made in this Document are based on the law and practice currently in force in England and Wales and the laws of the State of Israel and are subject to changes therein.

CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this Document	23 June 2017
Admission effective and commencement of dealings in Ordinary Shares on AIM	29 June 2017
CREST stock accounts credited for Placing Shares in uncertificated form	29 June 2017
Despatch of definitive certificates for Placing Shares in certificated form, where applicable	14 July 2017

Notes

1. If any of the above times or dates should change, the revised times and/or dates will be notified to shareholders by an announcement on a regulatory information service.
2. All times are London times unless stated otherwise.

ADMISSION STATISTICS

Existing Ordinary Share Capital	
Number of Ordinary Shares in issue prior to the Placing	21,803,900
Placing	
Placing Price	140 pence
Number of Placing Shares being issued pursuant to the Placing	10,714,286
Gross proceeds of the Placing	£15.0 million
Estimated net proceeds of the Placing receivable by the Company (after expenses)	£13.7 million
Upon Admission	
Total number of Ordinary Shares in issue following the Placing	32,518,186
Placing Shares as a percentage of Enlarged Share Capital	32.9 per cent.
Market capitalisation of the Company on Admission at the Placing Price	£45.5 million
TIDM Code	ENET.L
ISIN Code	IL0011410359
SEDOL Code	BF2B834
Free float	32.9 per cent.

DIRECTORS, SECRETARY AND ADVISERS

Directors	Graham Jeffrey Woolfman *(Non-executive Chairman)* David Levi *(Chief Executive Officer)* Mark Reichenberg CA(SA) *(Chief Financial Officer)* Shavit Baruch *(VP Research & Development)* Neil Martin Rafferty *(Non-executive Director)*
Company secretary	Mark Reichenberg
Registered office	1 Hamelacha St Lod Industrial Park 7152001 Israel
Nominated Adviser and Broker	Arden Partners plc 125 Old Broad Street London EC2N 1AR
Solicitors to the Nominated Adviser and Broker	DAC Beachcroft LLP 100 Fetter Lane London EC4A 1BN
Reporting Accountants to the Company	Fahn Kanne & Co. Grant Thornton Israel 32 Hamasger Street Tel Aviv 6721118 Israel
UK Solicitors to the Company	Howard Kennedy LLP No.1 London Bridge London SE1 9BG
Israeli Solicitors to the Company	Cohen Legal Partners B.S.R. Towers 2, 27th Floor 1 Ben Gurion Road Bnei-Brak 5120149 Israel
Israeli AIM Adviser to the Company	Mark Reichenberg t/a London AIM Advisory Services Harishonim 3/15 Kfar Saba 4439203 Israel
Registrar	Capita Registrars (Guernsey) Limited Mont Crevelt House Bulwer Avenue St Sampson Guernsey GY2 4LH

Depositary	Capita IRG Trustees Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Public Relations	Yellow Jersey PR Limited 22 Upper Ground London SE1 9PD
Company's website	http://www.ethernitynet.com

DEFINITIONS

The following definitions apply throughout this Document, unless the context requires otherwise:

Admission	the admission of the Enlarged Ordinary Share Capital to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules.
Admission Document or **Document**	this document dated 23 June 2017.
AIM	the market of that name operated by the London Stock Exchange.
AIM Rules	the AIM Rules for Companies published by the London Stock Exchange from time to time.
AIM Rules for Nominated Advisers	the rules setting out the eligibility, ongoing obligations and certain disciplinary matters in relation to nominated advisers, as published by the London Stock Exchange as amended from time to time.
Arden Partners	Arden Partners plc, the Company's nominated adviser and broker.
Articles	the articles of association of the Company adopted on 23 June 2017, details of which are set out in paragraph 3 of Part V of this Document.
Audit Committee	the audit committee of the Board, as constituted from time to time.
Board or **Directors**	the board of directors of the Company whose names are set out on page 10 of this Document.
CA 2006	the (UK) Companies Act 2006, as amended.
Companies Law	the Israeli Companies Law 1999.
Certificated or **in certificated form**	recorded on the relevant register of the share or security concerned as being held in certificated form in physical paper (that is, not in CREST).
Company or **Ethernity**	Ethernity Networks Ltd, incorporated and registered in Israel (with registration number 51-347834-7) whose registered office is at 1 Hamelacha St., Lod Industrial Zone, Israel.
Corporate Governance Code	the UK Corporate Governance Code published by the Financial Reporting Council as modified by the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 published by the Quoted Companies Alliance.
CREST	the computerised settlement system (as defined in the CREST Regulations) operated by Euroclear which facilitates the holding and transfer of title to shares in uncertificated form.
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) as amended.
Deed Poll	the deed poll executed by the Depositary in favour of the holders of the Depositary Interests from time to time
Depositary	Capita IRG Trustees Limited, incorporated in England (No.2729260) whose registered office is at 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Depositary Interest or **DI**	dematerialised interests representing underlying Ordinary Shares in the ratio of 1:1 that can be settled electronically through and held in CREST, as issued by the Depositary who holds the underlying securities on trust, further details of which are set out in paragraph 13 of Part I of this Document.
DTRs or **Disclosure Guidance and Transparency Rules**	the disclosure guidance and transparency rules made by the FCA as competent authority pursuant to section 73A(4) of FSMA (as amended from time to time).
EBITDA	earnings before interest, taxation, depreciation and amortisation.
Enlarged Ordinary Share Capital	the Ordinary Shares in issue immediately following the Placing and Admission, comprising the Existing Ordinary Shares and the Placing Shares.
Euroclear	Euroclear UK & Ireland Limited, a company incorporated in England and Wales and the operator of CREST.
Existing Ordinary Shares	the 21,803,900 ordinary shares of 0.001 NIS each in the capital of the Company in issue at the date of this Document.
FCA	the Financial Conduct Authority of the United Kingdom.
FSMA	the Financial Services and Markets Act 2000, as amended.
FY	a financial year of the Company ending 31 December in the year specified in the relevant reference to “FY”.
IP	intellectual property.
ISOP	the Ethernity Networks Ltd 2003 Israeli Share Option Plan, details of which are set out in paragraph 5 of Part V of this Document.
London Stock Exchange	London Stock Exchange plc.
Nomination Committee	the nomination committee of the Board, as constituted from time to time.
Official List	the official list of the UK Listing Authority.
Options	options over Ordinary Shares referred to in paragraph 5 of Part V of this Document.
Ordinary Shares	ordinary shares of 0.001 NIS each in the capital of the Company.
Panel	the UK Panel on Takeovers and Mergers.
Placee	an investor to whom Placing Shares are issued pursuant to the Placing.
Placing	the conditional placing of the Placing Shares by Arden Partners, at the Placing Price pursuant to the Placing Agreement.
Placing Agreement	the agreement dated 23 June 2017 between Arden Partners, the Company and the Directors relating to the Placing, a summary of which is set out in paragraph 8.1 of Part V.
Placing Price	140p per Placing Share.

Placing Shares	the 10,714,286 Ordinary Shares to be allotted and issued pursuant to the Placing.
Prohibited Territories	United States, Australia, Canada, Japan, New Zealand, the Republic of Ireland and the Republic of South Africa, or any province or territory thereof.
Prospective Directive	Directive 2003/71/EC of the European Parliament and of the Council of the European Union, as amended.
Prospectus Rules	the Prospectus Rules (made in accordance with section 73A(3) of FSMA) of the FCA.
R&D	research and development.
Registrar	Capita Registrars (Guernsey) Limited.
Remuneration Committee	the remuneration committee of the Board, as constituted from time to time.
Securities Act	the US Securities Act of 1933, as amended.
Securities Law	The Israeli Securities Law 1968.
Shareholders	the registered holders of Ordinary Shares.
Subsidiary and **subsidiary undertaking**	the meanings given to them by CA 2006.
Substantial shareholders	Cipio Partners Fund VI S.C.S, Pix Epsilon Pte Ltd, E.D.I.G. Construction Management, Ltd and J. Fried Holdings And Investments Ltd
Takeover Code	the City Code on Takeovers and Mergers.
UK or **United Kingdom**	the United Kingdom of Great Britain and Northern Ireland.
uncertificated or **in uncertificated form**	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST.
UK Listing Authority	the FCA, acting in its capacity as the competent authority for the purposes of Part VI of FSMA.
US or **United States**	the United States of America, its territories and possessions, any state of the United States of America and the district of Columbia and all other areas subject to its jurisdiction.
US person	a citizen or permanent resident of the United States, as defined in Regulation S promulgated under the Securities Act 1933.

Unless otherwise indicated, all references in this Document to “GBP”, “£”, “pounds sterling”, “pounds”, “sterling”, “pence” or “p” are to the lawful currency of the United Kingdom, all references to “$”, “US$”, “USD” or “US dollars” are to the lawful currency of the United States and all references to “NIS ”, “New Israeli Shekels” or “Shekels” are to the lawful currency of the State of Israel.

GLOSSARY

ASIC	Application Specific Integrated Circuit
ASSP	Application Specific Standard Product
CPU	Central Processing Unit of a computer that carries out the instructions of a program
DDR	Double Data Rate, a class of computer memory
DMA	Direct Memory Access
DSL	Digital Subscriber Line (home broadband)
EB	Exabytes, 10^{18} bytes, or 1 billion gigabytes
Ethernet	Networking technology commonly used in local area networks (LAN), metropolitan area networks (MAN) and wide area networks (WAN)
FPGA	Field Programmable Gate Array
GB	Gigabytes, 10^{9} bytes, or 1 billion bytes
Gbps	Gigabits per second
G.Fast	High-speed versions of DSL that can reach 1 Gbps on very short copper local loops
IoT	Internet of Things
Logic	The processing power of a microprocessor
MEC	Mobile Edge Computing
NIC	Network Interface Card
nm	Nanometre
NFV	Network Function Virtualisation
NPU	Network Processing Unit
OCS	Office of the Chief Scientist of Israel (now known as the Israel Innovation Authority)
OEM	Original Equipment Manufacturer, resellers of IT equipment under their own label
QoS	Quality of Services
SDN	Software Defined Network
SDWAN	Software-defined wide area network, a specific application of SDN technology applied to WAN connections, which are used to connect enterprise networks over large geographic distances
SoC	System on Chip

TCAM	Ternary content-addressable memory, a type of computer memory used in certain very-high-speed searching applications
vCPE	Virtual customer premises equipment, a method of delivering network services such as routing, and firewall security to enterprises using software rather than dedicated hardware
vEPC	Virtual Evolved Packet Core, a framework for virtualising functions
VM	Virtual Machine
ZB	Zettabyte, 10^{21} bytes or 1 trillion gigabytes

PART I

INFORMATION ON THE COMPANY

1. INTRODUCTION

Ethernity Networks is a technology solutions provider that develops data network processing technology used in high end carrier ethernet applications across the telecom, mobile, security and data centre markets. The Company's core technology, which is protected by five US patents and populated on programmable logic, improves efficiency and accelerates data processing in the provision of data and network services, thereby reducing power consumption and reducing the costs of maintaining network infrastructure by giving hardware systems the ability to add future-proof data processing functionality.

Ethernity's technology offers a clear differentiation from other offerings as evidenced by strong customer traction. The Company has traded profitably and has sustained positive operating cash flow for a number of years and over the last two years Ethernity has developed new product offerings based on validated technology for network performance acceleration that should generate growth for the Company in the coming years.

The Company's network processor System-on-Chip ("SoC") firmware and software is integrated on Field-Programmable Gate Arrays ("FPGA") that enable software to be upgraded for new developments (e.g. new security algorithms) after installation, in contrast to Application-Specific Integrated Circuit ("ASIC") solutions that are fixed in design and require hardware to be redesigned and replaced each time there is a need for modification which requires significant cash investment. In contrast the Company has developed multiple products that, by modification of the network processor SoC firmware and software to fit into different FPGA platforms, reduce the need to install and design new ASIC solutions as technology and network demands advance. This FPGA solution has significant benefits in terms of cost and speed of upgrade which is becoming increasingly important due to the rapid growth in new services being offered by operators and the volume of data being processed and stored.

The Company's software and firmware is already installed in over 400,000 systems globally in broadband access, mobile backhaul and Ethernet access applications. The reducing cost of the FPGA logic will enable the Company to target larger markets previously only served by ASIC/ASSPs and fuel increased demand across the Company's core markets.

2. HISTORY AND DEVELOPMENT

Ethernity was founded in December 2003 by David Levi and Shavit Baruch, with a vision to "change the game" in the networking market, whilst becoming a leading vendor of customised, field upgradeable networking software solutions for internet data processing.

During the final quarter of 2004, an application was made for a research and development grant of $500,000 from the Office of the Chief Scientist of Israel ("OCS") (now renamed the Israel Innovation Authority), a department of the Israeli Ministry of Trade and Industry established to nurture and develop, through the provision of grants, Israeli innovation resources. This grant was received in April 2005 and was applied to the development of some of the Company's core IP (header processor and hierarchical traffic manager).

During October 2005, the Company applied for an additional R&D grant from the OCS for funding to create the delivery of new architecture including the Company's first FPGA solutions. Subsequent to successfully receiving this grant, the Company successfully applied for and received further grants from the OCS for R&D each year until 2012. The Company has grants totalling $3,110,000 and approximately $938,000 of interest which is linked to the USD short term LIBOR interest rate repayable, from derived revenues as a 3.5 per cent. royalty. To date, some $400,000 has been repaid to the OCS by way of royalty.

In November 2005, the Company closed a series A funding of approximately $2 million with Alice Ventures at a pre-money valuation of around $6 million (the entire portfolio of investments held by Alice Ventures has subsequently been acquired by Cipio Partners who remain a shareholder of the Company).

During 2006, the Company signed contracts with two customers, RAD and Zyxel. Whilst revenue producing, these contracts were not a major source of revenue and the Company continued to focus on the development of its new technology based on the patents filed during 2006. In 2008, the Company signed contracts with three new major clients being Tejas, Selta and Occam Networks. Furthermore, to strengthen the working capital of the Company, a convertible loan of $2.5 million was raised from Alice Ventures.

In 2009, the Company started generating recurring revenues from the sale of its firmware and software integrated on programmable devices (FPGA), and signed additional contracts for the supply of its product delivery software and received its first EU grant of €500,000 for a project targeted to decrease the power consumption in network access by 50 per cent.

Historically, FPGAs have been slower, less energy efficient and offered reduced functionality than fixed ASIC counterparts. Large FPGAs were mainly used for prototyping ASIC design and verifying the design use for hardware prototypes with ASIC preferred for mass production shipping. The Company believed that the data networking market could not afford the maintenance of a semiconductor operation due to the huge investment required to fabricate multiple ASIC designs to support new networking requirements. The Company therefore developed architecture to fit into low cost FPGA suitable for mass production without the need to convert to ASIC. During 2009 the Company started to supply its FPGA based mass production product, competing on price, functionality and power with off the shelf ASSPs.

During the years 2013 to 2015 the Company continued to sign additional client contracts and in 2015 received an EU grant for the development of a Smart NIC. Over the last two years the Company has developed offerings based on validated technology for network performance acceleration. The technology built, and end market developments anticipated, by the Company since inception is justifying the development focus of the Company during its early phase.

The Company's technology is today covered by five US patents, around efficient logic design of Multi Channel MAC (applicable for any design with multiple MACs), Traffic Management, Search Technology, Bonding and Protocol Interworking. A further, sixth, patent application has been filed by the Company concerning Data Transfer Wireless Connections and is currently pending. The ENET product line employs a unique piped line fabric processor technology, which utilises low logic and internal RAM resources, resulting in an 80 per cent. reduction in die size when compared to legacy networking technology, hence decreasing the FPGA cost by 80 per cent. The five registered patents are the cornerstone for any new networking design based on FPGA, and should enable the Company to protect its intellectual property assets in the long run.

3. MARKET DEVELOPMENT

3.1 *Customer challenges*

Operators and telecom equipment manufacturers are finding it increasingly difficult to cope with the evolving network requirements and the ever growing volume of data generated, processed, consumed and stored by end users of all types. Operators and telecom equipment manufacturers need to get the required support for these networking pressures from traditional vendors who rely on ASIC solutions. New ASIC solutions are often prohibitively expensive, have a relatively short lifespan and require extended hardware design time to fabricate the specified networking features. This issue is exacerbated by the need to support the emerging Software Defined Network ("SDN") specifications which require flexibility and most importantly programmability. To overcome limitations of existing infrastructure, operators are pushing towards Virtualisation of Network Functions ("NFV"), a solution that will enable providers to control, manage and reduce boundaries created in the existing generic hardware platforms with software solutions replacing proprietary hardware networking solutions. However, to make it economical and to give operators the ability to support the huge growth in users and data consumption, there is a need for programmable hardware to accelerate the performance of a pure software data path. This acceleration solution, in turn, reduces CPU load whilst still maintaining the exact same programmability and flexibility and supporting the vision of Network Virtualisation.

Ethernity has designed, developed and patented a series of system solutions to address these specific needs within a programmable FPGA framework. The Ethernity solution works across network processing points from local loop (home) networks, to data centres, mobile telecommunication requirements to IP traffic and network functioning. Furthermore, as Ethernity's solutions are designed using an FPGA platform they are to a great extent "future-proofed", that is they can be updated, upgraded or reprogrammed in-line with future network or infrastructure demands and security requirements.

A number of organisations have published research into the trends and issues facing the various network types. Relevant extracts from some of these are reproduced below.

3.2 *Consumer data networks*

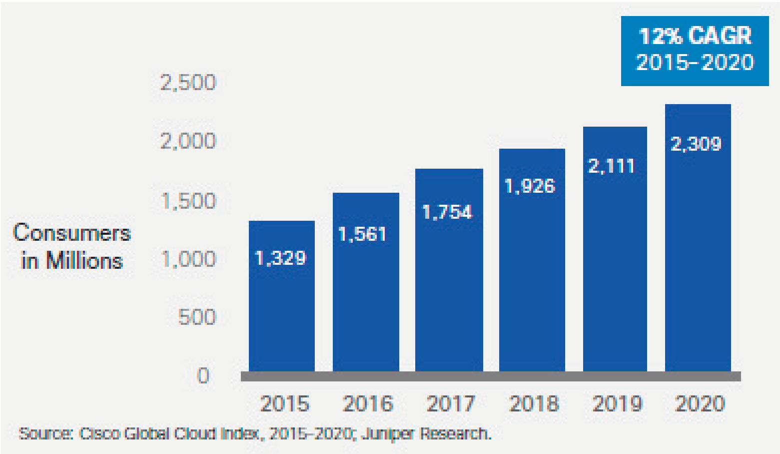
In 2016, Cisco published its white paper entitled "Cisco Global Cloud Index: Forecast and Methodology, 2015-2020 ("Cisco GCI"). In this white paper Cisco stated:

Along with the growth in the consumer internet population and multi-device ownership, we are seeing a significant growth in the use of cloud services such as consumer cloud storage.

Consumer Cloud Storage

- By 2020, 59 per cent. (2.3 billion) of the consumer internet population will use personal cloud storage, up from 47 per cent. (1.3 billion users) in 2015.
- Globally, consumer cloud storage traffic per user will be 1.7 gigabytes per month by 2020, compared to 513 megabytes per month in 2015.

Consumers using Cloud Storage



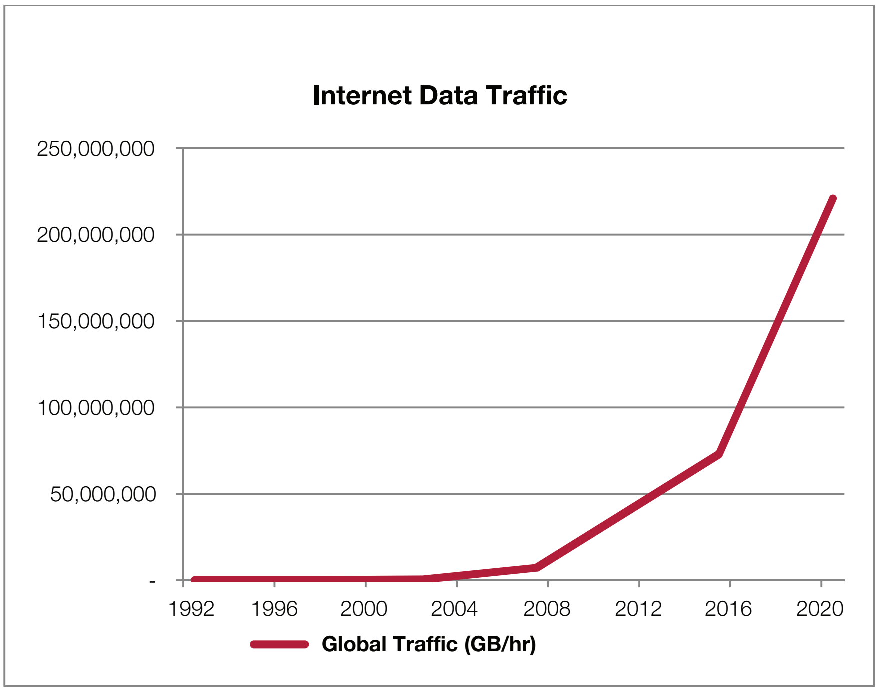
Multiple-Device and -Connection Ownership

- North America (7.3), followed by Western Europe (5.5), had the highest average number of devices or connections per user in 2015, followed by Middle East and Africa (5.4), Latin America (4.7) Central and Eastern Europe (4.5), and Asia Pacific (4.5).
- By 2020, North America (13.6), followed by Western Europe (9.9), will have the highest average number of devices or connections per user, followed by Central and Eastern Europe (6.2), Latin America (5.2), Middle East and Africa (5.0), and Asia Pacific (5.0).

This translates into the forecast explosion in internet traffic illustrated in the tables below:

Year	*Global Internet Traffic*
1992	100 GB per day
1997	100 GB per hour
2002	100 GBps
2007	2,000 GBps
2015	20,235 GBps
2020	61,386 GBps

Source: Cisco VNI, 2016



Consumer data conclusion

The growth in data traffic within the home network and the corresponding increasing demands placed on the network from video streaming, online gaming and other always connected devices are forcing changes in the infrastructure supporting connectivity. In order to provide the requisite support and low network latency, operators are faced with the option of either investing in hardware or utilising NFV to provide a software solution. However, for a hardware solution to be effective it requires an investment to place the requisite hardware close to the end user. For operators this means a large infrastructure investment cost and an ongoing cost to service hardware distributed across the network. It also locks operators into a rigid network plan that cannot easily adapt to a change in demands.

The alternative plan is to utilise NFV advances that allow for network functions to be housed in the cloud through software applications. This offers operators the advantage of being able to service key network functions remotely, while still situating functions at the network edge to keep latency low, but also to adapt the network to meet demands for bandwidth as they arise. However, while this is the direction that many operators are actively pursuing, it places large demands on elements of the network that process data traffic and route it through the system. Adding large volumes of CPU processing power comes at a cost for the installation and energy demands. There is therefore a demand for the Ethernity solution that enables data processing and acceleration to be efficiently offloaded from the CPU thereby reducing the number of servers required to operate virtual networks close to the home.

3.3 *Data centres*

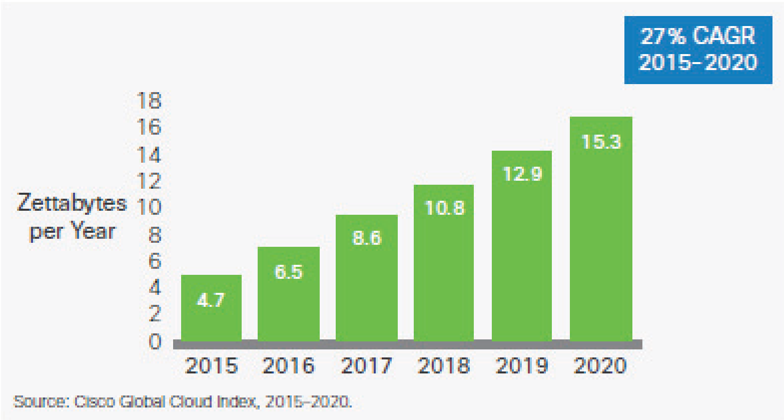
Again from the Cisco GCI white paper:

Global Data Centre Traffic

- Annual global data centre IP traffic will reach 15.3 zettabytes (“ZB”) (1.3 ZB per month) by the end of 2020, up from 4.7 ZB per year (390 exabytes (“EB”) per month) in 2015.

- Global data centre IP traffic will grow 3-fold over the next 5 years. Overall, data centre IP traffic will grow at a compound annual growth rate (“CAGR”) of 27 per cent. from 2015 to 2020.

Global Data Centre IP Traffic



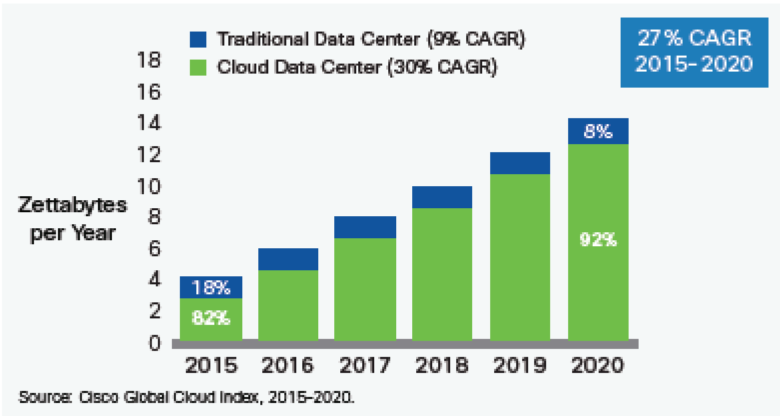
Data Centre Virtualisation and Cloud Computing Growth

- By 2020, 92 per cent. of workloads will be processed by cloud data centres; 8 per cent. will be processed by traditional data centres.

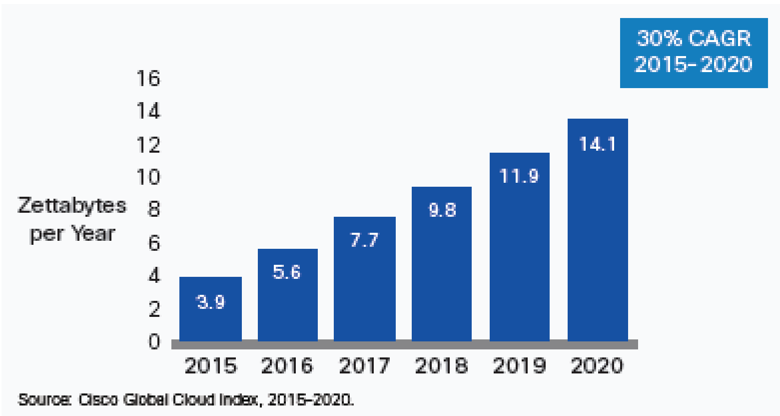
- Overall data centre workloads will more than double (2.6-fold) from 2015 to 2020; however, cloud workloads will more than triple (3.2-fold) over the same period.

- The workload density (that is, workloads per physical server) for cloud data centres was 7.3 in 2015 and will grow to 11.9 by 2020. Comparatively, for traditional data centres, workload density was 2.2 in 2015 and will grow to 3.5 by 2020.

Total Data Centre Traffic



Cloud Data Centre Traffic



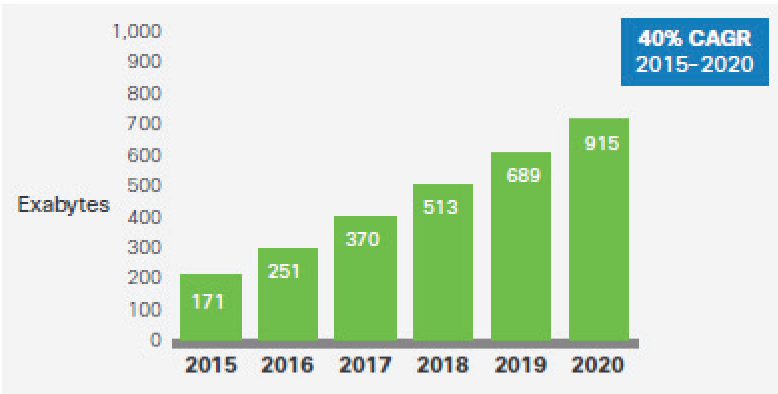
Data Centre Storage

- By 2020, data centre storage installed capacity will grow to 1.8 ZB, up from 382 EB in 2015, nearly a 5-fold growth.
- By 2020, the total global installed data storage capacity in cloud data centres will account for 88 per cent. share of total DC storage capacity, up from 64.9 per cent. in 2015.

Data in Data Centres, Big Data, and IoT

- Globally, the data stored in data centres will quintuple by 2020 to reach 915 EB by 2020, up 5.3-fold (a CAGR of 40 per cent) from 171 EB in 2015.
- Big data will reach 247 EB by 2020, up almost 10-fold from 25 EB in 2015. Big data alone will represent 27 per cent. of data stored in data centres by 2020, up from 15 per cent. in 2015.
- The amount of data stored on devices will be 5 times higher than data stored in data centres, at 5.3 ZB by 2020.
- Driven by the Internet of Things, the total amount of data created (and not necessarily stored) by any device will reach 600 ZB per year by 2020, up from 145 ZB per year in 2015. Data created is two orders of magnitude higher than data stored.

Data in Data Centres



Data centre conclusions

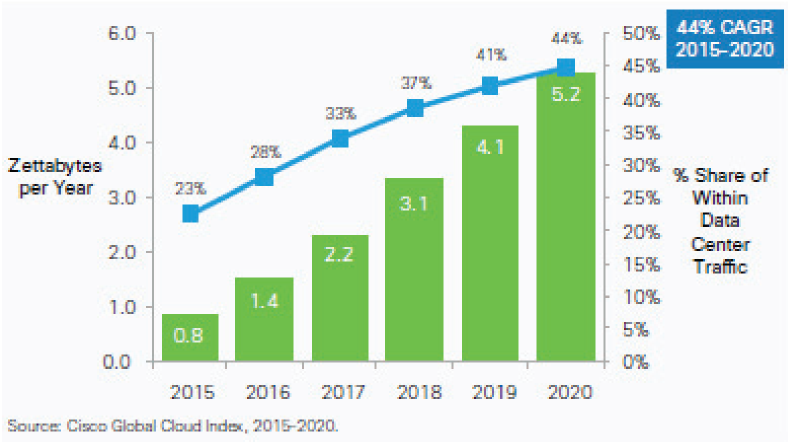
By 2020, the cloud will represent more than 90 per cent. of all data centre traffic. Significant promoters of cloud traffic growth include the rapid adoption of and migration to cloud architectures and the ability of cloud data centres to handle significantly higher traffic loads. Cloud data centres support increased virtualisation, standardisation, and automation. These factors lead to the need for better performance as well as higher capacity throughput from the network infrastructure.

The Evolution of Data Centre Architecture: SDN/NFV

Three technology trends are transforming the data centre: leaf-spine architectures (which flatten the tiered architecture of the data centre), software-defined networks ("SDN"s, which separate the control and forwarding of data centre traffic) and network function virtualisation ("NFV", which virtualizes a variety of network elements).

Most major hyperscale data centres already employ flat architectures and software-defined network and storage management, and adoption of SDN/NFV within large-scale enterprise data centres has been rapid. As a portion of traffic within the data centre, SDN/NFV is already transporting 23 per cent., growing to 44 per cent. by 2020.

SDN/NFV Traffic within Data Centres



SDN and NFV solutions streamline data traffic flows with the data centre such that this data traffic can be routed more efficiently in the future than it is routed today. SDN allows data traffic handling to move data routes within a data centre in order to minimize traffic in response to bandwidth bottlenecks thus alleviating the issues presented by the enormous growth in data traffic into data centres which in turn significantly reduces the pressure on data centre infrastructure.

3.4 *Mobile telecoms*

Telecom networks are more deeply linked to the physical world than IT networks with each aspect of a telecom network requiring its own infrastructure. Accordingly, it will take much longer to convert physical telecom networks into software solutions. Nevertheless, from a technical perspective, the current way of building networks will reach capacity as traffic continues to grow rapidly.

5G mobile networks are the next generation of mobile connectivity but more than the application of new technology to improve data speed for users, 5G is forcing a change of the mobile architecture to address the evolving requirements and uses of the mobile network. There is a need for a network that is "flexible, programmable, intelligent and distributed" (source: HPE Whitepaper: Realizing the 5G vision at the network edge). The driver for change in the network philosophy is operators being pushed by consumers but also other network verticals including the Internet of Things with an associated exponential increase in connected devices.

IHS Markit, a leading market-research firm, states that the most important factor behind cloudification is economic. Mobile operators badly need to cut costs, as the smartphone boom ends in many places and the prices of mobile service plans fall.

In order for 5G mobile to be this effective solution "the new architecture for 5G will be based on the underlying principles of NFV, SDN and MEC" with the result that "5G will ultimately be a flexible, programmable, distributed cloud network". By employing a distributed network with NFV infrastructure the network should be better equipped to cope with the high data and low latency demands becoming expected of mobile networks from video services and interactive applications. As a result CISCO has forecast that 5G connections will account for 0.2 per cent. of global connections but 1.5 per cent. of total traffic generating 4.7 times more traffic than an average 4G connection.

In pursuing a cloud-based 5G network operators will need to evaluate where and what data processing needs to be inserted into the infrastructure. As a first step, operators will likely look to increase the capabilities, and processing intelligence at the "network edge", base stations, and cell site aggregation points.

AT&T, the largest telecom network operator in the US, wants to have more than half its network virtualised by the end of 2017 (The Economist: 15 April 2017).

3.5 ***Internet networks***

Global Cloud Traffic

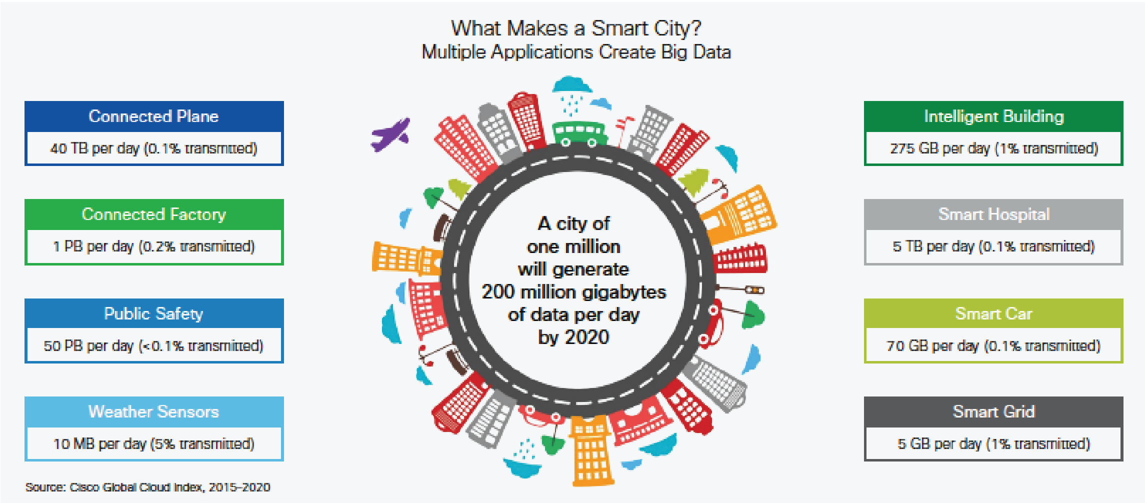
- Annual global cloud IP traffic will reach 14.1 ZB (1.2 ZB per month) by the end of 2020, up from 3.9 ZB per year (321 EB per month) in 2015.

- Global cloud IP traffic will almost quadruple (3.7-fold) over the next 5 years. Overall, cloud IP traffic will grow at a CAGR of 30 per cent. from 2015 to 2020.

- Global cloud IP traffic will account for more than 92 per cent. of total data centre traffic by 2020.

Global Digitization: Impact of IoE

The use of cloud services is accelerated in part by the volume of data being generated by not only people, but also machines and things. Cisco GCI estimates that 600 ZB will be generated by all people, machines and things by 2020, up from 145 ZB generated in 2015.



In addition to increasing data volumes, the increasing range of connected devices has dramatically increased the number of network protocols and complexity of the associated network operations. Traditionally, this has been managed at a local level but the increased complexity is forcing operators to move this processing into the cloud where it can be centrally managed and serviced. This increases the processing of data being routed to the cloud and further drives the need for a sophisticated and flexible solution for data offloading and acceleration.

This increase in data volumes and complexity is supporting the development of the intelligent NIC market and in November 2016, the Linley Group published *A Guide to Virtualized Network Processing* in which they stated:

"The markets for both data centre and carrier networking equipment are experiencing a major upheaval driven by SDN/NFV adoption as well as the ongoing rise of large public cloud operators. These changes have upset the merchant packet processing market, which is now served by multiple architectures including NPUs and intelligent NICs. Even as incumbent network equipment vendors face an uncertain growth path, they continue to develop internal ASICs, limiting the merchant market. The largest public cloud operators are also developing their own ASIC and FPGA based designs, leaving intelligent NIC vendors to serve the next tier of data centres.

Looking forward, public cloud data centres represent the largest volume opportunity for intelligent NICs, but hyperscale operators are also the most likely to adopt internal designs. Amazon paid a reported $350 million for Annapurna Labs, although it has also applied the acquired technology to products other than intelligent NICs. Microsoft developed its Azure SmartNIC, combining an off the shelf Ethernet controller and an FPGA as an alternate means of delivering programmability.

We estimate that public cloud data centres will consume 8.1 million 10GbE and above NIC ports in 2017 and that this number will surpass 10 million by 2019. Programmable intelligent NICs will face competition, however, from partial offload NICs as well as operators' in house designs."

3.6 ***Response to data growth***

In response to the forecast increases described above in data creation, transfer and consumption, operators and manufacturers are developing the Carrier Ethernet and NFV/SDN markets. Both are markets in which the Company has developed solutions to assist operators to improve network efficiency and data transfer.

Carrier Ethernet Market

Carrier Ethernet refers to the utilisation of high-bandwidth Ethernet technology in internet access as well as in communication for government, business, and academic LANs (Local Area Networks). Carrier Ethernet employs hardware and software to improve connectivity. Along with maintenance and management services beyond standard Ethernet, offering performance equal to other carrier grade network transport protocols, ideal for Metropolitan Area Network (MAN) as well as Wide Area Networks (WAN). The technology is predicted to offer scalability up to 100G and beyond, while the market for IP edge networking appliances is currently restricted generally to 1 to 10 Gigabits speed.

The significant increase in IP traffic predicted by Cisco over the coming years, as well as the need for higher bandwidth, arising from increasing use of mobile broadband and other wireless technologies, is a major factor driving the need for scalable network infrastructure such as carrier Ethernet equipment.

The escalating use of wireless technology and mobile broadband has fuelled the demand for scalable infrastructure and higher bandwidth. Broadband services such as online gaming and Internet Protocol television (IPTV) require higher bandwidth. New opportunities created by wireless backhaul are leading operators to build scalable networks. Such significant market trends and changes are expected to propel the global carrier Ethernet equipment market.

Other important growth drivers include the expanding video, voice, and data traffic resulting from increasing adoption of virtualisation, cloud computing, and Machine to Machine connection, all of which place immense pressure on service provider networks and entail increasing bandwidth.

Additionally, the shift to advanced networks, such as LTE, owing to the rise in multimedia downloads and uploads, and growing demand for new and innovative data applications, is adding pressure on mobile backhaul networks. Service providers are interested in technologies that allow the flexible transport of 2G/3G traffic as well as LTE traffic. Carrier Ethernet is viewed as a relatively inexpensive and less complex option with the global market for Carrier Ethernet Equipment projected by Global Industry Analysts, Inc to reach US $38 billion by 2020. This is driven by increasing global data traffic and rising adoption of carrier Ethernet Services.

SDN and NFV Market

SDN, NFV, network virtualisation, and white box networking are all complementary approaches. They each offer a new way to design, deploy and manage the network and its services:

- SDN: separates the network's control (brains) and forwarding (muscle) planes and provides a centralised view of the distributed network for more efficient orchestration and automation of network services.
- NFV: focuses on optimising the network services themselves. NFV decouples the network functions, such as DNS and caching, from proprietary hardware appliances, so they can run in software to accelerate service innovation and provisioning.
- White Box: uses network appliances, such as switches, routers and servers, that as based on "generic" merchant silicon networking and CPU chipsets available for anyone to buy, as opposed to proprietary silicon chips designed by and for a single networking vendor resulting in no-name switches, routers and servers operating with open source software platforms including open flow and open stack.

Why SDN and NFV

Advances in off-the-shelf hardware or white box networking, developer tools and standards, allow this seismic technology shift in networking from hardware to software to take place. It is this shift that drives the move to SDN and NFV – software can be decoupled from the hardware, so that it is no longer constrained by the box that delivers it. SDN and NFV enable the building of networks that can:

- reduce CapEx: allow network functions to run on off-the-shelf hardware
- reduce OpEX: supporting automation and algorithm control through increased programmability of network elements to make it simple to design, deploy, manage and scale networks
- deliver Agility and Flexibility: help organisations rapidly deploy new applications, services and infrastructure to quickly meet their changing requirements

The SDN market is estimated to reach US$70.41 billion by 2024, according to Grand View Research, Inc. Software defined networking has witnessed a surge in its popularity in the recent years due to the benefits it offers over the existing legacy infrastructure. The SDN solutions provide centralised control and operational capabilities, which help network administrators and engineers respond quickly and efficiently.

As they provide a virtualized view of the network and storage, the solutions help in deploying applications and services at a fast pace. The demand for SDN solutions is anticipated to rise as there is a growing need for increased operability and bandwidth of the carrier networks for service providers as well as large enterprises. The increasing data traffic from increased mobile devices, social media cloud computing, Internet of Things and other connected devices is expected to drive the data traffic in the coming years, which will create a steep demand for enhanced, flexible, networks.

The CapEx and OpEx reduction afforded by the SDN, coupled with the pay-as-you-grow model, is helping the market grow. Increased applicability in data centre infrastructures, as well as the presence of open source automation tools such as OpenStack, should drive market growth in the coming years.

The global NFV market (including hardware and software) will be worth US$15 billion by 2020, with software comprising 80 per cent. of that $15 billion, according to IHS Markit.

The need for performance acceleration

White boxes have long existed as a networking solution but developed from niche applications to wider acceptance during 2016 with the move towards open networking and disaggregation within data centres. There are benefits from white box hardware but the white box switch utilised should be chosen carefully and it should include high performance networking chips, computing power and security. NFV applications demand performance for networking applications and have a need for high throughput and consistently low latency. This needs to be supported with processing power in order to be able to deliver the required network functions.

A majority of the existing technologies designed to speed up NFV and SDN networking revolves around compensating for the increased overhead introduced by virtualisation and allows for more efficient packet processing on white box servers.

However, there is also demand for chip level and NIC modifications to handle high workloads. This then demands high performance NICs that can support higher throughputs within stringent latency requirements. These smart NICs can be ASIC based high volume NICs that provide enhanced virtual switching capabilities at zero or very small price premium, or FPGA based NICs that can significantly accelerate encryption/decryption for security applications or packet classification for Deep Packet Inspection (DPI) applications, or multi ARM core NICs that can run native Linux applications easily and allow for the most flexible network programmability.

Market conclusion

In all facets of the connected world there are increasing demands being placed on the network to provide speed, bandwidth, security and access for a growing number of devices. Beyond a scaling up of current network capability there is a drive to change how the network operates. From always connected IoT devices delivering a constant stream of low volume data to fleets of self-driving cars connected to each other, operators need to be able to adapt the network as clients demand flexibility.

To deliver this there is a natural trend for operators to employ software solutions and NFV: AT&T, the largest operator in the US, has already publicly stated that this is the solution it will employ across its network and made part of the network programme open source and freely available for others to employ.

This allows for commercial off the shelf servers to be employed by operators without a need to resort to proprietary network hardware. There will however be demand for solutions that accelerate the processing speed capability of the network servers and reduce the processing required to be done on the CPU. This can be achieved through network interface card technology to efficiently route traffic as it goes through network processing points. The Ethernity solution is a software application and network processing firmware that allows for certain performance hungry network processing functions to be offloaded from the server CPU and consequently deliver significant acceleration to the network. All of the patents filed by Ethernity are around the ability to house their software within a significantly smaller FPGA logic footprint than current competitors thus preserving the power and efficiency saving from data offloading on FPGA logic whilst maintaining the flexibility of a software solution compared to an ASIC rigid and non programmable hardware solution.

4. TECHNOLOGY DEVELOPMENT

4.1 *FPGA development progress*

ASICs offer high-performance and, once designed, low cost, solutions but any hardware engine or hardware algorithms they contain, apart from those that are executed in software on internal processor cores, are "frozen in silicon" and can be modified only by an expensive new ASIC design process, typically taking up to 24 months compared to significantly shorter software development cycles. FPGAs can be used to overcome this inflexibility but, until recently, cost differences limited implementations of FPGA to the design phase of an ASIC. The cost of producing the FPGA logic was expensive as a larger amount of silicon was required to manufacture chips capable of executing useful functions. As a result its use was restricted to a few high-end implementations. New 10nm manufacturing technology has enabled the cost of useful FPGA to be reduced and increased its use in previously underserved market segments.

FPGAs were originally used for prototypes and low volume applications. As FPGA can be utilised in multiple different applications, FPGA platforms can be deployed in automotive, defence, security, smart cars and communication and FPGA manufacturers have invested to decrease the cost of FPGA. This has opened new markets and FPGA has become more applicable for large volume, mass production markets.

An FPGA configures its programmable fabric to implement any combination of digital functions. Also, algorithms can be implemented in a parallel fashion, which means a huge amount of data can be processed quickly and efficiently.

The FPGA market is expected to reach US$7.23 billion by 2022 (source: Markets and Markets Private Ltd) and are expected to have many applications in automotive, consumer electronics, medical, and computing and data centre verticals. Telecommunication, industrial, and aerospace and defence are currently the top three markets for the application of FPGA. FPGA has many advantages including fast time-to-market, low non-recurring expenses, simple design cycle, predictable project cycle, field re-programmability, and fast and efficient processing; they are suitable for time-critical applications and parallel data processing among others. These factors are expected to drive the FPGA market, especially as the cost of FPGA logic continues to fall thereby increasing its competitiveness with rigid ASIC solutions. The increased usage of FPGA in markets that were previously ASIC dominated is supported by a number of large multinational technology corporations including Amazon, who have announced FPGA cloud services and Microsoft who have confirmed that FPGA accelerators are pervasive throughout their data centres. Separately, Intel has predicted that over one-third of the cloud will deploy FPGA by 2020.

4.2 *FPGA System on a Chip*

While originally FPGA vendors delivered a pure FPGA logic on a device, today the industry is moving to deliver a complete system on a chip, with FPGA logic.

The Directors believe that there will be a focus on a combined silicon that will merge many different elements on a single silicon together with programmable logic. Intel has invested in programmable business units with the acquisition of Altera and is also developing a new Server CPU (XCeon) with embedded programmable logic.

Integrating the Company firmware and software on these newer combined SoC will add additional value to the adoption of the Company technology, such that networking software combined with the Company firmware will be located on a single device, compared to today with two devices, or two different modules: one with programmable logic on a network adaptor, and the other the server CPU.

As programmable logic becomes a key element in new SoC, it should accelerate further the development of the Company's business into advanced data appliances.

4.3 *FPGA as a service in the cloud*

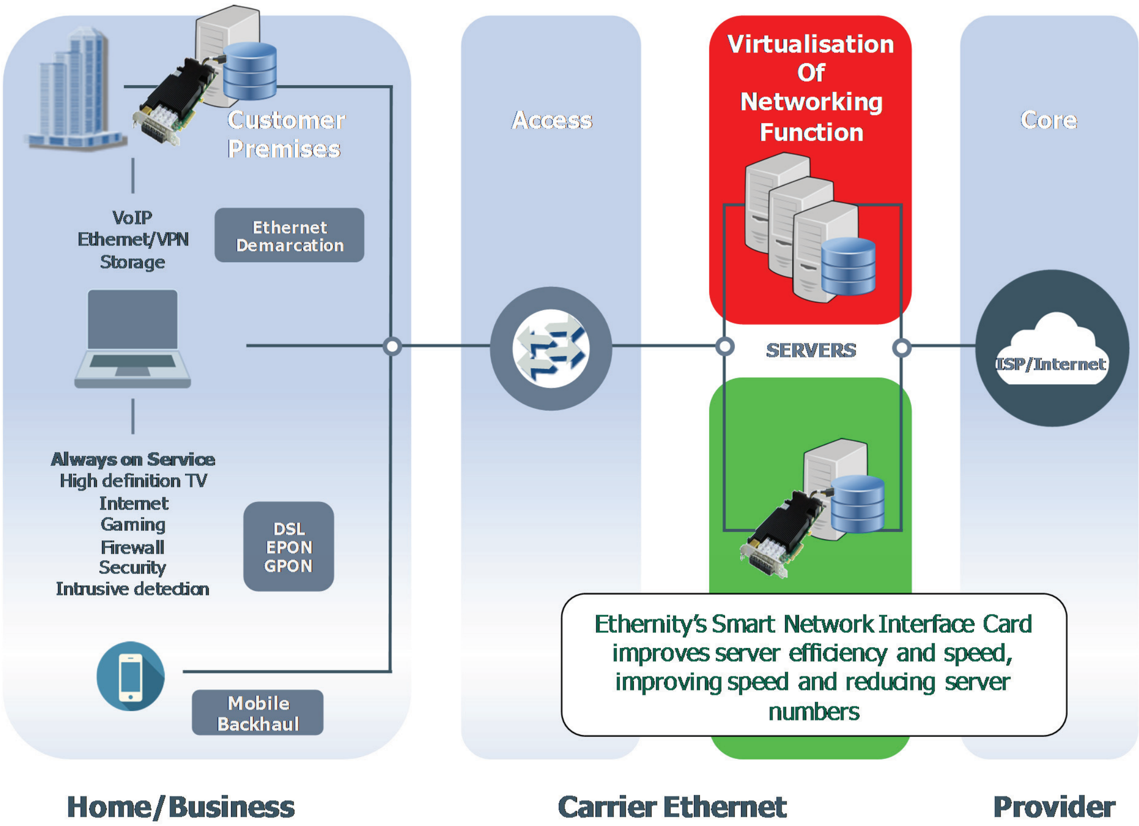
Amazon has built a FPGA computing farm to enable users to accelerate data appliances running on the cloud. It therefore opens additional opportunity for the Company to offer acceleration services to networking appliances being run on the Amazon cloud, this includes virtual business networks, SDWAN, virtual CPE, and security offloading. With the creation of the Amazon FPGA farm, FPGA can be treated as a commercial off-the-shelf server for hardware acceleration appliances that can be acquired and implemented within commercial cloud computing services. As has been the case for CPU based servers running application and networking functions, now FPGA can be used to run hardware acceleration in the cloud on a commercial platform, without the hardware vendor lock in experienced today with proprietary router and switches.

5. THE COMPANY'S OPERATIONS

5.1 *Ethernity's patents*

Ethernity Networks was founded with a vision to "change the game" in the networking market and is a technology solutions provider that develops data network processing technology used in high end carrier ethernet applications across the telecom, mobile, security and data centre markets. As a developer of networking technology and a vendor of customised, field upgradeable networking software solutions for internet data processing, it has invested in R&D, and leverages this investment to underpin its product range.

Ethernity's technology is covered by five US patents. Each patent covers various aspects of the efficient logic design of multi channel ethernet MAC, traffic management, search technology, bonding and protocol interworking. The patents are designed to free up the process of allowing data to travel across the relevant network at speed, on a flexible basis without increasing the cost to the network operator.



The end products employ a network processing technology, which utilizes low logic and internal RAM resources, resulting in 80 per cent. reduction in die size when compared to legacy networking technology, meaning the usage of less silicon per chip produced and a small overall footprint of the chip. As a result Ethernity's FPGA solution:

- is a patented solution with key technologies protected;
- is up to five times cheaper than any other, less-effective networking and aggregation technology implemented on an FPGA platform;
- offers 50 times performance improvements compared to virtualised networking software running on the server;
- lowers the latency of network systems; and
- reduces power consumption.

The five registered patents, with a further application pending, are the cornerstone for any new networking design based on FPGA, and should enable the Company to protect its intellectual property assets in the long run. All five of the Company's existing patents are US filed and their primary claims are described below.

Patent List

Patent #	*Patent Title*	*Description (Primary Claims)*	*Date of Grant*
7,924,863	Device and Method for Processing Data Chunks	Methods and devices for managing data chunks, especially in multi-port aggregation devices, which dramatically decrease the logic needed for multiple port Ethernet/IP aggregation implementation in FPGA or ASIC. Also applies to the support of any other multiple port design including ATM , PPP, or TDM	12 April 2011
7,822,051 8,223,788	Method and System for Transmitting Packets Method and system for queuing descriptors	Mechanism that enables deterministic, zero latency multicast technology of unlimited duplications, with the ability to maintain QoS between unicast and multicast packets, together with the ability to assign a different packet encapsulation/header per duplication. Also applies to the decrease of the internal chip memory by the use of external DDR memory that holds pointer and descriptor information, while maintaining wire speed duplication and zero latency.	26 October 2010 and 17 July 2012
7,620,770	Device and Method for Storing and Processing Data Units	Zero copy mechanism for storing an ingress data unit at the DDR memory unit for the purposes of packet re-ordering and traffic management, then retrieving a fetched data unit from the DDR memory for data unit processing, where the fetched data unit comprises at least a portion of the ingress data unit, all at wire speed and with single read and write to/from external DDR memory.	17 November 2009
8,345,685	Device and method for processing data packets	Methods and devices performing an advanced search mechanism to process data packets and perform various searches on a data packet especially for forwarding data packets by layer two switches, using low cost DDR instead of expensive TCAM	1 January 2013
2015/ 0163691	Method and System for distribution of high data throughput over multiple wireless connections	A method that enables the distribution of high capacity data payload over multiple lower speed links. The fragment can run over standard routers located in the network up to the far end destination without the need for any gateway devices between the two end points – applicable for SDWAN that perform load balancing between low speed link over the internet, wireless distribution	Pending

The patents developed by Ethernity underpin the Company's product suite and its ability to improve networking performance at a number of access points. By virtue of being an FPGA solution, the Ethernity software can be adapted to meet a wide range of operator requirements. This can include the licensing of specific applications to run on third party FPGA hardware to the in-house development of a complete NIC providing a complete solution, backed by Ethernity's software.

The communications industry is at the beginning of a new, virtualised, era. There will be many new innovations in NFV and SDN. Any emerging solution for NFV performance acceleration or an SDN switch must have the ability to accommodate support for new versions of SDN. With Intel's acquisition of Altera and the increasing number of hardware architectures seeking greater degrees of programmability, the market will see a growing number of hybrid processor-plus-FPGA architectures along with new, innovative ways to implement NFV performance acceleration.

FPGA-based NFV NIC acceleration can provide the flexibility of NFV based on general-purpose processors while at the same time supplying the necessary throughput that the GPP cannot sustain, while performing certain network function acceleration that GPP can't support. By efficiently combining the SDN and the NFV in the FPGA platform, it is possible to achieve the design of all programmable network devices fostering the innovation to a new ecosystem for IP vendors in network applications.

The shift towards NFV and SDN represents one of the most transformational architectural network trends in nearly 20 years. With their promise of open systems and network neutrality, NFV and SDN stand poised to make a far-reaching impact in shaping the communications networks and businesses of tomorrow.

5.2 *Ethernity's products – SMART-NIC*

The starting point in developing Ethernity's current product suite was the development of its own intelligent NIC, called "Smart-NIC" to bring an open and highly programmable SDN and NFV solution to the market.

Focusing on solving the performance issues for NFV, Ethernity's Smart-NIC is equipped with a virtual switch/router implementation that enables a system to accelerate switch functionality while maintaining a dedicated virtual port for each Virtual Machine ("VM"). If a specific VM is not available, the Smart-NIC can store up to 100 milliseconds of traffic; then, upon availability, it will release the data through DMA to the VM. Equipped with delay measurement capabilities through an implementation of a standard CFM packet generator and a packet analyser, the Company's Smart-NIC can measure the availability and health of a VM and instruct the Smart-NIC's stateful load balancer regarding the availability of each VM for load distribution. The packet reorder engine can maintain the order of the frame if, for example, a packet moves out of order, which can result in the use of multiple VMs for one function.

5.3 *Ethernity's products – ACE-NIC*

In addition to Smart-NIC, Ethernity has also developed an NFV NIC called ACE-NIC. This integrates Ethernity's SoC firmware (already deployed in over 400,000 carrier ethernet network systems) into a single FPGA. FPGA inserted the functionality of five discrete components into ACE-NIC's: NIC and SRIOV support; network processing (including classification, load balancing, packet modification, switching, routing and OAM); 100-ms buffering; frame fragmentation; and encryption.

The ACE-NIC is an OpenFlow-enabled hardware acceleration NIC. The ACE-NIC accelerates performance of vEPC and vCPE NFV platforms by 50 times, dramatically reducing the end-to-end latency associated with NFV platforms. ACE-NIC is equipped with four 10GE ports, along with software and hardware designed for an FPGA SoC based on Ethernity's Smart-NIC flow processor. The ACE-NIC is further equipped with onboard DDR3 connected to the FPGA SoC, to support 100-ms buffering and search for a million entries.

The ACE-NIC comes with basic features such as per-frame time-stamping that's accurate within nanoseconds, a packet generator, a packet analyzer, 100-ms buffering, frame filtering and load balancing between VMs. To serve multiple cloud appliances, it also has the ability to assign a virtual port per VM.

Furthermore, the ACE-NIC comes with dedicated acceleration functions for NFV vEPC. They include frame header manipulation and offloading, 16K virtual-ports switch implementation, programmable frame fragmentation, QoS, counters and billing information, which can be controlled by OpenFlow for the vEPC. With its hardware and software design, the ACE-NIC accelerates software performance by 50 fold.

5.4 *Ethernity's products – The all programmable Ethernity SDN Switch*

Similarly, Ethernity integrated the Smart-NIC SoC firmware in an FPGA to create an All Programmable SDN switch, with support for OpenFlow and complete carrier Ethernet switch functionality, accelerating time-to-market for white-box SDN switch deployment.

The ENET SoC Carrier Ethernet Switch is an MEF-compliant L2, L3 and L4 switch/router that can switch and route frames with five levels of packet headers, between 16,000 internal virtual ports distributed over 128 physical channels. It includes support for FE, GbE and 10GbE Ethernet ports, and four levels of traffic- management scheduling hierarchy. With its inherent architecture to support fragment frames, the ENET can perform IP fragmentation and reordering of functions with technology of zero copy, such that segmentation-and-reassembly does not require dedicated store and forward. Furthermore, ENET has an integrated programmable packet generator and packet analyzer to ease CFM/OAM operation. Finally, the ENET can operate in 3GPP, LTE, mobile backhaul and broadband access. It supports interworking between multiple protocols, all with zero- copy operation and without a need to reroute frames for header manipulation.

5.5 *Ethernity's Products – G.Fast*

The Company's G.Fast products are based on the current solution deployed in broadband access for older generation of DSL technologies (VDSL2). However, this solution has been integrated into a lower cost SoC combining FPGA logic and a dual ARM 9 processor through the application of the Company's proprietary technology to reduce the logic needed to run the required software. Therefore, the Company has been able to utilise the same code delivered and installed previously onto new FPGA platforms that should enable the Company to capture the market opportunity represented by an increasing global uptake of G.fast by the network operators.

The below table summarises the Company's G.fast platform solutions:

5 Gbps low-end	**20 Gbps mid**	**40 Gbps**
ENET38xxZ <3W	ENET42xxZ ~7W	ENET48xxZ ~ 12.8 W

▪ 2.5G uplink
▪ 16K buffers
▪ MEF compliment switch, QinQ
▪ IGMP snooping
▪ 16K forwarding entries
▪ 16 ports EFM bonding
▪ Hierarchical TM with three hierarchies
▪ Shaper/Policer
▪ Performance monitoring
▪ 2x G.999.1 2.5GE interfaces supporting 16 x G.fast modems
▪ External buffering
▪ Single DDR 32 DQ for CPU, buffering and forwarding data base
	In addition to ENET38xxZ
	▪ 32K buffers
	▪ 10 G uplink
	▪ L3 forwarding
	▪ 16, 24 G.fast port target Applications (Also can support 48 G.fast)
	▪ EFM bonding supporting 16 ports and up to 8 groups
	▪ 1588 TS
	▪ OAM
	▪ SDN OF 1.3.1
	▪ PBB
	▪ Full router/gateway with LPM 16K entries
	▪ MAC table 16K entries
	▪ 32 DQ DDR3 for CPU and data base and another 32DQ DDR2 for external buffering
		In addition to ENET42xxZ
		▪ Targeted to 48-port with high throughput
		▪ Chassis based single device solution to support 256 ports of mix of VDSL and g.fast
		▪ 4 x 10GE
		▪ MAC table 128K
		▪ IP Table 128K
		▪ DDR3
		  ▪ 32 DQ DDR3 for CPU
		  ▪ 32DQ for Search
		  ▪ 64DQ for external buffering

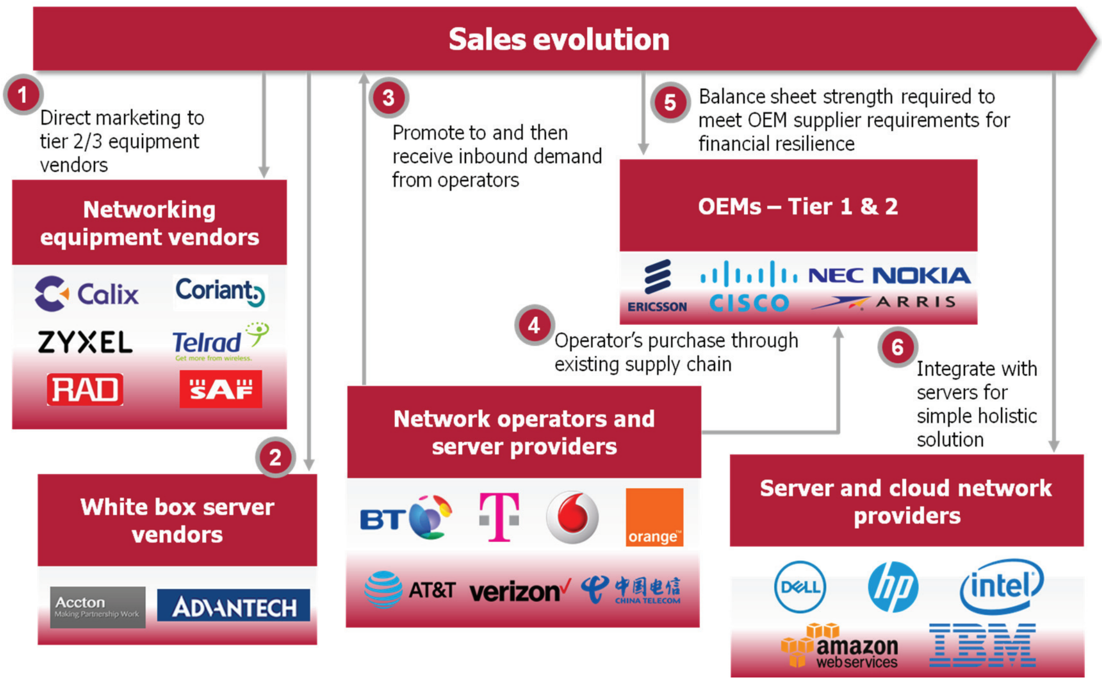
5.6 ***Product Summary***

Programmable Platform	*Firmware/software*
ENET38/42/48xxZ/99 G.fast Fabric Flow Processors	ENET38/42/48xxZ/99 is a family of fabric flow processors (FFP) for G.Fast solutions supporting Carrier Ethernet Switch, OAM/CFM, G.999.1, and EFM bonding
ENET4200ZR	ENET4200 access flow processor is a 20Gbps flow processor and traffic manager solution with integrated microwave modem
ENET38/48xxZSEC – SDWAN and vCPE controller	ENET38/48xx a 10G/40Gbps Carrier Ethernet switch with integrated IPSec for use at distributed vCPE and SDWAN platforms is a family of high performance open flow
ENET58xxZ – 120Gbps SDN open flow switch	ENET58xx 120Gbps – Open flow enabled processor and traffic manager solutions, optimised for Networking appliance acceleration – under design
ACE NIC – SmartNIC NFV software acceleration NIC	ACE-NIC is an open flow enabled software acceleration NIC, operated on top of COTS servers. ACE-NIC accelerates performance of vEPC and vCPE NFV platforms by 50 times, dramatically reducing end-to-end latency associated with NFV platforms.

5.7 ***Sales Channels/Growth potential***

Ethernity's software has attracted the attention of tier 1 operators and equipment suppliers which has enabled the Company to enter into initial proof of concept and design phases with potential customers. This customer demand validates the approach of the Company. However, in most cases tier 1 operators will not contract direct with the Company but prefer to purchase through existing supply chains and OEM partners. However, OEMs are directed by their operator clients to use the precise technology and specification that is needed and consequently should be directed to purchase Ethernity's technology.

Following Admission the Company intends to expand its marketing both direct to network operators and service providers as well as to their supplier OEMs. The Directors believe that the compelling technology coupled with a strengthened balance sheet will give the Company greater ability to penetrate the market, beyond the inbound requests already received. In due course the Company expects also to be able to market its technology directly to the major global server and cloud providers to enhance their existing implementations and advances into FPGA data offloading and acceleration.



The Directors believe that there is no technology barrier to the networking implementation of ACE NIC. Today more than 400,000 Smart NIC systems are deployed in the field utilising the Company's processing technology.

100Gbps and 200Gbps solutions are based on the current technology simply by utilising multi core architecture.

The current Ethernity solution for the embedded networking appliance solution includes complete integration with third party application software, to deliver a complete solution to the customer (therefore, the same will be done for the solution based on the ACE-NIC smart network adapter).

In addition to developing its sales channels through OEM suppliers, the Directors believe that there is scope to enhance the Company's market position through strategic partnerships with white box and ASIC vendors (converting elements of the FPGA design into an ASIC). By entering into such partnerships the Company should be able to access a wider market while maintaining its core data centre and network operator focus.

5.8 ***Sales and Marketing***

The Company has a dedicated sales and marketing team. The sales and marketing team have experience within the industry and the technical expertise required to communicate the product specifications to potential customers. Key members of the sales and marketing team include Eugene Zetserov and Manish Sinha.

Eugene joined the Company in 2015 with previous experience of business development within the technology sector and prior to joining the Company worked at Marvell Technology for 15 years. He is based in Israel with responsibility for developing the Eastern European market. Eugene is AVP Marketing and undertakes strategic business development in Carrier, Enterprise and Data Centre Markets. 5G Network, Cloud and NFV Solutions.

In order to develop its presence in the US market, the Company has engaged with Manish Sinha as a full time consultant to the Company. Manish is based in the US with a strategic focus on developing relationships with operators and suppliers in the US. His previous roles include time at Xilinx, a large supplier of programmable logic, during which time he worked with Ethernity.

In addition to the existing sales and marketing team the Company has appointed Barak Perlman as Chief Technology Officer with effect from 9 July 2017. Barak will have responsibility for the development of the Company's core technology as well as assisting with general sales activity being undertaken. He was previously a Senior System Architect at Hewlett Packard Enterprise and has experience of most aspects of the Company's products.

5.9 ***Competition***

In an attempt to be first to market with NFV hardware, several chip vendors have proposed platforms for NIC cards, each with some degree of programmability. Intel is the main NIC component provider, equipped with its DPDK package for packet-processing acceleration. EZchip offers its NPS multithreaded CPU. Marvell offers two all-inclusive data plane software suites for its Xelerated processor for both metro Ethernet and the Unified Fibre Access Application, which consist of an application package running on the NPU and a control-plane API running on a host CPU. Cavium has opted for a more generic software development kit for its Octeon family. Broadcom, Intel and Marvell L2/L3 switches are mainly used for search and vSwitch offload. Meanwhile, Netronome's new Flow- NIC is equipped with software that runs on that company's specialized network processor hardware.

VENDOR	Cavium	Intel	Mellanox	Napatech	Ethernity
NIC Type	OCTEON Plus CN56/57	Fortville	ConnectX®-4 Lx EN / Next X5 and X6	NT-xx: FPGA based NIC	ACE NIC
Rate	10/100	10/50/100	10/25/40/50/100/200	10/40/100/200	10/40G to 100G
Tunnel	No	Fix options	Fix options	Programmable tunnels	Programmable tunnels
IP Frag	No	No	No	No	Yes
IPSec	Yes 20G	no	Low or expensive	No	40G to 100G
Performance Monitoring	No	Few K	Few K	Few K	Yes 1 million entries
L2/L3 switch/ router	No	L2	Yes	No	Yes
Fault monitoring	No	No	No	No	Yes
PTP	No	No	No	Yes	Yes
Compression	No	No	No	No	Yes
External buffering	No	No	No	Yes, without QoS	Yes, with QoS
Price	> $4,000	> $4,000	> $3,000	>$10,000	$2,500

These offerings claim to be open NFV approaches, they all involve rigid and restrictive hardware implementations that are only programmable in software and rely once again on rigid, proprietary hardware implementations in SoCs or standard processors.

To add programmability while also improving performance dramatically, many companies are examining a hybrid approach that pairs an off-the shelf CPU with an FPGA. Over the last two years, a number of data centre operators— most notably, Microsoft — have published papers describing the dramatic performance increases they have gained with hybrid architecture. In the case of Microsoft, a white paper titled “The Catapult Project” cites a 95 per cent. performance increase at a cost of only a 10 per cent. power increase. Intel cited the potency of this combination of FPGA-plus-CPU in data centre NICs as the primary reason for its US$16.7 billion acquisition of the No. 2 player in FPGAs, Altera Corp.

The Company sees a considerable opportunity in the development of a semiconductor technology that builds a larger opportunity for solutions based on programmable logic. The CPU providers such as Intel, Qualcomm and ARM are already partnering with other vendors to offer integrated programmable logic elements on standard ASIC. This development, coupled with Ethernity’s strong patent position, should further extend the opportunity for Ethernet’s networking firmware.

6. FUTURE DEVELOPMENT

The Company is pursuing a multi-pronged growth strategy as follows:

- By investing in extended sales and marketing operations to drive accelerated growth. This will focus on up-selling products into existing customers and markets. This will involve increasing the Company's profile by greater participation at trade exhibitions, by becoming an active member of major open source industry initiatives and by increasing its customer support for Smart NIC (ACE NIC).
- By developing security and offload engines in the cyber and other security environs. This will involve developing programmable crypto engine software for IP SEC, MAC SEC and SSL offload environments. It will further involve the development of software in the abstraction layer between ENET networking engines and open software environment to allow accelerated network functions.
- By securing and continuing to monetise the Company's core technology by continuing to develop intellectual property and securing further patents to protect any future developed intellectual property. It is likely that future developed intellectual property will include the development of a next generation, higher data throughput solution based on current technology and solutions.
- By partnering with certain strategic partners to broaden the product or market opportunities available to the Company. For example, this could include:
  - partnering with an ASIC company to broaden the product portfolio to capture opportunities arising with mutual customers seeking a customised ASIC solution.
  - partnering with further white box server companies and continuing to build strategic partnerships with white box server manufacturers to deliver accelerated performance with all programmable network adapters and thus increase the Company's route to market.
  - collaborating with software appliance companies to deliver integrated software solutions as opportunities arise.

7. Directors and Employees

Brief biographies of the Directors are set out below. Paragraph 6.8 of Part V of this Document contains further details of current and past directorships and certain other important information regarding the Directors.

7.1 **Graham Woolfman** – *Non-executive Chairman*

Graham Woolfman has joined the Company as an Independent Non-executive Director and Chairman with effect from Admission.

Graham is a Fellow of the Institute of Chartered Accountants in England and Wales, and previously a partner and head of Corporate Finance at Levy Gee, a medium sized UK accountancy firm. He has over 25 years' experience in advising and supporting growth businesses, in financial and commercial management, and transactional activities. He was a founder Director of Gateway VCT plc, a venture capital trust listed on the London Stock Exchange, and managing partner of its investment adviser.

Graham has worked with companies across a range of sectors, including renewable energy, software, technology, medical-related, retail and consumer, general service based, and financial services sectors. He is a director of a number of private companies, and has served as a director of AIM quoted and LSE listed companies. He is an Independent Non-Executive Director of Filta Group Holdings plc, a company which joined AIM in October 2016. Graham is currently the managing director of Intrust Corporate Finance Limited, a corporate finance advisory firm, which is regulated by the FCA.

7.2 **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 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 a $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 IDF.

7.3 **Mark Reichenberg** – *Chief Financial Officer*

Mark Reichenberg joined the Company in December 2016 as an advisor and consultant to the IPO process and was appointed CFO of the Company in March 2017.

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 is a qualified Chartered Accountant from South Africa (1989) and holds a B.Acc degree from the University of the Witwatersrand (WITS) in South Africa.

7.4 **Shavit Baruch** – *VP Research & Development*

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

Prior to Ethernity Networks, Shavit served as Chief Architect at Native Networks, a start-up company developing products for Metro Ethernet market. Prior to this, in 2002, Shavit established Crescendo Networks, a start-up company enhancing data centre applications performance. Prior to the venture at Crescendo, Shavit served as R&D Director at ECI Telecom, where he was in charge of development of all transmission cards for one of the world's most successful broadband systems. Earlier Shavit worked at Lannet Data Communication, acquired by AVAYA, designing, together with Galileo, Ethernet switch on silicon.

7.5 **Neil Rafferty** – *Non-executive Director*

Neil Rafferty has joined Ethernity as an Independent Non-executive Director with effect from Admission.

Neil has spent the majority of his career in the telecoms and technology sectors holding a variety of senior executive positions. These range from being CEO of Easynet (listed on the London Stock Exchange before being acquired), CEO of Priority Telecom (a Dutch based cable company), and CEO of UCS (a Swiss based pan-European network carrier). He was also Global Operation Director at Cisco Systems, primarily responsible for the British Telecom relationship, which was one of Cisco's largest global customers. Latterly he has been advising early stage companies across a variety of sectors helping them implement growth strategies. He is currently an Advisory Board member at both Hidden Planet and Fitle. Neil holds a BA (Hons) degree from Newcastle Polytechnic.

8. SUMMARY FINANCIAL INFORMATION

Part III of this Document contains audited historical financial information of Ethernity for the three years ended 31 December 2016.

The following financial information has been derived from the financial information contained in Part III of this Document and should be read in conjunction with the full text of this Document. Investors should not rely solely on the summarised information:

		US dollars *31 December*	
	2016	*2015*	*2014*
Revenue	2,161,366	2,237,585	2,192,243
Gross profit	1,154,269	1,121,128	1,061,835
Operating profit/(loss)	338,501	426,650	(874,834)
Total comprehensive income/(loss) and profit/(loss)	800,821	619,690	(851,201)
Net Assets	676,489	(165,565)	(813,772)

9. CURRENT TRADING AND PROSPECTS

Since 31 December 2016, the Company has continued to trade in line with the Directors' expectations. Sales of Ethernity FPGA SoC to historic customers have continued to be robust as has the demand for the Company's design kits. The Directors remain confident in their expectations for the current financial year.

In the first quarter of Ethernity's 2017 financial year, revenues have grown to $610,000 and EBITDA to $306,000.

The Company is receiving a great deal of interest in its patented ENET NIC and FPGA solutions, a number of these discussions are continuing at a pace and the Directors expect a number of contracts to be signed in the 12 months following Admission that will drive the growth of the Company in the coming years.

10. REASONS FOR THE ADMISSION AND USE OF PROCEEDS

The Directors believe that Admission will increase the profile and credibility of the Company as it seeks to develop its core markets. The global network operators will only instruct their Tier 1 equipment suppliers to order from Ethernity once Ethernity meets their reasonable expectations of financial strength. Global operators want to deal with long term partners who have the necessary resources to support their products throughout their lifecycle, and who can demonstrate sufficient financial capacity to meet the global network operators volume and delivery requirements.

Consequently, the net proceeds of the Placing, will be used to:

– strengthen the Company's balance sheet and capital base to meet OEM financial strength requirements;

– allow the Company to invest in increased and continued R&D activities to build upon, and continue development of, the Company's existing product range; and,

– allow the Company to invest in additional marketing activities to increase product awareness and accelerate product uptake.

11. LOCK-UP AND ORDERLY MARKET ARRANGEMENTS

Pursuant to the terms of the lock in agreements each of the Directors have undertaken to Arden Partners and the Company that (i) save in certain limited circumstances, they will not dispose of any interest in their Ordinary Shares and/or Depositary Interests for a period of twelve months from Admission, and (ii) for a further twelve months thereafter they will deal in their Ordinary Shares and/or Depositary Interests only with the prior written consent of Arden Partners and through Arden Partners or the Company's broker from time to time.

Pursuant to the terms of the orderly market deeds each of the Substantial Shareholders has undertaken to Arden Partners and the Company that for twelve months from Admission they will deal in their Ordinary Shares and/or Depositary Interests only with the prior written consent of Arden Partners and through Arden Partners or the Company's broker from time to time.

Further details of these arrangements are set out in paragraphs 8.2 and 8.3 of Part V of this Document.

12. TAXATION

General information regarding UK and Israeli taxation is set out in paragraph 17 of Part V of this Document. These details are intended only as a general guide to the current tax position in these jurisdictions.

If an investor is in any doubt as to his or her tax position or is subject to tax in a jurisdiction other than the UK, he or she should consult his or her own independent financial adviser immediately.

13. ADMISSION, SETTLEMENT, CREST AND DEPOSITARY INTERESTS

Application has been made to the London Stock Exchange for the Enlarged Ordinary Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and dealings in the Ordinary Shares on AIM will commence at 8.00 a.m. on 29 June 2017.

The Depositary Interests representing the Ordinary Shares will be issued to individual Shareholders' CREST accounts on a one for one basis and with the Depositary providing the necessary custodial service. The Depositary Interests are themselves independent securities constituted under English law and can be traded and settled within the CREST system in the same way as any other CREST security. The Shareholders have the choice of whether to hold their Ordinary Shares in certificated form or in uncertificated form in the form of Depositary Interests. The Depositary Interests will be issued pursuant to the terms of the Deed Poll.

The Company's share register, which will be kept by the Registrar, will show the Depositary or its nominated custodian as the holder of the Ordinary Shares represented by Depositary Interests but the beneficial interest will remain with the Shareholders who will continue to receive all the rights attaching to the Ordinary Shares as they would have if they had themselves been entered on the Company's share register. Shareholders can withdraw their Ordinary Shares back into certificated form at any time using standard CREST messages.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. It is expected that, where Placees have asked to hold their Ordinary Shares in uncertificated form, they will have their CREST accounts credited with Depositary Interests on the day of Admission. Where Placees have requested to receive their Ordinary Shares in certificated form, share certificates will be despatched by first-class post within 10 Business Days of the date of Admission. No temporary documents of title will be issued. Pending the receipt of definitive share certificates in respect of the Placing Shares (other than in respect of those Placing Shares settled via Depositary Interests through CREST), transfers will be certified against the Company's share register.

The ISIN number of the Ordinary Shares is IL0011410359. The TIDM is ENET.L. The SEDOL is BF2B834.

14. INTERESTS IN ORDINARY SHARES

Upon Admission, the Directors will in aggregate be interested in, directly and indirectly, 11,285,758 Ordinary Shares representing approximately 34.7 per cent. of the Enlarged Ordinary Share Capital. Further information is available in paragraph 6.1 of Part V of this Document.

15. CORPORATE GOVERNANCE

The Directors acknowledge the importance of the principles set out in the Corporate Governance Code.

The Directors intend to apply the Corporate Governance Code, as far as they consider appropriate for a company of the size and nature of the Company.

Immediately following Admission, the Board will comprise 5 directors, 3 of whom will be executive directors and 2 of whom will be non-executive directors (including the Chairman), reflecting a blend of different experience and backgrounds. Graham Woolfman and Neil Rafferty are considered independent.

The Board intends to meet regularly to consider strategy, performance and the framework of internal controls. To enable the Board to discharge its duties, all Directors will receive appropriate and timely information. Briefing papers will be distributed to all Directors in advance of Board meetings. All Directors will have access to the advice and services of the Chief Financial Officer, who will be responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. In addition, procedures will be in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

The Directors acknowledge the requirements under Companies Law as regards to the composition and gender of the Board and its Committees as set out below and in paragraph 4 of Part V of this Document. The Directors intend to apply to the Israel Securities Authority for a waiver of certain of these provisions by virtue of the Company's comparative size. To the extent that exemptions are not granted, the Directors intend to nominate additional directors to the Board within 3 months of Admission, being the grace period under Companies Law, in order that the Company remains fully compliant with its obligations under Companies Law.

Board Committees

The Company will, upon Admission, have established Audit, Nomination and Remuneration Committees.

The Audit Committee will be chaired by Neil Rafferty, and will have primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of the Company is properly measured and reported on and reviewing reports from the Company's auditors relating to the Company's accounting and internal controls, in all cases having due regard to the interests of Shareholders. The Audit Committee will meet at least twice a year. Graham Woolfman and Mark Reichenberg (as a non voting member) will be the other members of the Audit Committee.

The Nomination Committee will be chaired by Graham Woolfman, and will identify and nominate, for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Nomination Committee will meet as required. Neil Rafferty and David Levi will be the other members of the Nomination Committee.

The Remuneration Committee will be chaired by Neil Rafferty, and will review the performance of the executive directors and determine their terms and conditions of service, including their remuneration and the grant of options, having due regard to the interests of Shareholders. The Remuneration Committee will meet at least once a year. Graham Woolfman and David Levi (as a non voting member) will be the other members of the Remuneration Committee.

Share dealing code

The Directors understand the importance of complying with applicable law and regulation relating to dealings by directors and certain other employees of the Company in the Ordinary Shares and have established a share dealing code. The Company will take all reasonable steps to ensure compliance by the Directors and any relevant employees. The Directors believe that the share dealing code adopted by the Board is appropriate for a company quoted on AIM. The Board will comply with applicable law and regulation relating to directors' dealings and will take reasonable steps to ensure compliance by the Company's "applicable employees" as defined in the AIM Rules.

Israeli Law Requirements

In accordance with the Companies Law, a company whose shares are traded on a recognised exchange or are offered to the public outside Israel under a document falling within the definition of a "prospectus" under the Companies Law, will be required to appoint at least two external Directors within three months of Admission. The external Directors must meet certain statutory requirements of independence.

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 and approval of the initial election of an external Director must satisfy either of the following tests:

(a) The shares voted in favour of the election must include a majority of the shares voted by shareholders other than controlling shareholders or shareholders who have a personal interest in the election of the external director (excluding a personal interest that is not related to a relationship with controlling shareholders), in counting the total votes of such shareholders, abstentions shall not be taken into account.

(b) The total number of shares held by non-controlling shareholders and shareholders without a personal Interest in the election of the external director (excluding a personal interest that is not related to a relationship with the controlling shareholders) that voted against the election of the external director must not exceed two per cent. of the aggregate voting rights of the Company.

An external director may be elected for an additional term by one of the following procedures:

(a) A Shareholder holding at least one per cent. of the aggregate voting rights of the Company proposed his nomination for an additional term, the nomination has been approved by the Shareholders by a majority vote and all of the following conditions have been complied with:

    (i) the shares voted in favour of the election must include at least a majority of the shares voted by shareholders other than controlling shareholders or shareholders who have a personal interest in the election of the external director (excluding a personal interest that is not related to a relationship with controlling shareholders) as well as abstentions;

    (ii) the total number of shares held by non-controlling shareholders and shareholders without a personal interest in the election of the external director (excluding a personal interest that is not related to a relationship with the controlling shareholders) must exceed two per cent. of the aggregate voting rights of the Company; and

(iii) the external director to be appointed for an additional term is not a related or competing shareholder or a relative of such a person at the time of nomination, and is not affiliated to a "related or competing shareholder" at the time of nomination, or in the preceding two year period.

A "related or competing shareholder" means a shareholder that proposed the nomination or a material shareholder, provided such shareholder or a controlling shareholder thereof or a company controlled by such shareholder or the controlling shareholder thereof, maintains business relations with the Company or are competitors of the Company.

(b) The Board of Directors proposed the nomination of the external director for an additional term, and the nomination was approved in accordance with the procedure set out in sub paragraph (a) above.

(c) The external director to be appointed for an additional term proposed his own nomination for an additional term, and the nomination was approved in accordance with the procedure set out in sub paragraph (a) above.

Subject to the provisions of the Companies Law, an external director can only be removed from office (without consent) in one or more of the following circumstances:

(a) by a competent court which, upon the application of either the Company, a director, a shareholder or a creditor of the Company, orders termination of the office of that director because it has determined either that: (a) he/she is permanently unable to fulfil his functions or (b) during his/her appointment he/she has been found guilty in a court outside of Israel of bribery, deceit, an offence of a manager of a corporate body or an offence involving the misuse of inside information;

(b) by a competent court which, upon the application of a director or shareholder of the Company, orders the termination of the office of that director because it has determined that he/she has ceased to fulfil one of the conditions required under the Companies Law for his/her appointment as an external director or that he/she has breached his fiduciary duty to the Company; and

(c) by a shareholders' resolution passed by the same majority required for the appointment of an external director provided that the Board has determined that either (a) he/she no longer complies with the conditions set out by the Companies Law for the appointment of such a director or (b) he/she has breached his fiduciary duty to the Company.

Any committee of the Board must include at least one external director and the Audit Committee (which must comprise at least three members) and Remuneration Committee must each include all of the external directors (including one external director serving as the chair of the Audit Committee and Remuneration Committee), and a majority of the members of each of the Audit Committee and Remuneration Committee must comply with the director independence requirements prescribed by the Companies Law.

At least one of the external directors must have "accounting and financial expertise" and any other external director must have "accounting and financial expertise" or "professional qualification", as such terms are defined by regulations promulgated under the Companies Law.

The Audit Committee and the Remuneration Committee may not include the chairman of the Board, or any director employed by the Company, by a controlling shareholder or by any entity controlled by a controlling shareholder, or any Director providing services to the Company to a controlling shareholder or to any entity controlled by a controlling shareholder on a regular basis, or any Director whose income is primarily dependent on a controlling shareholder, and may not include a controlling shareholder or any relatives of a controlling shareholder.

Individuals who are not permitted to be Audit Committee or Remuneration Committee members may not participate in the meeting of the committees other than to present a particular issue if invited to do so. However, an employee who is not a controlling shareholder or relative may participate in the Committee's discussions if invited to do so but not in any vote, and the Company's legal counsel and secretary may participate in the Committee's discussions if invited to do so.

16. DIVIDEND POLICY

The Board does not expect the Company to pay a dividend during the initial revenue growth phase immediately following Admission. Beyond this time, expected to be towards the end of 2019 and when the Company has secured long term stable contracts, the Board intends to adopt a progressive dividend policy for the Company which will seek to maximise Shareholder value and reflect the Company's strong earnings potential and cash flow characteristics, while allowing it to retain sufficient capital to fund on-going operating requirements and to invest in the Company's long term growth.

The Board may revise the dividend policy from time to time.

No assurance can however be given that the Company will ever pay or make a dividend or other distribution, nor as to the timing or amount of any dividend or other distribution which may, in the event, be made in due course.

17. TAKEOVER CODE

The Company is incorporated in Israel and, as such, the Takeover Code does not apply. However, the Company has incorporated certain provisions in its Articles which seek to provide Shareholders with certain protections otherwise afforded by the Takeover Code. These include provisions similar to Rule 9 of the Takeover Code which requires that any person who acquires, whether by a series of transactions over a period of time or not, an interest (as defined in the Takeover Code) in shares which, taken together with shares in which he is already interested or in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the Takeover Code, is normally required to make a general offer to all the remaining shareholders to acquire their shares. Similarly, Rule 9 of the Takeover Code also provides that when any person, together with persons acting in concert with him, is interested in shares which, in aggregate, carry more than 30 per cent. of the voting rights of such company, but does not hold shares carrying 50 per cent. or more of such voting rights, a general offer will normally be required if any further interest in shares is acquired by any such person. These provisions, like others contained in the Articles, are enforceable by the Company (acting through the Independent Directors) against Shareholders. However, the Company would need to take any action to enforce such provisions in the Courts of Israel without any guarantee that any such action would be successful or any certainty as to what the costs of doing so would be. Further details of the relevant provisions of the Company's Articles are set out in paragraph 3 of Part V of this Document.

Immediately following Admission, David Levi will be interested in, in aggregate, 6,767,900 issued Ordinary Shares, representing approximately 20.81 per cent. of the Enlarged Share Capital. In addition, immediately following Admission, Shavit Baruch will be interested in, in aggregate, 4,500,000 issued Ordinary Shares, representing approximately 13.8 per cent. of the Enlarged Share Capital.

In addition, the Company will be subject to Israeli corporate law which regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving directors, officers or significant shareholders of the Company, and regulates other matters that may be relevant to these types of transactions. Further information on the equivalent applicable law can be found in paragraph 9 of Part V of this Document.

18. SHAREHOLDER NOTIFICATION AND DISCLOSURE REQUIREMENTS

Shareholders are obliged to comply with the shareholding notification and disclosure requirements set out in the Articles. A summary of the notification requirements under the Articles is set out in paragraph 3.18 of Part V of this Document.

19. RISK FACTORS

Your attention is drawn to the risk factors set out in Part II of this Document and to the section entitled "Forward Looking Statements" therein. In addition to all other information set out in this Document, potential investors should carefully consider the risks described in those sections before making a decision to invest in the Company.

20. ADDITIONAL INFORMATION

You should read the whole of this Document and not just rely on the information contained in this Part I.

Your attention is drawn to the information set out in Parts II to V (inclusive) of this Document which contains further information on the Company.

PART II

RISK FACTORS

Investors are referred to the risks set out below. An investment in the Company is subject to a number of risks and may not be suitable for everyone. An investment in the Company is only suitable for investors who are capable of evaluating, or who have been advised of the risks and merits of, such investments and who have sufficient resources to bear any loss which might result from such investment. No assurance can be given that Shareholders will realise a profit or avoid a loss on their investment.

The risks described below do not purport to be exhaustive and are not set out in any order of priority.

Additional risks and uncertainties which are not presently known to the Directors, or are currently deemed immaterial by the Directors, may also have an adverse effect on the Company's business, financial condition or results, the results of which could negatively impact the Company's prospects and/or could lead to investors losing all or part of their investment.

Investors should review this Document carefully and in its entirety and are recommended to obtain independent financial advice from an adviser authorised under FSMA (or another appropriately authorised independent professional adviser) who specialises in advising upon investments before making any investment in the ordinary shares in the capital of the Company. If any of the following risks occur, the Company's business, financial position and/or operating results could be materially and adversely affected.

In addition to the other relevant information set out in this Document, the Directors consider that the following specific risk factors, which are not set out in any particular order of priority, should be taken into account when evaluating whether to make an investment in the Company:

1. Risks relating to the Company

Failing to successfully implement its growth strategies

As set out in Part I of this Document, the Company intends to carry out certain growth and expansion strategies. The Company's growth and future success will be dependent to some extent on the successful completion of such growth and expansion strategies currently or proposed to be undertaken by the Company and the sufficiency of demand for the Company's solutions. The execution of the Company's growth and expansion strategies may also place strain on its managerial, operational and financial reserves and the failure to implement such a strategy may adversely affect the Company's reputation, business, prospects, results of operation and financial condition.

Uncontrolled growth

The Company has historically been focussed on the development of its core technology solutions and as set out in Part I of this Document with the market now at an inflexion point the Company intends to pursue a growth and expansion strategy. Should demand prove to be greater and/or earlier than anticipated by the Company its managerial and financial resources and its control systems may not be of sufficient scale to adequately manage this growth. This may adversely affect the Company's reputation and continued growth prospects.

Dependence on OEMs

The Company is increasingly selling its solutions through OEMs. There can be no guarantee that these OEMs will sell or will continue to sell the Company's technology solutions to their end-customers. The loss of certain key OEMs (and the resulting loss of Indirect Customers contracted via those OEMs) could have a material adverse effect on the Company's business growth prospects.

The Company faces competition in a rapidly evolving market

Although the Directors believe that significant barriers to entry exist in the markets in which the Company operates, including for example the technical skill and expertise required to develop its technology, the Company may face an increasing amount of competition. Competitors may seek to develop software which more successfully competes with the Company's current technology solutions and services and they may also adopt more aggressive pricing models or undertake more extensive marketing and advertising campaigns. This may have a negative impact on sales volumes or profit margins achieved by the Company in the future. The Company would also face an increase in competition if its competitors adopted but further developed the Company's technology solutions or if there were new entrants to the market with comparable or competitively superior technology.

Dependence on certain key customers

The Company's business is currently dependent on a limited number of key customers who may seek lower prices or may reduce their demand for the technology solutions or services of the Company. The relationship of the Company with its key customers could be materially adversely affected by a number of factors, including a decision by a key customer to diversify or change how, or from whom, they source the software or services currently provided by the Company, an inability to agree on mutually acceptable pricing terms with any one of its key customers or a significant dispute with or between the Company and one of its key customers. If the Company's commercial relationship with any of its key customers terminates for any reason, or if one of its key customers significantly reduces its business with the Company and the Company is unable to enter into similar relationships with other customers on a timely basis, or at all, the Company's business, its results of operations and/or its financial condition could be materially adversely affected.

Reputation is important in winning contracts with both new and existing customers

The Company's reputation, in terms of the software and the services it provides and the way in which it conducts its business, is central to the Company winning contracts with both new and existing customers. Failure to meet the expectations of these customers and other business partners may have a material adverse effect on the Company's reputation, business, prospects, results of operation and financial condition. The Company's future revenue growth and the contracts it wins depend on its ability to provide customers with high quality software and a high quality of service. If the Company is unable to provide customers with high quality software and a high quality of service, it could face customer dissatisfaction, leading to decreased demand for its software and services, a loss of revenue and damage to the Company's reputation.

Undetected defects in the technology solutions provided by the Company

The Company's business involves providing customers with reliable technology solutions. If the technology solutions contains undetected defects when first introduced or when upgraded or enhanced, the Company may fail to meet its customers' performance requirements or otherwise satisfy contract specifications. As a result, it may lose customers and/or become liable to its customers for damages and this may, amongst other things, damage the Company's reputation and financial condition. The Company endeavours to negotiate limitations on its liability in its customer contracts, however, defects in either the software developed on behalf of customers or developed and sold by the Company could result in the loss of a customer, a reduction in business from any particular customer, negative publicity, reduced prospects and/or a distraction to its management team. A successful claim by a customer to recover such losses could have a material adverse effect on the Company's reputation, business, prospects, results of operation and financial condition.

The Company's software may not perform as expected and the Company could be at risk of defects which adversely affect its customers

There is no guarantee that the Company's software will perform as intended. Costs spent on developing the software may therefore not be recouped and this may result in reduced profitability for the Company. As the Company's software is complex, it may contain defects or vulnerabilities which may not be detected until after its deployment to end customers. These could result in the Company's customers being vulnerable to, among other things, security attacks or adverse performance. The Company moreover may not always be able to identify the cause of performance problems in its software. The Company's business would be harmed if any of the events described above caused its customers or potential customers to believe the Company's software is not reliable or secure.

Security breaches of the Company's or customers systems

The Company is often required to and authorised by its customers to work with confidential information in the deployment of the Company's software and services. Should the Company's computer systems be breached, this could result in damage to the Company's reputation and/or financial loss. This could impair the Company's future ability to be granted access to customer propriety information and restrict its ability to complete contracts and develop its own products.

Inability to contract with customers on the most favourable terms to the Company

The Company contracts and intends to contract with companies and partners, many of which are in strong negotiating positions and have greater financial resources than the Company. Whilst the Company has sought to create a sustainable pricing model for its technology solutions and contract terms, the Company may have limited scope for negotiation of the price or contract terms with its customers. Additionally, the Company does not have an adequate history to be able to predict the long-term rate of its pricing model and contract terms.

Contracts not renewing

Certain existing customers of the Company are engaged on contracts which may not be renewed by that customer at relatively short notice or may not be renewed by that customer. Although the Company has limited examples of this occurring, any such termination or failure to renew could affect the Company's profitability and financial position.

Dependence on certain key suppliers

The Company's business is dependent on a limited number of key suppliers who have significant influence over the supply of FPGA components. It is possible that these suppliers might seek to raise prices or limit supply of their products or services to the Company. The relationship of the Company with its key suppliers could be materially adversely affected by a number of factors including an inability to agree on mutually acceptable pricing terms with any one of its key suppliers or a significant dispute with or between the Company and one of its key suppliers. If the Company's commercial relationship with any of its key suppliers terminates for any reason, or if one of its key suppliers significantly reduces its business with the Company and the Company is unable to enter into similar relationships with other suppliers on a timely basis, or at all, the Company's business, its results of operations and/or its financial condition could be materially adversely affected.

Dependence on key officers, managers and technical personnel

Attracting and retaining experienced sale and technical personnel, including individuals with significant sales expertise, is a critical component of the future success of the Company's business as is the continued training and monitoring of such individuals. Competition for experienced sales people, particularly experienced in selling technology solutions in the US is high. Accordingly, the Company puts in place arrangements to incentivise key personnel but the Company may nevertheless encounter difficulties in attracting or retaining such individuals.

Continued growth may therefore cause a significant strain on existing managerial, sales, operational, financial and technical resources. The departure of any of the Company's executive officers or core members of its sales and marketing teams or technical team may have a negative impact on its customer relations and growth. In the event that future departures of employees occurs, the Company's ability to execute its business strategy successfully, or continue to provide its technology solutions to its customers or win new customers and partners could be adversely affected.

The Company is dependent on maintaining a highly skilled specialist workforce

The Company requires highly skilled employees to carry out its business and enable it to achieve its growth targets. The Directors believe that there is significant competition for skilled personnel, including engineers, consultants and project managers with the skills and technical knowledge that the Company requires for its operations. The Company's ability to achieve substantial revenue growth will depend, in large part, on its success in recruiting, developing and retaining sufficient numbers of such people to support its growth. Any failure to attract, develop and retain suitable personnel may impact the Company's performance.

Intellectual property, domain knowledge and know-how

The Company has sought to protect its proprietary technology solutions, know-how and other intellectual property by the filing of patent applications, entering into non-disclosure agreements with employees, independent contractors and third parties in the ordinary course of its business, implementing and maintaining internal and external controls and processes restricting access to the technology's underlying source code, and the laws of copyright, trade secret, confidentiality. It is possible that none of its pending patent applications will result in granted patents or the Company may be required to narrow the scope of its patent claims compared to those on file currently during the examination process.

Any intellectual property, whether or not registered owned and/or used by the Company in the course of its business or in respect of which the Company believes it has rights, may be prejudiced and/or open to challenge by third parties (including where such third parties have or claim to have pre-existing rights in such intellectual property). In any such case, the Company may be prevented from using such intellectual property or it may require the Company to become involved in litigation to protect its intellectual property rights, each of which may have a material adverse effect on the Company's reputation, business, prospects, results of operation and financial condition. Conversely, while the Directors believe the Company has taken precautions, they cannot guarantee that any action or inaction by the Company will not inadvertently infringe the intellectual property rights of others. Any infringement by the Company of the intellectual property rights of others could have a material adverse effect on the Company's reputation, business, prospects, results of operation and financial condition.

Despite precautions which may be taken by the Company to protect its technology solutions, unauthorised parties may attempt to copy, or obtain and use, its technology solutions and the technology incorporated in them. This could cause the Company to have to incur significant unbudgeted costs in defending its technology.

Increasing research and development spend may impact profitability

In order to remain competitive, the Company must continually update its technology solutions. The process of updating its software could result in increased costs and the Company's investment may therefore affect the Company's profitability.

Sanction from the OCS

As a condition of receiving grants from the OCS the Company has undertaken not to transfer ownership of the technology developed with the grant proceeds outside of Israel without prior approval from the OCS. In addition a placing, issuance or change in control to shareholders based outside of Israel requires the prior written approval of the OCS. The Company has requested approval from the OCS in respect of the Placing and, while this is commonly granted, formal approval has not yet been received.

Separately, the Company has also reaffirmed its commitment to Israeli Research & Development Law requiring it to repay grants received as a royalty of 3.5 per cent. of revenue up to an amount equal to grants received.

Volatility of exchange rates

The Company's reporting currency is US$ and an increasing element of the Company's sales are anticipated to be invoiced in US$. However the majority of the Company's expenses are incurred in NIS and the Company is therefore exposed to currency risk arising from currency fluctuations against its reporting currency. The Company's trading results are, therefore, subject to currency movements outside of their control.

Further, the Ordinary Shares will be trading in £. Therefore, Shareholders are further exposed to currency movements in relation to £, $ and NIS exchange rate fluctuations.

2. Risk factors relating to the Company's domicile in Israel

Security, political and economic instability in the Middle East and Israel in particular may harm the Company's business

The principal place of business of the Company is located in Israel. Accordingly, political, economic and military conditions in Israel could affect the Company's operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighbouring states, the last such ending in July 2014.

It is unknown as to how the volatile climate currently hinders Israel's international trade relations and whether they still may limit the geographic markets where the Company can operate. Any resumption of hostilities involving Israel or threatening Israel, or the interruption or curtailment of trade between Israel and its present trading partners, could materially and adversely affect the Company's operations albeit that there is no direct evidence of this having been the case over the past conflicts.

Security and political instability in the Middle East and Israel in particular may harm the Company's business. A majority of the Company's staff, as well as its research and development facilities, are located in Israel. Accordingly, security and political conditions in the Middle East in general, and in Israel in particular, could directly affect the Company's business. Any armed conflicts or political instability in the region, including acts of terrorism or any other hostilities involving or threatening Israel could have a negative effect on business conditions and could make it more difficult for the Company to conduct its operations in Israel and/or increase its costs and adversely affect its financial results.

Furthermore, some neighbouring countries, as well as certain companies and organisations continue to participate in a boycott of Israeli firms and others who do business with Israel or with Israeli companies. However, generally this is not the case with the major corporations in the industry that deal with Israel. Restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of the Company's business.

The Company's operations could be disrupted by the absence for significant periods of one or more of its senior management, key employees or a significant number of other employees because of military service. A number of the Company's senior management and the majority of its male employees in Israel under the age of 45 are obliged to perform military reserve duty, which accumulates annually from several days to up to two months in special cases and circumstances. The length of such reserve duty depends, among other factors, on an individual's age and prior position in the military.

In addition, if a military conflict occurs, these persons could be required to serve in the military for extended periods of time. Any disruption in the Company's operations as the result of military service by key personnel could harm its business.

Israeli Companies Law

The rights and responsibilities of the Shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under UK law.

The Company is incorporated under Israeli law. The rights and responsibilities of holders of Ordinary Shares are, therefore, governed by the Articles and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical companies incorporated in the United Kingdom.

In particular, a shareholder of an Israeli company has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, voting at a general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorised share capital, mergers and interested party transactions requiring shareholder approval. In addition, a person who holds or controls, by himself or together with others, one half or more of any one of the "Means of Control" of the company (a "Controlling Shareholder"), a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote, and a shareholder that possesses the power to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company.

"**Means of Control**" is defined as: (i) the right to vote at a general meeting of Shareholders; or (ii) the right to appoint directors of the company or its chief executive officer.

The power of the Company to issue and allot shares is exercisable by the Board at such times and on such terms and conditions as the Board may determine, subject to the Articles and the limit on the Company's authorised share capital, which may be amended by a resolution of the Shareholders. Shareholders do not have pre-emption rights under Israeli law over further issues of shares of the Company, except to the extent that such right is expressly included in the Articles.

Further, the Companies Law requires Israeli public companies to have at least two External Directors who shall be appointed for a term of three years (which can be extended for two additional three-year terms) and can be removed from office (including by shareholder vote) only under very limited circumstances.

Israeli corporate law has undergone extensive revision in recent years, and there is little case law available to help analyse and understand the implications of the new provisions that govern shareholder behaviour.

The Company may be required to pay special compensation or royalties to Israeli employees who develop intellectual property

Under Israeli patent law, if an employment agreement is not clear on the right of an employee to receive (or not receive) special compensation, in addition to his or her regular remuneration, for intellectual property developed by him or her during and in connection with his or her employment, then such employee can apply to a special tribunal, established under the Israeli Patents Law, to determine his or her rights.

A recent decision of the Committee for Compensation and Royalty matters under the Israeli Patents Law provides that a waiver by an employee of the right to receive such special compensation can be valid and enforceable. Nevertheless, proceedings which are still pending before the Israeli Court question the most recent Committee decision on this matter, and may require further review of the same. Accordingly, the law on the enforceability of waivers by employees of their right to receive additional compensation for their inventions is still inconclusive.

All the employees engaged by the Company have signed intellectual property assignment agreements, in which they assign their rights to any potential intellectual property created by them to their employer, acknowledge that they will not be entitled to any additional compensation for, or royalties from commercialisation of, such intellectual property and specifically waive the right under the Israeli Patents Law to receive compensation for their inventions. However, if Israeli courts eventually rule that such waivers of the right to receive such special compensation are not enforceable, in whole or in part, or give the provisions of Israeli Patents Law other interpretations protecting the rights of employees under protective labour law principles, the Company may be required to pay additional compensation or royalties to its Israeli employees who have participated in the creation of intellectual property, which may adversely affect the Company's business, results or operations and financial condition.

It may be difficult to enforce English law judgements against the Company or its directors and officers

The Company is incorporated under Israeli law and all of its executive Directors and the majority of its senior management team are based in Israel. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a judgment obtained in the United Kingdom against the Company and/or any of these persons, or to effect service of process upon these persons in the United Kingdom or elsewhere. Furthermore, it may be difficult to assert English securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of English securities laws on the grounds that Israel is not the most appropriate forum in which to bring such a claim. Even if an Israeli court agrees to hear a claim, it may determine that Israeli law, and not English law is applicable to the claim.

If English law is found to be applicable, the content of applicable English law must be proved as a fact which can be a time consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters above.

The rights and responsibilities of the Company's shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under English law

The Company is incorporated under Israeli law. The rights and responsibilities of holders of Ordinary Shares are governed by the Articles and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical English incorporated companies.

The power of the Company to allot and issue shares is exercisable by the Board at such times and on such terms and conditions as the Board may determine, subject only to the limit on the Company's authorised share capital, which may be amended by ordinary resolution of the Company. Shareholders of a public company do not have pre-emption rights under Israeli law over further issues of shares of a company, except to the extent that such right is expressly included in a company's articles of association.

The Articles contain pre-emption rights in favour of Shareholders in respect of the allotment or issue of securities which are, or are to be, paid up in cash, further details of which are set out in paragraph 9 of Part V of this Document. Any share issue following Admission may have a dilutive effect on Shareholders, particularly if they are unable or choose not to subscribe by taking advantage of rights of pre-emption that may be available.

The Takeover Code does not apply

The Company is incorporated in Israel and, as such, the Takeover Code does not apply. Certain provisions have been incorporated into the Articles which aim to mirror the material provisions of Rule 9 of the Takeover Code ("Rule 9") to the extent that it is possible to do so. In particular, the Articles provide that (except in certain limited circumstances):

- an acquisition of shares which increases the aggregate holding of the acquirer (and his concert parties) to shares carrying 30 per cent. or more of the voting rights of the Company; or
- an acquisition of Ordinary Shares by a person holding (together with his concert parties) Ordinary Shares carrying between 30 and 50 per cent. of the voting rights in the Company which increases the voting rights of that person (together with his concert parties), is prohibited unless the consent of the independent non-executive Directors is obtained. The main difference between these provisions and Rule 9 is that the Takeover Panel does not have any jurisdiction to enforce these provisions. For further information on the Articles, please see paragraph 3 of Part V of this Document.

The Company will also be subject to Israeli corporate law which regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving directors, officers or significant shareholders, and regulates other matters that may be relevant to these types of transactions.

Further information is contained in paragraph 9 of Part V of this Document.

3. General risks

Taxation

Any change in the Company's tax status or in taxation legislation could affect the Company's ability to provide returns to Shareholders or alter post tax returns to Shareholders. Statements in this Document concerning the taxation of holders of Ordinary Shares are based on current UK tax law and practice, which is subject to change. The taxation of an investment in the Company depends on the individual circumstances of investors.

Volatility of Ordinary Share price

The Placing Price may not be indicative of the market price for the Ordinary Shares following Admission. The subsequent market price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, including those referred to in this Part II, as well as stock market fluctuations and general economic conditions or changes in political sentiment that may substantially affect the market price of the Ordinary Shares irrespective of the Company's actual financial, trading or operational performance. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares (or the perception that such sales may occur, as, for example in the period leading up to the expiration of the various lock-in agreements to which certain Shareholders are subject), legislative changes and market, economic, political or regulatory conditions.

Liquidity of Ordinary Shares

Admission to trading on AIM should not be taken as implying that a liquid market for the Ordinary Shares will either develop or be sustained following Admission. The liquidity of a securities market is often a function of the volume of the underlying Ordinary Shares that are publicly held by unrelated parties. If a liquid trading market for Ordinary Shares does not develop, the price of Ordinary Shares may become more volatile and it may be more difficult to complete a buy or sell order for Ordinary Shares.

Ordinary Shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List

Ordinary Shares will be admitted to trading on AIM and will not be admitted to the Official List of the London Stock Exchange's main market for listed securities or to any other stock exchange. The rules of AIM are less rigorous than those of the Official List and an investment in Ordinary Shares traded on AIM may carry a higher risk than an investment in shares admitted to the Official List. In addition, the market in Ordinary Shares on AIM may have limited liquidity, making it more difficult for an investor to realise its investment than might be the case in respect of an investment in shares which are quoted on the London Stock Exchange's main market for listed securities. Investors should therefore be aware that the market price of the Ordinary Shares may be more volatile than the market prices of shares quoted on the London Stock Exchange's main market for listed securities and may not reflect the underlying value of the net assets of the Company. For these and other reasons, investors may not be able to sell at a price which permits them to recover their original investment.

Legislation and compliance

This Document has been prepared on the basis of current legislation, rules and practice and the Directors' interpretation thereof. Such interpretation may not be correct and it is always possible that legislation, rules and practice may change.

Additional capital and dilution

The Directors (having made due and careful enquiry) are of the opinion that taking into account existing cash, bank and other facilities available to the Company and the net proceeds of the Placing receivable by the Company, the working capital available to the Company is sufficient for its present requirements, that is for at least 12 months from the date of Admission.

If the Company fails to generate sufficient revenue, then it may need to raise additional capital in the future, whether from equity or debt sources, to fund expansion and development. If the Company is unable to obtain this financing on terms acceptable to it, then it may be forced to curtail its planned strategic development. If additional funds are raised through the issue of new equity or equity-linked securities of the Company other than on the basis of a *pro rata* offer to existing Shareholders, the percentage ownership of such Shareholders may be substantially diluted. There is no guarantee that market conditions prevailing at the relevant time will allow for such a fundraising or that new investors will be prepared to subscribe for Ordinary Shares at a price which is equal to or in excess of the Placing Price.

Dividends

There can be no assurance that the Company will declare dividends or as to the level of any dividends. The approval of the declaration and amount of any dividends of the Company is subject to the discretion of the directors of the Company (and, in the case of any final dividend, the discretion of the Shareholders) at the relevant time and will depend upon, among other things, the Company's earnings, financial position, cash requirements and availability of distributable profits, as well as the provisions of relevant laws and/or generally accepted accounting principles from time to time.

The risks listed above do not necessarily comprise all those faced by the Company and are not intended to be presented in any order of priority.

PART III

FINANCIAL INFORMATION RELATING TO THE COMPANY

This Part III contains in Section A, the accountant's report on the historical financial information of the Company and in Section B, the historical financial information for FY14, FY15 and FY16.

SECTION A – REPORT ON HISTORICAL FINANCIAL INFORMATION ON THE COMPANY

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The Directors
Ethernity Networks Ltd
1 Hamelacha Street
Lod Industrial Park
Israel 7152001

23 June 2017

Dear Sirs

Ethernity Networks Ltd. (the "Company") – Accountant's Report on Historical Financial Information

We report on the Company historical financial information set out in Section B of this Part III, for the three years ended 31 December 2016 (the **Historical Financial Information**). The Historical Financial Information has been prepared for inclusion in the Company's AIM admission document dated 23 June 2017 (the "**Admission Document**") on the basis of the accounting policies set out in note 2 to the Historical Financial Information.

This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for

the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The directors of Ethernity Networks Ltd. are responsible for preparing the Historical Financial Information on the basis of preparation set out in note 2 to the Historical Financial Information. It is our responsibility to form an opinion on the Historical Financial Information and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Paragraph (a) of Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Historical Financial Information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the Historical Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Historical Financial Information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Company as at 31 December 2014, 31 December 2015 and 31 December 2016 and of its profits, cash flows and changes in equity for the three years ended 31 December 2016 in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

FAHN KANNE & CO. GRANT THORNTON ISRAEL

A member firm of Grant Thornton International Limited

SECTION B – HISTORICAL FINANCIAL INFORMATION

Statement of comprehensive income

The following historical financial information has been prepared for inclusion in the AIM admission document of Ethernity Networks Ltd. There has been no essential change in the underlying business and, therefore, in accordance with SIR 2000 annex 57, the historical financial information presents the results of Ethernity Networks Ltd. for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

			US dollars	
			31 December	
	Notes	*2016*	*2015*	*2014*
ASSETS				
Current				
Cash and cash equivalents	4	335,723	160,126	7,036
Other short-term financial assets	5	58,518	–	–
Trade receivables	6	268,309	162,276	509,177
Inventories		–	64,147	1,494
Other current assets		28,725	115,388	81,623
Current assets		691,275	501,937	599,330
Non-Current				
Property and equipment	7	69,939	66,381	67,941
Deferred tax assets		800,000	250,000	–
Intangible assets	8	1,305,898	620,122	–
Non-current assets		2,175,837	936,503	67,941
Total assets		2,867,112	1,438,440	667,271
LIABILITIES AND EQUITY				
Current				
Borrowings	9	160,256	112,177	129,985
Trade payables		121,960	406,153	301,984
Other liabilities	10	1,191,291	977,803	854,894
Shareholders loans	11	527,568	934	67,792
Warrants liability, at fair value	11 / 16	43,309	–	–
Current liabilities		2,044,384	1,497,067	1,354,655
Non-Current				
OCS royalty liability	12	47,391	88,258	109,691
Borrowings	13	98,848	18,680	16,697
Non-current liabilities		146,239	106,938	126,388
Total liabilities		2,190,623	1,604,005	1,481,043
Equity	15			
Share capital		4,958	4,958	4,958
Share premium		5,629,272	5,629,272	5,629,272
Other components of equity	15	332,107	290,874	262,357
Accumulated deficit		(5,289,848)	(6,090,669)	(6,710,359)
Total equity		676,489	(165,565)	(813,772)
Total liabilities and equity		2,867,112	1,438,440	667,271

	Notes	US dollars For the Year ended 31 December 2016	2015	2014
Revenue	17	2,161,366	2,237,585	2,192,243
Cost of sales		1,007,097	1,116,457	1,130,408
Gross profit		1,154,269	1,121,128	1,061,835
Research and development expenses	18	221,873	182,892	1,546,722
General and administrative expenses	19	317,214	384,245	367,411
Marketing expenses	20	276,681	127,341	105,804
Other income	21	–	–	(83,268)
Operating profit (loss)		338,501	426,650	(874,834)
Financing costs (income)	22	87,680	56,960	(23,633)
Profit before tax		250,821	369,690	(851,201)
Tax benefit	23	550,000	250,000	–
Net comprehensive income (loss) for the year		800,821	619,690	(851,201)
Basic earnings (loss) per ordinary share	24	0.37	0.28	(0.47)
Diluted earnings (loss) per ordinary share	24	0.33	0.26	(0.47)
Weighted average number of ordinary shares for basic earning or loss per share		1,807,850	1,807,850	1,807,850

	Number of shares		Amounts in US dollars					
			Share Capital			Other		
	Ordinary shares	*Preferred shares*	*Ordinary shares*	*Preferred shares*	*Share premium*	*Other components of equity*	*Accumulated deficit*	*Total equity*
Balance at 1 January 2014	1,807,850	372,540	4,111	847	5,629,272	–	(5,859,158)	(224,928)
Employee share-based compensation	–	–	–	–	–	262,357	–	262,357
Net comprehensive loss for the year	–	–	–	–	–	–	(851,201)	(851,201)
Balance at 31 December 2014	1,807,850	372,540	4,111	847	5,629,272	262,357	(6,710,359)	(813,772)
Employee share-based compensation	–	–	–	–	–	28,517	–	28,517
Net comprehensive income for the year	–	–	–	–	–	–	619,690	619,690
Balance at 31 December 2015	1,807,850	372,540	4,111	847	5,629,272	290,874	(6,090,669)	(165,565)
Employee share-based compensation	–	–	–	–	–	41,233	–	41,233
Net comprehensive income for the year	–	–	–	–	–	–	800,821	800,821
Balance at 31 December 2016	1,807,850	372,540	4,111	847	5,629,272	332,107	(5,289,848)	676,489

	US dollars		
	For the Year ended 31 December		
	2016	*2015*	*2014*
Operating activities			
Net comprehensive income (loss)	800,821	619,690	(851,201)
Non-cash adjustments			
Depreciation of property and equipment	16,796	15,030	13,497
Share-based compensation	41,233	28,517	262,357
Amortisation of intangible assets	34,438	4,513	–
Amortisation of liabilities	11,706	13,770	(4,874)
Foreign exchange losses on cash balances	2,397	304	1,189
Deferred tax	(550,000)	(250,000)	–
Net changes in working capital			
Decrease (increase) in trade receivables	(106,033)	346,901	111,059
Decrease (increase) in inventories	64,147	(62,653)	(1,494)
Decrease in other current assets	86,663	(33,765)	246,848
Increase (decrease) in trade payables	(284,193)	104,169	149,765
Increase in other liabilities	196,585	157,403	234,179
Net cash provided by operating activities	314,560	943,879	161,325
Investing activities			
Increase of other short-term financial assets	(58,518)	–	–
Purchase of property and equipment	(20,354)	(13,470)	(12,505)
Amounts carried to intangible assets	(1,033,389)	(966,932)	–
Participating grants in intangible assets	313,175	342,297	–
Net cash used in investing activities	(799,086)	(638,105)	(12,505)
Financing activities			
Repayment of OCS liability	(35,670)	(69,697)	(46,740)
Proceeds from short term borrowings	26,379	–	–
Repayment of short term borrowings	–	(20,029)	(99,458)
Proceeds from long term borrowings	101,868	4,204	–
Repayment of long term borrowings	–	–	(47,286)
Receipt (repayment) of shareholder loans	526,634	(66,858)	37,897
Proceeds allocated to warrants liability	43,309	–	–
Net cash provided by (used in) financing activities	662,520	(152,380)	(155,587)
Net change in cash and cash equivalents	177,994	153,394	(6,767)
Cash and cash equivalents, beginning of year	160,126	7,036	14,992
Exchange differences on cash and cash equivalents	(2,397)	(304)	(1,189)
Cash and cash equivalents, end of year	335,723	160,126	7,036
Supplementary information on financing activities:			
Interest paid during the year	13,543	13,226	13,619

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

The company has commenced a process whereby it intends to list its entire share capital on the AIM Stock Exchange (“AIM”).

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES

The following accounting policies have been consistently applied in the preparation and presentation of these financial statements for all of the periods presented, unless otherwise stated. In 2016, new standards and amendments became effective but they had no material effect on the financial statements.

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

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

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

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

The financial statements for the year ended 31 December 2016 (including comparative amounts) were approved and authorised for issue by the board of directors on 23 June 2017.

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 recognized in the period in which the estimates are revised and in any future periods affected.

Regarding significant judgements and estimate uncertainties see note 3.

C. **Functional and presentation currency**

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

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

D. **Foreign currency transactions and balances**

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

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

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

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

	2016	*2015*	*2014*
New Israeli Shekel ("NIS")	0.260	0.256	0.257
EURO	1.052	1.088	1.215
Sterling	1.229	1.482	1.559

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 estimates.

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

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

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

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

G. **Allowance for doubtful accounts**

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

H. **Basic and diluted earnings / (loss) per share**

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

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

I. **Severance pay liability**

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

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

J. **Research and development expenses**

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

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

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Company intends to and has sufficient resources to complete the project
- the Company has the ability to use or sell the developed asset
- the developed asset will generate probable future economic benefits.

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

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

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

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

K. **Government grants**

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

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

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

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

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

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

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

L. **Financial instruments**

Recognition, initial measurement and derecognition

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

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

Classification and subsequent measurement of financial assets

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

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

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

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

Loans and receivables

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

Financial assets at FVTPL

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

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

Classification and subsequent measurement of financial liabilities

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

Derivative financial instruments

Derivative financial instruments (including embedded derivatives that were separated from the host contract – see Note 11) are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

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

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

M. **Share-based compensation**

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

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

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

N. **Fair Value Measurements**

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

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

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

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

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

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

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

O. **Off-set of financial instruments**

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

P. **Transactions with controlling shareholders**

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

Q. **Revenue recognition**

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

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

Sales of goods

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

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

Contracts with milestone payments

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

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

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

Amounts received under contracts that allow the customer, for a specified period after delivery, acceptance or cancellation rights, are deferred and presented as deferred revenues until the earlier of, the customer formal acceptance, or, the expiry of the acceptance or cancellation period.

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

Multiple element transactions

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

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

Revenue from royalties

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

R. **Income taxes**

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

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

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

Deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets or non-current liabilities, respectively. Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability.

S. **Operating cycle**

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

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

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

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

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

U. Ordinary shares and preferred shares

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

V. Equity and reserves

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

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

W. Provisions, contingent assets and contingent liabilities

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

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

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

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

X. New and revised standards that are effective for annual periods beginning on or after 1 January 2016

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

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

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

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

IFRS 9 'Financial Instruments'

The new standard for financial instruments (IFRS 9) introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- The classification and measurement of the Company's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.
- An expected credit loss-based impairment will need to be recognised on the Company's trade receivables and investments in debt-type assets currently classified as AFS and HTM, unless classified as at fair value through profit or loss in accordance with the new criteria.
- It will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in profit or loss unless the Company makes an irrevocable designation to present them in other comprehensive income.
- If the Company continues to elect the fair value option for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to the Company's own credit risk.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers'

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

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

The Company intends to adopt IFRS 15 as of January 1, 2018. The Company is in the process of evaluation the impact of IFRS 15 on its revenue streams and selling contracts, if any, and on its financial reporting and disclosures. Management is expecting to complete the evaluation of the impact of the accounting and disclosure changes on the business processes, controls and systems throughout 2017.

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact the Company are in the process of:

- Performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- Deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- Assessing their current disclosures for finance leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- Determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions

- Considering the IT system requirements and whether a new leasing system is needed. This is being considered in line with implementing IFRS 15 and IFRS 9 so the Company only has to undergo one set of system changes
- Assessing the additional disclosures that will be required.

NOTE 3 – SIGNIFICANT MANAGEMENT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY

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

Significant management judgement

- Capitalisation of internally developed intangible assets

  Distinguishing the research and development phases of a new or substantially improved customised research and development project and determining whether the recognition requirements for the capitalisation of development costs are met, requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired (see Note 8).

- Recognition of deferred tax assets

  The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions (see Notes 23.B and 23.C).

Estimation uncertainty

- Impairment of non-financial assets

  In assessing impairment, management estimates the recoverable amount of each asset or cash generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

- Useful lives of depreciable assets

  Management reviews its estimate of the useful lives of depreciable assets (including capitalized development expenses recognized as an intangible asset) at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain intangible assets (see Notes 8 and 9).

- Fair value measurement of employees' options and warrants valuation

  Management uses valuation techniques to determine the fair value of financial instruments (such as employees' options and warrants) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Notes 11 and 16).

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	US dollars 31 December 2016	2015	2014
In Sterling	226,687	–	–
In U.S. Dollar	1,350	10,800	–
In Euro	71,876	–	–
In New Israeli Shekel	35,810	149,326	7,036
	335,723	160,126	7,036

NOTE 5 – OTHER SHORT-TERM FINANCIAL ASSETS

This consists of a bank deposit denominated in New Israeli Shekel. On the 14th of February 2016, the Company registered a bond in favor of the bank amounting to $128,800 with a lien on this deposit. (See Note 13).

NOTE 6 – TRADE RECEIVABLES

Trade and other receivables consist of the following:

	US dollars 31 December 2016	2015	2014
Trade receivables	222,339	54,806	480,636
Unbilled revenue	45,970	107,470	28,541
Total receivables	268,309	162,276	509,177

All amounts are short-term. The net carrying value of these receivables is considered a reasonable approximation of fair value. All of the Company's trade and other receivables have been reviewed for indicators of impairment. None of these receivables were found to be impaired.

NOTE 7 – PROPERTY AND EQUIPMENT

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

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

	US dollars				
	Testing equipment	*Computers*	*Furniture and equipment*	*Vehicles*	*Total*
Gross carrying amount					
Balance 1 January 2015	18,386	92,728	36,425	47,743	195,282
Additions	–	7,147	6,323	–	13,470
Balance 31 December 2015	18,386	99,875	42,748	47,743	208,752
Depreciation					
Balance 1 January 2015	(16,738)	(88,037)	(9,514)	(13,052)	(127,341)
Depreciation	(386)	(3,917)	(3,566)	(7,161)	(15,030)
Balance 31 December 2015	(17,124)	(91,954)	(13,080)	(20,213)	(142,371)
Carrying amount 31 December 2015	1,262	7,921	29,668	27,530	66,381

	US dollars				
	Testing equipment	*Computers*	*Furniture and equipment*	*Vehicles*	*Total*
Gross carrying amount					
Balance 1 January 2014	16,831	90,409	27,794	47,743	182,777
Additions	1,555	2,319	8,631	–	12,505
Balance 31 December 2014	18,386	92,728	36,425	47,743	195,282
Depreciation					
Balance 1 January 2014	(16,169)	(84,629)	(7,155)	(5,891)	(113,844)
Depreciation	(569)	(3,408)	(2,359)	(7,161)	(13,497)
Balance 31 December 2014	(16,738)	(88,037)	(9,514)	(13,052)	(127,341)
Carrying amount 31 December 2014	1,648	4,691	26,911	34,691	67,941

NOTE 8 – INTANGIBLE ASSETS

Details of the Company's intangible assets are as follows:

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

	US dollars Total
Gross carrying amount	
Balance 1 January 2015	–
Additions	966,932
Deduction of government grant	(342,297)
Balance 31 December 2015	624,635
Amortization	
Balance 1 January 2015	–
Amortization	4,513
Balance 31 December 2015	4,513
Carrying amount 31 December 20156	620,122

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

NOTE 9 – SHORT-TERM BORROWINGS

Borrowings include the following financial liabilities:

	Annual % Interest rate[(1)]		*US dollars 31 December*	
	2016	*2016*	*2015*	*2014*
Overdrawn bank balances[(2)]		–	–	10,208
Bank borrowings[(2)]	5.6%	128,969	102,590	112,411
Current maturities of long-term liabilities (see Note 13)		31,287	9,587	7,366
Total short-term borrowings		160,256	112,177	129,985

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

(2) The Company has utilized all of its credit facility.

NOTE 10 – OTHER LIABILITIES

Other short-term liabilities consist of:

		US dollars 31 December	
	2016	*2015*	*2014*
Salaries, wages and related costs	181,972	162,156	164,387
Provision for vacation	126,762	125,138	124,170
Obligations to government	3,748	–	23,499
Current portion of OCS royalty liability (see Note 12)	52,016	35,113	69,607
Accrued expenses and other	85,541	–	24,397
Related parties (*)	741,252	655,396	448,834
Total other short-term liabilities	1,191,291	977,803	854,894

As of 31 December 2016, 2015 and 2014, the balance includes bonus accruals of approximately $373,000, $346,000 and $208,000 respectively. The remaining balance is comprised of salaries, wages and fringe benefits (see Note 27 for further details).

NOTE 11 – SHAREHOLDERS LOANS

Short-term liabilities to shareholders consist of:

	US dollars 31 December		
	2016	*2015*	*2014*
Shareholder loans[(1) (2)]	527,568	934	67,792

(1) The CEO lends funds to the Company to finance the Company's working capital. The loan bears 6 per cent. interest and if not repaid by January 2017 the interest rate increases to 8 per cent. and the maturity date is deferred to March 2017. In the first quarter of 2017, the Company repaid $109,000 and the balance is payable by the end of June 2017.

(2) In November 2016, some of the shareholders advanced to the Company short-term loans totalling $270,000 to finance the costs of admission to the AIM exchange ("Admission"). Upon the Admission and the receipt of funds raised in connection to the Admission, the Company shall repay $297,000 to these shareholders in full repayment of their short-term loans. In addition, upon the Admission, each of these above-mentioned shareholders shall be granted twelve month warrants to purchase $270,000 of ordinary shares with an exercise price equalling the price that shares are issued to the public in connection with the admission. The warrants represent an embedded derivative (equity kicker) since the economic characteristics and risks of such an equity-based return are not closely related to the economic characteristics of the host shareholders loan. Accordingly, upon receipt of the loan, the Company recognized the warrants as a derivative liability at its fair value using the following assumptions: The probability of the admission was determined by management as a likelihood of 90 per cent., volatility of 41.3 per cent., expected term of one year, interest rate of 0.79 per cent. and accordingly was valued at $43,300. The remaining consideration received by the Company was allocated to the shareholder loan (the host). The initial fair value of the warrants was valued at $43,300 and is shown as a separate short-term derivative liability. The balance of these shareholder loans were accordingly initially recorded at the amortized value of $226,700 (net of discount of $43,300). The difference between the amount recorded and the amount expected to be repaid to the shareholders is recorded in profit and loss over the expected period of the loan. Should the directors of the Company decide not to complete the Admission, then $270,000 will be repaid to the above-mentioned shareholders in 24 monthly instalments and no warrants will be issued.

NOTE 12 – OCS ROYALTY LIABILITY

	US dollars 31 December		
	2016	*2015*	*2014*
Balance at 1 January	123,371	179,298	230,912
Royalties paid	(35,670)	(69,697)	(46,740)
Amounts recorded in profit or loss	11,706	13,770	(4,874)
Balance at 31 December	99,407	123,371	179,298
Less: short-term component included in Other Liabilities	(52,016)	(35,113)	(69,607)
Long-term royalty liability	47,391	88,258	109,691

As described in Note 2.K., the Company received research and development grants from the Office of the Chief Scientist in Israel ("OCS") of approximately $3,110,000 and undertook to pay royalties of approximately 3.5 per cent. of revenues derived from research and development projects that were financed by these grants up to 100 per cent. of the amounts received from the OCS with the addition of approximately $938,000 of interest which is linked to the US Dollar short-term LIBOR interest rate. The amounts shown in the statement of financial position are management's best estimate of the long-term liabilities from royalties that will be payable on OCS funded technologies before such technologies are discontinued by the end of 2018. The short-term portion of such royalty liability is included in Other short-term liabilities. This royalty liability has been amortised at a 7.9 per cent. interest rate, with the financing component recorded in Finance costs. As at 31 December 2016, the Company has repaid approximately $400,000 of these grants, in the form of royalties. The maximum amount of royalties that would be payable, if the Company had unlimited revenue attracting royalty obligations, would be approximately $2,700,000 at 31 December 2016.

NOTE 13 – LONG-TERM BORROWINGS

Long-term liabilities consist of:

	Annual % Interest rate[(1)]	*US dollars 31 December*		
	2016	*2016*	*2015*	*2014*
Bank borrowings[(1)]	4.3%	130,135	28,267	24,063
Current maturities		(31,287)	(9,587)	(7,366)
Total long-term borrowings		98,848	18,680	16,697

(1) The balance at 31 December 2016 is primarily comprised of a loan received in 2016 from the Fund for Medium-Sized Businesses, through a bank, amounting to $120,376, of which 75 per cent. is guaranteed by the State of Israel. The loan bears interest of 4.3 per cent. The loan is repayable (principal and interest) in 60 monthly instalments ending in February 2021.

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES

A. During the years 2005 through 2012, the Company received grants from the OCS (Israeli Office of the Chief Scientist) totalling approximately $3.1 million, to support the Company's various research and development programs. Accordingly, the Company is required and committed to adhere to the Research & Development Law, according to which, *inter alia*, the Company is required to pay royalties to the OCS at a rate of 3.5 per cent., of the Company revenue up to an amount equal to the grants received, plus interest from the date of the grant. The total amount including interest is approximately $2.7 million. Such contingent obligation has no expiration date. See Note 12 for more details.

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

US dollars		
2016	*2015*	*2014*
67,083	–	–

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

D. Effective September 2016, the Company signed a marketing consultancy agreement for the sale of its products in North America. The monthly fee of $5,000 is in addition to a commission payable to the consultant for revenues generated through the consultant. The commissions start at 20 per cent. of revenues up until annual revenues of $1 million and thereafter the commission rate reduces to 6 per cent. and then once $4.3 million of annual revenues have been reached the rate reduces to 2 per cent.. The consultant also received 20,000 stock options vesting over 4 years and exercisable at $2.00 per option (see Note 16.A). The agreement may be terminated by either side on 30 days notice.

E. In December 2016 the Company signed an agreement with Mark Reichenberg acting as London AIM Advisory Services, to act as the Company's IPO manager in the Company's quest to be admitted to the AIM exchange and to provide management and consultancy services for the raising of equity and/or debt financing for the Company. Mr. Reichenberg was hired for a seven month period, during which time he will receive a monthly fee ranging between approximately $4,200 and $5,200. His expenses incurred in his duties will be re-imbursed by the Company. Upon the Company raising funds, Mr. Reichenberg will be entitled to a 1.2 per cent. commission but not more than £ 100,000. Under certain circumstances, this commission may be payable for up to 24 months after termination of this agreement. In the first quarter of 2017, Mr. Reichenberg was also appointed as CFO of the Company.

NOTE 15 – EQUITY

A. **Details regarding share capital and number of shares at 31 December 2016, at 31 December 2015 and at 31 December 2014 are:**

Share capital	
Preferred shares of NIS 0.01 par value	847
Ordinary shares of NIS 0.01 par value	4,111
Total share capital	4,958

Number of shares	*Authorized*	*Issued and paid-in*
Preferred shares of NIS 0.01 par value	971,930	372,540
Ordinary shares of NIS 0.01 par value	4,028,070	1,807,850
	5,000,000	2,180,390

B. **Description of the rights attached to the Ordinary Shares**

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

C. **Other components of equity include the following:**

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

D. **Description of the rights attached to the Preferred Shares**

During 2005, 2006 and 2012, the Company issued Series A Preferred Shares of NIS 0.01 par value to strategic shareholders. The issue price of the preferred shares is $3.29 per share. The rights of the preferred shares are:

Dividend preference

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

Conversion into ordinary shares

Preferred shareholders may convert their shares at any time into fully paid ordinary shares on a 1 for 1 basis. The preferred shares will automatically be converted upon either the consummation of an IPO or if at least 60 per cent. of the preferred shares are converted by their owners. If prior to an IPO, the Company issues shares at a price below $3.29, then the preferred shares are convertible at more than a 1 for 1 basis according to the anti-dilutive formula described in the Articles of Association.

Voting rights

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

Liquidation rights

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

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, service providers, officers and directors of the Company. The options are exercisable into the Company's ordinary shares of NIS 0.01 par value. The exercise price and vesting period for each grantee of options is determined by the Company's Board of Directors and specified in such grantee's option agreement. In accordance with Section 102 of the Israel tax code, the Israeli resident grantees' options, are held by a trustee. The options are not cashless (they need to be paid for) and expire upon the expiration date determined by the Board of Directors. The expiration date may be brought forward, upon the termination of grantee's employment or services to the Company. Options do not vest after the termination of employment or services to the Company. Options are not entitled to dividends.

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

	Option grant dates				
	15 Jul 2013	*13 Jul 2014*	*11 Oct 2015*	*1 Oct 2016*	*15 Oct 2016*
Number of options granted	250,892	7,000	13,800	2,000	20,000
Recipients of the options	employees	employee	employee	employee	consultant
Approximate fair value at grant date:					
Total benefit	476,829	16,662	35,133	5,894	54,392
Per option benefit	1.90	2.38	2.55	2.95	2.72
Assumptions used in computing value:					
Risk-free interest rate	2.57%	2.40%	1.88%	1.39%	1.54%
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Expected volatility	51%	47%	48%	44%	44%
Expected term (in years)	5	4	3	2	2
Expensed amount recorded for year ended:					
31 December 2014	254,524	7,833	–	–	–
31 December 2015	3,811	4,375	20,331	–	–
31 December 2016	1,139	2,623	7,638	3,263	29,833

The value of these options at 31 December 2016 which has not yet been recorded as expenses, is $30,435.

B. The following table presents a summary of the status of the option grants by the Company as of 31 December, 2016, 2015 and 2014:

	Number	*Weighted average exercise price (US$)*
Year ended 31 December 2016		
Balance outstanding at beginning of year	271,692	1.00
Granted	22,000	2.00
Exercised	–	
Forfeited	–	
Balance outstanding at end of the year	293,692	1.07
Balance exercisable at the end of the year	257,842	

	Number	*Weighted average exercise price (US$)*
Year ended 31 December 2015		
Balance outstanding at beginning of year	257,892	1.00
Granted	13,800	1.00
Exercised	–	
Forfeited	–	
Balance outstanding at end of the year	271,692	1.00
Balance exercisable at the end of the year	249,309	

	Number	*Weighted average exercise price (US$)*
Year ended 31 December 2014		
Balance outstanding at beginning of year	250,892	1.00
Granted	7,000	1.00
Exercised	–	
Forfeited	–	
Balance outstanding at end of the year	257,892	1.00
Balance exercisable at the end of the year	244,225	

C. The following tables summarize information about options outstanding at 31 December 2016:

Exercise price (US$)	*Outstanding at 31 December 2016*	*Weighted average remaining contractual life (years)*	*Weighted average exercise price (US$)*	*Exercisable at 31 December 2016*	*Weighted average remaining contractual life (years)*
1.00	271,692	6.68	1.00	257,842	6.58
2.00	22,000	9.79	2.00	–	
	293,692			257,842	

The fair value of options granted to employees was determined at of the date of each grant, based on a third party valuation report. The fair value of the options granted are expensed in the profit and loss.

NOTE 17 – REVENUE

	US dollars		
	Year ended 31 December		
	2016	*2015*	*2014*
Sales	1,883,095	1,961,400	1,863,816
Royalties	278,271	276,185	328,427
Total revenue	2,161,366	2,237,585	2,192,243

NOTE 18 – RESEARCH AND DEVELOPMENT EXPENSES

	US dollars		
	Year ended 31 December		
	2016	*2015*	*2014*
Employee remuneration and related costs(*)	59,582	32,668	1,345,136
Subcontractors	47,180	38,339	134,691
Maintenance of software and computers	66,005	53,999	51,743
Insurance and other expenses	14,668	53,373	15,152
Amortisation	34,438	4,513	–
Total research and development expenses	221,873	182,892	1,546,722
* Including share based compensation of	8,137	28,517	235,750

NOTE 19 – GENERAL AND ADMINISTRATIVE EXPENSES

	US dollars		
	Year ended 31 December		
	2016	*2015*	*2014*
Employee remuneration and related costs (*)	104,475	222,854	188,579
Professional fees	61,212	6,705	9,083
Rentals and maintenance	140,003	141,482	156,431
Depreciation	9,633	7,870	6,337
Travel expenses	1,891	5,334	6,981
Total general and administrative expenses	317,214	384,245	367,411
* Including share based compensation of	3,263	–	26,607

NOTE 20 – MARKETING EXPENSES

	US dollars		
	Year ended 31 December		
	2016	*2015*	*2014*
Employee remuneration and related costs (*)	143,770	78,180	63,206
Marketing expenses	102,054	19,102	23,928
Travel expenses	30,857	30,059	18,670
Total marketing expenses	276,681	127,341	105,804
* Including share based compensation of	29,833	–	–

NOTE 21 – OTHER INCOME

As described in Note 2.K., these are grants from the EU, which do not include an obligation to pay royalties and are therefore recognised as other income.

NOTE 22 – FINANCING COSTS (INCOME)

	US dollars Year ended 31 December		
	2016	*2015*	*2014*
Bank fees and interest	56,159	50,693	39,246
Interest and revaluation of embedded derivative on shareholder loans	16,428	–	–
Exchange rate differences	15,093	6,267	(62,879)
Total financing costs (income)	87,680	56,960	(23,633)

NOTE 23 – TAX BENEFIT

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

	%
2014	26.5
2015	26.5
2016	25.0
2017	24.0
2018	23.0

B. As of 31 December 2016, the Company has carry-forward losses for Israeli income tax purposes of approximately $4 million which can be offset against future taxable income for an indefinite period of time.

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 2015	–	–	–
Additions	195,134	54,866	250,000
Balance at 31 December 2015	195,134	54,866	250,000
Additions	(8,362)	558,362	550,000
Balance at 31 December 2016	186,772	613,228	800,000

NOTE 24 – BASIC AND DILUTED EARNINGS (LOSS) PER ORDINARY SHARE

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

	US dollars Year ended 31 December		
	2016	*2015*	*2014*
Profit (Loss) for the year	800,821	619,690	(851,201)
Less: Profit attributed to preferred shares	136,828	105,880	–
Profit (Loss) for the year attributable to ordinary shareholders	663,993	513,810	(851,201)

	Number of shares Year ended 31 December		
	2016	*2015*	*2014*
Weighted average number of ordinary shares used in the computation of basic earnings (loss) per ordinary share	1,807,850	1,807,850	1,807,850

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

	US dollars Year ended 31 December		
	2016	*2015*	*2014*
Profit (Loss) for the year	800,821	619,690	(851,201)
Less: Profit attributed to preferred shares	136,828	105,880	–
Profit (Loss) for the year attributable to ordinary shareholders	663,993	513,810	(851,201)

	Number of shares Year ended 31 December		
	2016	*2015*	*2014*
Weighted average number of ordinary shares	1,807,850	1,807,850	1,807,850
Weighted average number of free shares from share options	199,361	178,400	168,244
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per ordinary share	2,007,211	1,986,250	1,976,094

As the 2014 diluted loss per share is anti-dilutive, the basic loss per share is equal to the diluted loss per share

NOTE 25 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. **Financial risk management risk**

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

- **Exposure to changes in exchange rates**

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

Currency basis of monetary balances

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

			US dollars		
			31 December 2015		
	NIS	*GBP*	*Euro*	*US $*	*Total*
Assets					
Cash and cash equivalents	149,326	–	–	10,800	160,126
Trade receivables	162,276	–	–	–	162,276
Inventories	64,147	–	–	–	64,147
Other current assets	19,396	–	73,920	–	93,316
	395,145	–	73,920	10,800	479,865
Liabilities					
Borrowings	112,177	–	–	–	112,177
Trade payables	406,153	–	–	–	406,153
Other liabilities	942,690	–	–	35,113	977,803
Shareholders loans	934	–	–	–	934
OCS royalty liability	–	–	–	88,258	88,258
Long term borrowings	18,680	–	–	–	18,680
	1,480,634	–	–	123,371	1,604,005
	(1,085,489)	–	73,920	(112,571)	(1,124,140)

	US dollars 31 December 2014				
	NIS	GBP	Euro	US $	Total
Assets					
Cash and cash equivalents	7,036	–	–	–	7,036
Trade receivables	234,680	–	30,311	244,186	509,177
Inventories	1,494	–	–	–	1,494
Other current assets	–	–	74,167	–	74,167
	243,210	–	104,478	244,186	591,874
Liabilities					
Borrowings	129,985	–	–	–	129,985
Trade payables	301,984	–	–	–	301,984
Other liabilities	785,287	–	–	69,607	854,894
Shareholders loans	67,792	–	–	–	67,792
OCS royalty liability	–	–	–	109,691	109,691
Long term borrowings	16,697	–	–	–	16,697
	1,301,745	–	–	179,298	1,481,043
	(1,058,535)	–	104,478	64,888	(889,169)

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

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

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

	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%*	*2015*	*5%*	*10%*
Cash and cash equivalents	(14,933)	(7,466)	149,326	7,466	14,933
Trade receivables	(16,228)	(8,114)	162,276	8,114	16,228
Inventories	(6,415)	(3,207)	64,147	3,207	6,415
Other current assets	(9,332)	(4,666)	93,316	4,666	9,332
Borrowings	11,218	5,609	(112,177)	(5,609)	(11,218)
Trade payables	40,615	20,308	(406,153)	(20,308)	(40,615)
Other liabilities	94,269	47,135	(942,690)	(47,135)	(94,269)
Shareholders loans	93	47	(934)	(47)	(93)
Long term borrowings	1,868	934	(18,680)	(934)	(1,868)
Total	101,155	50,580	(1,011,569)	(50,580)	(101,155)

	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%*	*2014*	*5%*	*10%*
Cash and cash equivalents	(704)	(352)	7,036	352	704
Trade receivables	(26,499)	(13,250)	264,991	13,250	26,499
Inventories	(149)	(75)	1,494	75	149
Other current assets	(7,417)	(3,708)	74,167	3,708	7,417
Borrowings	12,999	6,499	(129,985)	(6,499)	(12,999)
Trade payables	30,198	15,099	(301,984)	(15,099)	(30,198)
Other liabilities	78,529	39,264	(785,287)	(39,264)	(78,529)
Shareholders loans	6,779	3,390	(67,792)	(3,390)	(6,779)
Long term borrowings	1,670	835	(16,697)	(835)	(1,670)
Total	95,406	47,702	(954,057)	(47,702)	(95,406)

- **Credit risk**

All of the cash and cash equivalents and other short-term financial assets as of 31 December 2016 are deposited with one of the major banks in Israel.

Trade receivables as of 31 December 2016 are from customers in Israel, the U.S., Asia and countries of the European Union, including a few major customers. The Company performs ongoing reviews of the credit granted to customers and the possibility of loss therefrom and includes an adequate allowance for specific accounts whose collection is doubtful.

- **Liquidity risk**

The Company finances its activities from its operations, Shareholders' loans and short and long-term borrowings from the bank.

B. **Fair value of financial instruments**

General

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

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

Financial instruments included in current asset items

These instruments (trade receivables and debit balances) are of a current nature and, therefore, the balances as of 31 December, 2016, 2015 and 2014 approximate fair value.

Financial instruments included in current liability items

These instruments (credit from banking institutions and others, trade payables and credit balances, suppliers and service providers and balances from transactions with shareholders) - in view of the current nature of such instruments, the balances as of 31 December, 2016, 2015 and 2014 approximate fair value.

C. **Capital management**

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

NOTE 26 – SEGMENT REPORTING

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

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

	US dollars		
	Year ended 31 December		
	2016	*2015*	*2014*
Asia	423,015	97,886	146,191
Europe	404,218	1,033,820	547,896
Israel	1,124,133	977,603	1,373,475
United States	210,000	128,276	124,681
	2,161,366	2,237,585	2,192,243

	%		
	Year ended 31 December		
	2016	*2015*	*2014*
Asia	19.6%	4.4%	6.6%
Europe	18.7%	46.2%	25.0%
Israel	52.0%	43.7%	62.7%
United States	9.7%	5.7%	5.7%
	100.0%	100.0%	100.0%

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

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

	%		
	Year ended 31 December		
	2016	*2015*	*2014*
Customer A	44%	34%	39%
Customer B	18%	46%	25%
Customer C	19%	4%	8%
Customer D	10%	3%	4%
Customer E	–	2%	10%
	91%	89%	86%

NOTE 27 – RELATED PARTIES

In accordance with the employment agreements of the two founders of the Company, Mr. David Levi and Mr. Shavit Baruch, were both entitled to an annual bonus of 2 per cent. of the Company's revenue for the years 2012-2015, if the Company has positive cash flow from operations. This was in addition to their salaries and share based compensation.

The CEO of the Company, Mr. David Levi, has periodically provided loans to the Company, to finance its working capital requirements. The loan bears interest at 6 per cent. and if not repaid by January 2017 the rate increases to 8 per cent. and the maturity date is deferred to March 2017. In the first quarter of 2017, the Company repaid $109,000 and the balance is payable by the end of June 2017. The loan is repayable by mutual consent. In November 2016, numerous shareholders advanced funds to the Company to finance the Company's anticipated admission to the AIM exchange. See Note 11 for further details about these loans.

The two founders of the Company are together entitled to 20 per cent. of the dividend preference payable to preferred shareholders, as described in Note 15.D above.

NOTE 28 – SUBSEQUENT EVENTS

A. As mentioned in Note 1, the Company has started the process of its Admission to the AIM stock exchange in London, with the goal of raising up to £10 million. In connection therewith, the Company has engaged and hired numerous service providers and is progressing towards this goal.

B. In March 2017 the Company appointed Mark Reichenberg as CFO of the Company at 35 per cent. of a full time basis, at a monthly cost to the Company of approximately $4,750. Upon admission to AIM, his time commitment and salary will double. Either side may terminate the employment upon six months' notice. Mr. Reichenberg also received 10,900 ESOP options, vesting over four years, exercisable at $2.00 per option and with an expiration date in March 2027. As mentioned in Note 14.E. above, Mr. Reichenberg has a separate agreement with the Company, providing IPO services.

C. A letter of appointment dated 17 May 2017 pursuant to which the appointment of Graham Woolfman was confirmed as Non Executive Chairman of the Company, the appointment being for an initial period of 3 years and unless terminated by either party giving to the other not less than three months' prior written notice or in accordance with the requirements of the Companies Law, at an annual fee £37,500 excluding VAT (if applicable).

D. A letter of appointment dated 16 May 2017 pursuant to which the appointment of Neil Rafferty was confirmed as a non-executive Director of the Company, the appointment being for an initial period of 3 years and unless terminated by either party giving to the other not less than three months' prior written notice or in accordance with the requirements of the Companies Law, at an annual fee £30,000 excluding VAT (if applicable).

PART IV

PRO-FORMA STATEMENT OF NET ASSETS

Set out below is an unaudited pro forma statement of net assets for the Company based on the statement of financial position for the Company as at 31 December 2016 together with other adjustments described in the notes below. It has been prepared on the basis set out in the notes to illustrate the impact of Admission, the Placing and the repayment of borrowings, as if they had occurred at 31 December 2016.

The unaudited pro forma statement of net assets has been prepared for illustrative purposes only. Because of its nature, it addresses a hypothetical situation and does not therefore represent the Company's actual financial position or results. It is based on the unaudited net assets of the Company as at 31 December 2016 as shown in section B of Part III of this Document. The unaudited pro forma statement of net assets does not constitute statutory accounts within the meaning of section 434 of the Companies Act, and no adjustment has been made to take account of trading, expenditure or other movements subsequent to 31 December 2016, being the date of the last published balance sheet for the Company as disclosed in Part III of this Document.

Shareholders should read the whole of this Document and not rely solely on the summarised financial information contained in this Part IV.

	As at 31 December 2016 US Dollars note 1	Adjustments Net Proceeds from the Placing US Dollars note 2	Pro forma balance sheet of the Company US Dollars note 3
ASSETS			
Current assets			
Cash and cash equivalents	335,723	16,739,000	17,074,723
Other short-term financial assets	58,518	–	58,518
Trade receivables	268,309	–	268,309
Inventories	–	–	–
Other current assets	28,725	–	28,725
Total current assets	691,275	16,739,000	17,430,275
Non-current assets			
Property and equipment	69,939	–	69,939
Deferred tax assets	800,000	–	800,000
Intangible assets	1,305,898	–	1,305,898
Total non-current assets	2,175,837	–	2,175,837
Total assets	2,867,112	16,739,000	19,606,112
LIABILITIES			
Current liabilities			
Borrowings	160,256	–	160,256
Trade payables	121,960	–	121,960
Other liabilities	1,191,291	–	1,191,291
Shareholders loans	527,568	(409,105)	118,463
Warrants liability, at fair value	43,309	–	43,309
Total current liabilities	2,044,384	(409,105)	1,635,279
Non-current liabilities			
OCS royalty liability	47,391	–	47,391
Borrowings	98,848	–	98,848
Total non-current liabilities	146,239	–	146,239
Total liabilities	2,190,623	(409,105)	1,781,518
Net assets	676,489	17,148,105	17,824,594

Notes

1. The net assets of the Company as at 31 December 2016 have been extracted without adjustment from the audited financial information contained in section B of Part III of this Document.
2. The adjustment represents the receipt by the Company of the net proceeds from the Placing of £13,559,000 (equivalent to 16,739,000 US dollars using the historic conversion rate as at 31 December 2016), which comprises gross proceeds from the Placing of £15,000,000 (equivalent to 18,518,000 US dollars) through the issue of new ordinary shares less the fees and expenses of the Placing expected to be approximately £1,110,000 (equivalent to 1,370,000 US dollars, net of recoverable VAT), less £190,000 (equivalent to 235,105 US dollars for repayment of loan raised from shareholders, which were used to finance Company's listing process) and less additional £141,000 (equivalent to 174,000 US dollars for repayment of loan raised from Company CEO, David Levi, which was raised to finance the Company's business). The costs attributable to the issue of new ordinary shares will be deducted from share premium.
3. This column comprises the sum of the preceding columns and represents the pro forma net assets of the Company as at 31 December 2016 assuming Admission, the Placing and repayment of portion of the Shareholders loan had occurred on that date.

PART V

ADDITIONAL INFORMATION

1. INCORPORATION AND STATUS OF THE COMPANY

The Company was incorporated and registered in the State of Israel on 15 December 2003 with registered number 51-347834-7 as a private company limited by shares with the name Neracore Limited.

1.1 On 10 October 2004 the Company changed its name to Ethernity Networks Ltd.

1.2 The principal legislation under which the Company operates is the Companies Law and regulations made under the Companies Law. As a public company the Company will also be subject to the Securities Law.

1.3 The Company's legal and commercial name is Ethernity Networks Ltd. The Company's trading name at all locations is "Ethernity".

1.4 The registered and head office of the Company is at 1 Hamelacha Street, Lod Industrial Park, Israel, 7152001. The telephone number of the Company's registered office is +972 – 8 – 9150392.

1.5 The address of the Company's website which discloses the information required by Rule 26 of the AIM Rules for Companies is www.ethernitynet.com/investor-relations/.

1.6 The Company is domiciled in Israel.

2. SHARE CAPITAL OF THE COMPANY

2.1 The authorised share capital of the Company immediately prior to, and immediately following Admission, is as follows:

	Prior to Admission			*Following Admission*		
Class of Shares	*Nominal Value (NIS)*	*NIS*	*Number*	*Nominal Value (NIS)*	*NIS*	*Number*
Ordinary Shares	0.001	50,000.00	50,000,000	0.001	50,000.00	50,000,000

2.2 No changes in the share capital of the Company have taken place since 1 January 2014 other than as described in paragraph 2.3 of this Part V below.

2.3 By a Shareholders' resolution passed on 23 June 2017:

2.3.1 all of the Company's preferred shares were converted into Ordinary Shares on a one to one basis;

2.3.2 the authorised share capital of the Company was increased to NIS50,000.00 divided into 50,000,000 Ordinary Shares of NIS0.001 each;

2.3.3 the pre-emption rights in favour of Cipio Partners Fund VI S.C.S set out in the articles of association of the Company were cancelled;

2.3.4 each of the issued and un-issued shares of NIS 0.01 in capital of the Company were sub-divided into 10 Ordinary Shares of NIS 0.001;

2.3.5 new articles of association were adopted; and

2.3.6 the appointments of Graham Woolfman and Neil Rafferty were approved.

2.4 By a resolution of the Directors passed on 23 June 2017, the Directors were authorised to allot the Placing Shares.

2.5 As at 22 June 2017, being the latest practicable date prior to the date of this document, the issued share capital of the Company is:

Class of shares	*Nominal value*	*NIS*	*Number*
Ordinary Shares	NIS 0.001	21,803.90	21,803,900

All Existing Ordinary Shares are fully paid.

2.6 The issued share capital of the Company immediately following Admission will be:

Class of shares	*Nominal value*	*NIS*	*Number*
Ordinary Shares	NIS 0.001	32,518.19	32,518,186

2.7 Up to 10,714,286 Ordinary Shares are to be allotted and issued pursuant to the Placing. The Placing Shares are denominated in NIS and created under the Companies Law. It is anticipated that the Placing Shares will be allotted on 23 June 2017, conditional upon Admission. Admission is expected to take place on 29 June 2017.

2.8 The Placing Price of 140 pence per Placing Share is payable in full on Admission under the terms of the Placing.

2.9 The amount and percentage of immediate dilution resulting from the Placing is 32.9 per cent.

2.10 The Company's ISIN (International Security Identification Number) is IL0011410359. The Company's SEDOL number is BF2B834.

2.11 Other than the issue of Ordinary Shares pursuant to the Placing, the exercise of share options under the ISOP described in paragraph 5 of this Part V, the Ordinary Shares which may be issued under the Arden Warrant Instrument (as described in paragraph 8.4 of this Part V) and the warrant contained in the Cipio Loan Agreement (as described in paragraph 11.3.1 of this Part V), the Company has no present intention to issue any new Ordinary Shares.

2.12 The Company does not have in issue any securities not representing share capital.

2.13 No shares of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

2.14 Save as disclosed in this paragraph 2, there has been no issue of share or loan capital of the Company in the three years immediately preceding the date of this Document and (other than pursuant to the Placing, or on the exercise of the options to be issued under the ISOP, or the Arden Warrant Instrument, as referred to below) no such issues are proposed.

2.15 Save as disclosed in paragraph 8 below, no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of the Company in the three years immediately preceding the date of this Document.

2.16 Save as disclosed in this paragraph 2, paragraph 6, paragraph 8 and paragraph 11.3.1 below, on Admission no share or loan capital of the Company will be under option or has been agreed conditionally or unconditionally to be put under option.

2.17 Other than pursuant to the Placing, none of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to AIM.

2.18 The Ordinary Shares will be in registered form or, where Placees wish to hold their Ordinary Shares in uncertificated form, they will have their CREST accounts credited with Depositary Interests on the date of Admission. No temporary documents of title will be issued and prior to the issue of definitive certificates, transfers will be certified against the register. It is expected that definitive share certificates for the Ordinary Shares not to be held through CREST will be posted to Placees within 10 Business Days of the date of Admission. Depositary Interests representing Ordinary Shares to be held through CREST will be credited to CREST accounts on Admission.

3. ARTICLES OF ASSOCIATION

As described in paragraph 2.3.5 of this Part V, the Company has recently adopted new Articles. The Articles contain provisions, *inter alia*, to the following effect:

3.1 *Objects*

Section 18 of the Companies Law provides that the objects of a company are to be set out in the articles of association. The Articles provide that the Company's objectives are to carry on any business and perform any act which is not prohibited by law.

3.2 *Voting rights*

3.2.1 Subject to any rights or restrictions attached to any Ordinary Shares, on a show of hands:

3.2.1.1 every shareholder who is entitled to vote on the resolution and who is present in person has one vote per share;

3.2.1.2 every proxy present who has been duly appointed by one or more shareholders entitled to vote on the resolution shall have one vote per share; except that:

(a) if a shareholder votes in person on a resolution then, as regards that resolution, his proxy shall have no vote; and

(b) a proxy shall have one vote for and one vote against the resolution if he has been duly appointed by more than one shareholder entitled to vote on the resolution and either (i) is instructed by one or more of those shareholders to vote for the resolution and by one or more others to vote against it; or (ii) is instructed by one or more of those shareholders to vote in one way and is given a discretion as to how to vote by one or more others (and wishes to use that discretion to vote in the other way).

3.2.2 Subject to any rights or restrictions attached to any Ordinary Shares, on a poll every shareholder who is entitled to vote on the resolution and who is present in person or by a duly appointed proxy shall have one vote for every share of which he is the holder. A shareholder entitled to more than one vote need not, if he votes on the poll (whether in person or by proxy), use all of his votes or cast all of the votes he uses in the same way.

3.3 *Dividends*

3.3.1 Subject to the applicable provisions of the Companies Law and the Articles, the Board may declare, and cause the Company to pay, such dividend as may appear to the Board to be justified by the profits of the Company.

3.3.2 Subject to the provisions of the Articles and subject to any rights or conditions attached at that time to any share in the capital of the Company granting preferential, special or deferred rights or not granting any rights with respect to dividends, the profits of the Company which shall be declared as dividends shall be distributed according to the proportion of the nominal value paid up on account of the shares held at the date so appointed by the Company, without regard to the premium paid in excess of the nominal value, if any. No amount paid or credited as paid on a share in advance of calls shall be treated for purposes of this provision as paid on a share.

3.3.3 Unless otherwise provided by the rights attached to the Ordinary Shares, dividends shall not carry a right to receive interest.

3.3.4 All dividends unclaimed may be invested or otherwise made use of by the Board for the benefit of the Company until claimed.

3.3.5 Upon the determination of the Board, the Company may cause:

3.3.5.1 any monies, investments or other assets forming part of, *inter alia*, the undivided profits of the Company to be capitalised and distributed to shareholders, or to be applied in paying up unissued Ordinary Shares on behalf of such shareholders which shall then be distributed accordingly; and

3.3.5.2 such distribution or payment to be accepted by such shareholders in full satisfaction of their interest in the said capitalised sum.

3.3.6 There are no fixed or specified dates on which entitlements to dividends payable by the Company arise.

3.4 ***Pre-emption rights***

3.4.1 Subject to the terms of any special resolution of the Company (such resolution requires 75 per cent. of votes being duly cast in respect thereof) to the contrary, the Company shall not, subject to certain exceptions, issue equity securities to any person on any terms unless such equity securities are first offered to existing shareholders in proportion to those securities that is as nearly practicably equal to the proportion held by that shareholder.

3.4.2 Such offer shall be made by written notice specifying the number of equity securities offered and a period (being not less than 14 days) within which the offer, to the extent not accepted, will be deemed to be declined. The Board may, in accordance with the provisions of the Articles, allot, grant options over or otherwise dispose of such equity securities not accepted pursuant to such offers, taking into account any exclusions as the Directors may deem necessary to deal with issues arising in any overseas territory, and together with any equity securities not capable of being offered aforesaid except by way of fractions to such persons on such terms which are not more favourable than the terms on which they were offered to the Shareholders.

These provisions shall not apply to:

3.4.2.1 a particular allotment of equity securities if these are, or are to be, paid up wholly or partly otherwise than in cash;

3.4.2.2 shares to be held under an employee share scheme;

3.4.2.3 an allotment of bonus shares;

3.4.2.4 an allotment of equity securities wholly for cash pursuant to any authority to allot equity securities on a non-pre-emptive basis which has been approved by a special resolution of the Company; and

3.4.2.5 any allotment of Ordinary Shares which, in aggregate, represent up to 10 per cent. of the issued share capital of the Company on Admission, from the date of Admission up to the conclusion of the first annual general meeting of Shareholders.

3.5 Distribution of assets on a winding-up On a winding-up, subject to applicable law the assets of the Company available for distribution among the Shareholders shall be distributed to them in proportion to their respective holdings of Ordinary Shares in which such distribution is being made.

3.6 ***Depositary Interests***

The Directors have the power to implement and/or approve any arrangement that they may, in their absolute discretion, think fit in relation to the evidencing of title to, and transfer of interests in, Ordinary Shares in the form of Depositary Interests or similar interests, instruments or securities and may, from time to time, take such actions and do such things as they may, in their absolute discretion, think fit in relation to the operation of such arrangements.

3.7 ***Transfer of shares***

No transfer of Ordinary Shares which is in certificated form shall be registered unless a proper instrument of transfer (in any usual form or in any form approved by the Board) has been submitted to the Company (or its transfer agent), executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee.

3.8 ***Variation of class rights***

3.8.1 Subject to the provisions of the Articles and the Companies Law, whenever the capital of the Company is divided into different classes of shares, all or any of the rights for the time being attached to any class of shares in issue may from time to time (whether or not the Company is being wound up) be varied either with the consent in writing of the holders of not less than a majority of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

3.8.2 All the provisions of the Articles relating to general meetings of the Company or to the proceedings at general meetings shall, with any necessary modifications, apply to any such separate general meeting, except that:

3.8.2.1 the necessary quorum at any such meeting (other than an adjourned meeting) shall be two persons entitled to vote and holding or representing by proxy at least 5 per cent. in nominal value of the issued shares of the class (excluding any shares of that class held as treasury shares);

3.8.2.2 at an adjourned meeting the necessary quorum shall be two persons entitled to vote holding shares of the class (other than treasury shares) or his proxy;

3.8.2.3 every holder of shares of the class shall have one vote in respect of every share of the class held by him (excluding any shares of that class held as treasury shares); and

3.8.2.4 a poll may be demanded by any one holder of shares of the class whether present in person or by proxy.

3.9 ***Share capital***

3.9.1 The Company may, from time to time, by resolution of the Shareholders increase its authorised share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution shall provide. Such rights and restrictions shall apply to the relevant shares as if the same were set out in these Articles.

3.9.2 Subject to applicable law, the Company may issue redeemable shares and redeem the same.

3.10 ***General meetings***

3.10.1 The Board may convene a general meeting whenever it thinks fit. Pursuant to the Companies Law, Shareholders have a statutory right to requisition a general meeting in certain circumstances. The Company must hold an annual general meeting of Shareholders each calendar year no later than 15 months from the last annual general meeting, at a time and place determined by the Board.

3.10.2 Pursuant to the Companies Law, a general meeting shall be called on not less than 21 days' or 35 days' notice (depending on the matters on the agenda for the meeting).

3.10.3 The quorum for a general meeting is two or more shareholders present in person or by proxy, holding, in the aggregate, at least five (5) per cent. of the voting rights in the issued share capital of the Company, and entitled to vote within half an hour from the time stipulated for the commencement of the meeting.

3.11 ***Appointment of Directors***

3.11.1 The number of directors of the Company shall not exceed eight but shall not be less than three.

3.11.2 Subject to the provisions of these Articles and the Companies Law, Directors shall be elected at the Annual General Meeting or an Extraordinary Meeting of the Company by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors and each Director shall serve, subject to Article 47 (Vacation of Office) and with respect to a Director appointed pursuant to Article 46 (Continuing Directors in the Event of Vacancies) hereof subject to such Article, and, in each case, subject to his earlier removal pursuant to this Article 44 (Election and Removal of Directors), for a fixed term not lesser than three (3) years as resolved from time to time by the Annual General Meeting or an Extraordinary Meeting of the Company. The term of the Directors acting as of the date of these Articles is three (3) years as of the date of these Articles; Subject to the minimum term set forth above, the number of new Directors to be appointed to the Board instead of dismissed Directors, excluding External Directors, shall not be in excess of two (2) Directors per calendar year.

3.11.3 In the event that a vacancy is created in the Board, the continuing Directors may continue to act in every matter, and, in addition, may appoint Directors to temporarily hold office and fill any such vacancy, until approval of such appointment(s) by the next general meeting. Notwithstanding the preceding sentence, in the event of vacancy of an External Director, the Company shall call a general meeting to elect a new External Director or take such other action as required under the Companies Law.

3.12 ***Remuneration of Directors***

A director of the Company shall be paid remuneration by the Company for his services as director of the Company to the extent such remuneration shall have been approved by the Company in accordance with the Companies Law.

3.13 ***Retirement and removal of Director***

Without prejudice to the provisions of the Companies Law, the Company may by ordinary resolution remove any director of the Company (other than an External Director) before the expiration of his period of office and may appoint by ordinary resolution another director in his place.

3.14 ***Directors' interests***

Subject to the provisions of the Companies Law, no director of the Company shall be disqualified by virtue of his office from holding any office or place of profit in the Company or in any company in which the Company shall be a shareholder or otherwise interested, or from contracting with the Company as vendor, purchaser or otherwise; nor shall any such contract, or any contract or arrangement entered into by or on behalf of the Company in which any Director shall be in any way interested, be voided; nor, other than as required under the Companies Law, shall any Director be liable to account to the Company for any profit arising from any such office or place of profit or realised by any such contract or arrangement by reason only of such Director's holding that office or of the fiduciary relations thereby established, but the nature of his interest, as well as any material fact or document, must be disclosed by him at the meeting of the Board at which the contract or arrangement is first considered, if his interest then exists, or, in any other case, at no later than the first meeting of the Board after the acquisition of his interest.

3.15 ***Powers of the Board***

3.15.1 The business of the Company shall be managed by the Board.

3.15.2 The directors of the Company may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or its parent undertaking (if any) or any subsidiary undertaking of the Company or of any third party.

3.16 ***Directors' and officers' indemnity, insurance and exculpation***

3.16.1 *Indemnity*

Under the Companies Law and the Articles, the Company may indemnify a director of the Company or other officer for any of the certain liabilities or expenses that he or she may incur due to an act performed or failure to act in their capacity as a director or other office holder of the Company, including but not limited to legal proceedings, injured parties under the Securities Law and other reasonable expenses.

3.16.2 *Insurance*

Under the Companies Law, the Securities Law and the Articles, the Company may obtain insurance for directors and officers against liabilities incurred in their capacity as directors of the Company or officers (as the case may be).

3.17 ***Borrowing powers***

3.17.1 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled share capital, and (subject to the Companies Law) to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

3.17.2 The Directors shall restrict the borrowings of the Company and its subsidiaries so as to ensure that the aggregate of the amounts borrowed by the Company and all its subsidiaries and remaining outstanding at any time shall not, without previous sanction of an ordinary resolution of the Company, exceed a multiple of three times the "Adjusted Capital and Reserves" amount (as such term is defined in the Articles), which is effectively the aggregate of the nominal capital of the Company issued and paid up and the amount standing to the credit of the consolidated reserves of the Company, less specified adjustments, exclusions and deductions.

3.18 ***Shareholder notification requirements***

3.18.1 Pursuant to the AIM Rules, the provisions of Disclosure Guidance and Transparency Rule 5 are incorporated into the Articles as if the Company were an "issuer". Disclosure Guidance and Transparency Rule 5 sets out the notification requirements for shareholders and a company where the voting rights of a shareholder exceed, reach or fall below the thresholds of 3 per cent., 4 per cent., 5 per cent., 6 per cent., 7 per cent., 8 per cent. 9 per cent., 10 per cent. and each 1 per cent. threshold thereafter up to 100 per cent. Disclosure Guidance and Transparency Rule 5 provides that disclosure by a Shareholder to the Company must be made within two trading days of the event giving rise to the notification requirement and the Company must release details to a regulatory information service as soon as possible following receipt of a notification.

3.18.2 The Company may, by written notice, require any person whom the Board knows or has reasonable cause to believe to be interested or, at any time during the three years immediately preceding that date, to have been interested, in Ordinary Shares to indicate whether or not it is the case, and to provide the particulars of their interest (a Disclosure Notice). The Disclosure Notice shall request any information given in response to the notice to be given in writing within such time as may be specified in the notice, being a period of not less than 14 days following service thereof.

3.19 ***Takeover Code***

3.19.1 Certain provisions have been incorporated into the Articles which aim to mirror the material provisions of Rule 9 of the Takeover Code to the extent that it is possible to do so.

3.19.2 In particular, the Articles provide that (except in certain limited circumstances):

3.19.2.1 an acquisition of shares which increases the aggregate holding of the acquirer (and his concert parties) to shares carrying 30 per cent. or more of the voting rights of the Company; or

3.19.2.2 an acquisition of shares by a person holding (together with his concert parties) shares carrying between 30 and 50 per cent. of the voting rights in the Company which increases the voting rights of that person (together with his concert parties),

is prohibited unless the consent of the independent shareholders is obtained. Where the independent non-executive Directors have reason to believe that any acquisition has taken place in contravention of the above provisions, the Articles provide that they may, *inter alia*, require a sale of shares acquired in excess of the relevant threshold or determine that such shares will not carry any voting or dividend rights. The main difference between these provisions and Rule 9 is that the Takeover Panel does not have any jurisdiction to enforce these provisions.

3.20 On a up winding up of the Company, the assets of the Company available for distribution among the Shareholders shall be distributed to them in proportion to their respective holdings of Ordinary Shares.

4. SUMMARY OF APPLICABLE ISRAELI STATUTORY PROVISIONS

The following provisions are also applicable to the Company by virtue of the application of Companies Law:

Directors

4.1 In accordance with the Companies Law, the Board shall have at least two External Directors. The External Directors must meet certain statutory requirements of independence. The term of office of an External Director is three years, which can be extended for two additional consecutive three year-terms. An External Director can be removed from office (without his consent) only under very limited circumstances.

4.2 Under the Companies Law, a person may not serve as an External Director if at the date of the person's election or within the prior two years the person is a relative of a Controlling Shareholder (as defined below) of the Company or the person or their relatives, partners, employers, supervisors or entities under the person's control, have or have had any affiliation with the Company or with a Controlling Shareholder or relatives of a Controlling Shareholder, and, in the case of a company without a Controlling Shareholder or a shareholder holding at least 25 per cent. of the voting rights, any affiliation, at the time of election, to the chairman of the Board, the chief executive officer, an interested party or the Company's chief finance officer. For these purposes, a "Controlling Shareholder" is a shareholder who has the ability to direct the Company's actions, including any shareholder holding 25 per cent. or more of the voting rights if no other shareholder owns more than 50 per cent. of the voting rights in the Company, and an "interested party" is defined as a holder of 5 per cent. or more of the Company's shares or voting rights, any person or entity that has the right to nominate or appoint at least one of the Company's Directors or its chief executive officer, or any person who serves as one of the Directors or as its chief executive officer. In addition, a person may not serve as an External Director if: (i) at the time of appointment as External Director, the person or their relatives, partners, employers, supervisors or entities under the person's control, maintains a business or professional relationship with the Company, even if such relationship is not on a regular basis, other than a negligible business or professional relationship; or (ii) in the case of a person who has served as an External Director to the Company in the past, such person received compensation in their capacity as an External Director during such period in excess of the amounts permitted by the Companies Law and regulations thereunder.

4.3 A person may also not serve as an External Director if that person's position or other business activities create, or may create, a conflict of interest with the person's service as a Director or may otherwise interfere with the person's ability to serve as a Director.

4.4 If at the time any External Director is to be elected all members of the Board that are not Controlling Shareholders or their respective relatives are of the same gender, then the External Director to be elected must be of the other gender.

4.5 The Board may appoint any Director (other than an External Director) to hold any employment or executive office in the Company and may also revoke or terminate any such appointment (without prejudice to any claim for damages for breach of any service contract between the Director and the Company).

Directors' interests

4.6 The Companies Law provides that any transaction of the Company with a Director or any transaction of the Company in which a Director has a Personal Interest (as defined below) requires the approval of the Board and the approval of the remuneration committee or audit committee (depending on the nature of the transaction at hand) prior thereto. The transaction must not be approved if it is adverse to the Company's interest. If the transaction is an extraordinary transaction (as defined below), then audit committee approval is required prior to and in addition to Board approval. If the transaction concerns exculpation, indemnification, insurance or compensation of the Director, then the approvals of the remuneration committee, the Board and the shareholders are required (in that order). The Companies Law defines an "extraordinary transaction" as a transaction that is not in the ordinary course of business, that is not on market terms or that is likely to have a material impact on a company's profitability, assets or liabilities.

A Director who has a Personal Interest in a matter that is considered at a meeting of the Board, the audit committee or the remuneration committee may not attend that meeting or vote on that matter, unless a majority of the Board, the audit committee or the remuneration committee, as applicable, or if such Director is invited by the chair of the Board, the audit committee or the remuneration committee, as applicable, to present the matter being considered. If a majority of the Board, the audit committee or the remuneration committee, as applicable, has a Personal Interest in the transaction, Shareholder approval is also required. A "personal interest", as defined by the Companies Law, includes a personal interest of any person in an act, omission to act, or transaction of the Company, including a personal interest of his relative or of a corporation in which that person or a relative of that person is a holder of 5 per cent. or more of the issued share capital or more of the voting rights, a Director or general manager in which he has the right to appoint at least one Director or the general manager and includes shares for which the person has the right to vote pursuant to a power of attorney. A personal interest does not apply to a personal interest solely arising from holding shares in the Company.

4.7 ***Limitations on Exemption, Insurance and Indemnification***

Under the Companies Law, the Company may indemnify or insure a Director or officer against a breach of duty of loyalty only to the extent that the Director or officer acted in good faith and had reasonable grounds to assume that the action would not prejudice the Company. In addition, the Company may not indemnify, insure or exempt a Director or officer against a breach of duty of care if committed intentionally or recklessly (excluding mere negligence), or committed with the intent to derive an unlawful personal gain, or for a fine, civil fine, financial sanction or forfeit levied against the Director or officer. Pursuant to the Companies Law, exoneration of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, the Directors or officers must be approved by the remuneration committee, the Board and the shareholders of the Company. On 23 June 2017, the Company entered into indemnification agreements with each of the Directors. In addition, the Company has obtained directors' and officers' insurance cover, conditional on Admission, for £5 million.

5. ISRAELI SHARE OPTION PLAN

5.1 In Israel the tax treatment of options issued to employees is often governed by Section 102 of the Income Tax Ordinance (New Version) ("the Ordinance") under which tax is deferred until the disposal of the shares originating from such options by the employee. For the purposes of the Ordinance, the term "employees" includes officers of the Company, with the exception of Controlling Shareholders.

5.2 The Company elected that the route which shall govern the employee share option grants pursuant to a share incentive scheme shall be the Capital Gains route.

5.3 In accordance with such election mentioned above, the options must be deposited in trust with a trustee approved by the Israeli Tax Authority ("Trustee") for a period of at least 24 months commencing in general from the allocation of the options and deposit of the options with the trustee. During this period, the options may not be sold, transferred nor used in any other way by the option holder.

5.4 The Company's share incentive scheme under Section 102 of the Ordinance was duly filed with the Trustee according to the requirements of the Israeli Tax Authority.

5.5 The Trustee of the ISOP is Olga Levit, Adv. Trust Services Account Manager, Tamir Fisherman Equity Plan Services.

5.6 The main terms of the ISOP are as follows:

5.6.1 ***Purpose***

The ISOP grants certain employees shares in the Company. Having a personal stake in the Company's fiscal fortunes encourages productivity and commitment.

5.6.2 ***Administration***

The Board is empowered to administer the ISOP either directly or upon the recommendation of an ISOP committee, which shall have one chairman, all as provided by applicable law and in the Articles. No ISOP committee or committee chairman has been appointed as at the date of this Document.

Notwithstanding the above, the Board shall automatically have residual authority if no ISOP committee shall be constituted or if such committee shall cease to operate for any reason. The ISOP committee shall recommend to the Board the following:

5.6.2.1 designating of participants;

5.6.2.2 determining the terms of option agreement under the ISOP;

5.6.2.3 making an election as to the type of Approved 102 Options to be issued under the ISOP; and

5.6.2.4 designate the type of Options to be issued under the ISOP.

In addition the ISOP committee may:

5.6.2.5 vary any restrictions and conditions of any options or Ordinary Shares subject to any options;

5.6.2.6 interpret provisions of the ISOP;

5.6.2.7 accelerate the right of an Optionee to exercise in whole or in part any previously granted Option;

5.6.2.8 determine the purchase price of the option;

5.6.2.9 prescribe, amend and rescind rules and regulations relating to the ISOP; and

5.6.2.10 make all other determinations deemed necessary or advisable for the proper administration of the ISOP.

5.6.3 ***Option Agreement***

Options shall have a written Option Agreement. Each Option Agreement shall state the number of shares in the option, the type of option (CGO, OIO, unapproved 102 option or a 3(i) option), vesting dates, purchase price per share, and the expiration date.

5.6.4 ***Vesting of Options***

Subject to the provisions of the ISOP, each option shall vest following the relevant vesting dates and for the number of Ordinary Shares as shall be provided in the relevant option agreement.

5.6.5 ***Exercise of Options***

Unless otherwise determined in the relevant option agreement, an option may be exercised after the date of termination of Optionholder's employment if (i) termination is without cause, rights may be exercised ninety (90) days after termination; or (ii) termination is the result of death or disability of the Optionholder, right may be exercised within a period of twelve 12 months after termination.

Otherwise the options may be exercised by the grantee in whole at any time or in part from time to time, to the extent that the Options become vested and exercisable under the terms of an option agreement, prior to the relevant expiration date.

5.6.6 ***Shares reserved for the Share Option Plan***

The Company has not reserved any of its authorised but unissued Ordinary Shares for the purposes of the ISOP and for the purposes of any other share option plans which may be adopted by the Company in the future but has sufficient headroom in its authorised share capital to provide for adequate share issues under the ISOP as currently envisaged.

5.6.7 ***Amendments or termination***

The Board may at any time, after consultation with the ISOP trustee, amend, suspend or terminate the ISOP.

As at 22 June 2017, being the last practicable date prior to the date of publication of this Document, the options referred to in paragraph 6.3 below have been granted under the ISOP.

6. DIRECTORS' AND OTHER INTERESTS

6.1 As at 22 June 2017 (being the latest practicable date prior to the date of this Document) and as expected to be held on Admission, the interests (all of which are beneficial) of the Directors in the Company's issued share capital (in addition to the options set out against the relevant Director's name in paragraph 6.3 below) are or are expected to be as follows:

	Before Admission		*Following Admission*	
Director	*Number of Ordinary Shares*	*Percentage of issued share capital*	*Number of Ordinary Shares*	*Percentage of issued share capital*
David Levi	6,767,900	31%	6,767,900	20.8%
Shavit Baruch	4,500,000	21%	4,500,000	13.8%
Mark Reichenberg	nil	nil	nil	nil
Graham Woolfman	nil	nil	10,715	0.0%
Neil Rafferty	nil	nil	7,143	0.0%

6.2 As at 22 June 2017 (being the latest practicable date prior to the date of this Document), the Company is aware of the following existing Shareholders (other than any Director) who by virtue of the notifications made to it pursuant to the Articles, are or will be immediately following Admission, interested, directly or indirectly, in 3 per cent. or more of the Company's issued share capital:

	Before Admission		*Following Admission*	
Name	*Number of Ordinary Shares*	*Percentage of issued share capital*	*Number of Ordinary Shares*	*Percentage of issued share capital*
David Levi	6,767,900	31%	6,767,900	20.8%
Shavit Baruch	4,500,000	21%	4,500,000	13.8%
CIPIO PARTNERS FUND VI S.C.S	6,572,000	30%	6,572,000	20.2%
PIX EPSILON PTE LTD	2,476,000	11%	2,476,000	7.6%
E.D.I.G. Construction Management, Ltd:	658,060	3%	658,060	2.0%
J. Fried Holdings And Investments Ltd	579,940	3%	579,940	1.8%

6.3 As at 22 June 2017, being the latest practicable date prior to the date of this Document, Options over 2,985,920 Ordinary Shares have been granted under the ISOP, exercisable at varying prices between $1 and $2, and £1.05, over periods of 2 to 10 years, over which 2,268,420 Options have vested. Included within these 2,985,920 Options are Options granted to the following Directors:

Name	*Grant Date*	*Last Date to Exercise*	*Granted*	*Vested*	*Exercisable*
Shavit Baruch	15/07/2013	15/07/2023	60,710	60,710	60,710
David Levi	15/07/2013	15/07/2023	60,710	60,710	60,710
Mark Reichenberg	05/03/2017	05/03/2027	109,000	0	109,000
Total			230,420	121,420	230,420

6.4 Save as disclosed in paragraphs 6.1 and 6.2, the Company is not aware of any person who directly or indirectly, jointly or severally, exercises or could exercise control over the Company; nor is it aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

6.5 The persons referred to in paragraph 6.1, 6.2 and 6.3 above do not have voting rights that differ from those of other Shareholders.

6.6 Neither the Company nor the Directors are aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

6.7 Save as disclosed in paragraphs 6, 8, 11 and 12 of this Part V, no Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Company and which were effected by the Company in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.

6.8 The Directors currently hold, or have during the five years preceding the date of this Document held, the following directorships or partnerships:

Name	*Current directorships/partnerships*	*Previous directorships/partnerships*
David Levi	Ethernity Networks Ltd Vidicom Consulting and Management Ltd (dormant)	–
Shavit Baruch	Ethernity Networks Ltd Doron David Yuval Madaf Ltd (dormant)	–
Mark Reichenberg	Air Conditioning Accessories International Marketing Limited (Registered in Gibraltar – dormant)	–

Name	*Current directorships/partnerships*	*Previous directorships/partnerships*
Graham Woolfman	Filta Group Holdings Plc The New North London Synagogue Ampla Corporate Finance Limited Intrust Corporate Finance Limited Tempus Advisory And Management LLP Woolfmans Limited	Fides Financial Ltd Magnum Capital Ventures LLP Crouchland Biogas Ltd Crouchland Farms Limited Leaman Sawford Corporate Finance LLP (formerly known as Aurora Renewables Management LLP) Neos Resources Plc (formerly known as D1 Oils PLC, D1 PLC and PINCO 2191 PLC) Hardbin Limited
Neil Rafferty	Hidden Planet Ltd (also known as Kompass) Fitle SAS International Sports Sponsorship Ltd Portent Business Services SPRL	Crabdribbles Ltd Lunzer Events Limited (formerly known as Avintine Limited) Lunzer Wine Investments Limited Nibblr Limited Portent Entertainment Ltd Lunzer Wine Investments (Jersey) Ltd Lunzer Wine Fund SPC Treet Productions Ltd.

6.9 None of the Directors has any unspent convictions in relation to indictable offences.

6.10 Save as provided below, none of the Directors has been the subject of any public criticism by any statutory or regulatory authority (including a recognised professional body).

6.11 Save as provided below, none of the Directors has been a director of a company at the time of, or within the 12 months preceding the date of, that company being the subject of a receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors.

6.12 Mark Reichenberg was a director of Hakvir (Pty) Limited, which went into voluntary liquidation in April 1996. The deficiency to creditors at the time of the liquidation was approximately £350,000. Mark Reichenberg had provided personal sureties in respect of Hakvir (Pty) Limited and as a result of its liquidation his personal assets were sequestrated in 1996 and he was made insolvent pursuant to an order of the High Court of South Africa. Mark Reichenberg was rehabilitated from such sequestration and insolvency by order of Mr Justice Hussain of the High Court of South Africa, Witwatersrand Local Division, on 15 July 2003.

6.13 Graham Woolfman was appointed as a non-executive director of Bio Converters plc on 11 March 2003. Bio Converters plc was a start-up company processing organic waste into fertiliser. The company went into administration on 8 June 2005. Mr Woolfman resigned as a director on 20 January 2006. The deficiency to creditors at the time of the administration was approximately £189,865.

6.14 Save as set out in this paragraph 6, none of the Directors has been a partner of a partnership at the time of, or within 12 months preceding the date of, that partnership being placed into compulsory liquidation or administration or being entered into a partnership voluntary arrangement nor in that time have the assets of any such partnership been the subject of a receivership.

6.15 No asset of any Director has at any time been the subject of a receivership, save as disclosed above.

6.16 Save as disclosed in this paragraph 6, none of the Directors has been bankrupt or has been the subject of any form of individual voluntary arrangement.

6.17 None of the Directors is or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6.18 For each of the Directors, the date of expiration of the current term of office (if applicable) and the period during which the Director has served in that office is as follows:

Director	*Office*	*Period of service in office*
David Levi	Chief Executive	13 years
Shavit Baruch	VP R&D	13 years
Mark Reichenberg*	Chief Financial Officer	From Admission
Graham Woolfman	Chairman	From Admission
Neil Rafferty	Non-executive Director	From Admission

* Mark Reichenberg appointed as an employee on 5 March 2017

Directors' and Senior Management's Service Agreements

6.19 ***Executive Directors***

The following agreements have been entered into between the Directors and the Company:

6.19.1 A personal employment agreement agreed in May 2012 between (1) the Company and (2) David Levi pursuant to which Mr Levi is to be employed as CEO of the Company. This agreement is terminable by either party upon six months' prior written notice, at a base salary of NIS35,000 per month and other benefits commensurate with his position including educational fund and an annual bonus of five per cent. of the Company's annual audited profit before tax (subject to a maximum of $250,000). By an amendment letter of 30 April 2017, the base salary has been increased to NIS 43,750 per month.

6.19.2 A personal employment agreement agreed in May 2012 between (1) the Company and (2) Shavit Baruch pursuant to which Mr Baruch is to be employed as VP, Research & Development of the Company. This agreement is terminable by either party upon six months' prior written notice, at a base salary of NIS35,000 per month and other benefits commensurate with his position including educational fund and an annual bonus of five per cent. of the Company's annual audited profit before tax (subject to a maximum of $250,000). By an amendment letter of 30 April 2017, the base salary has been increased to NIS 43,750 per month.

6.19.3 A personal employment agreement dated 5 March 2017 and amended on 14 May 2017 between (1) the Company and (2) Mark Reichenberg pursuant to which Mr Reichenberg is to be employed as Chief Financial Officer of the Company. This agreement is terminable by either party upon six months prior written notice, at a base salary of NIS 9,800 per month prior to Admission, increasing to NIS 19,600 per month after Admission, and other benefits commensurate with his position including educational fund.

6.20 ***Non-executive Directors***

The following agreements have been entered into between the non-executive Directors and the Company:

6.20.1 A letter of appointment dated 17 May 2017 pursuant to which the appointment of Graham Jeffrey Woolfman was confirmed as a non-executive director and Chairman of the Company, the appointment being for an initial period of three years and unless terminated by either party giving to the other not less than three months prior written notice to expire at any time on or after the first anniversary of Admission, at an annual fee (exclusive of VAT) of £37,500.

6.20.2 A letter of appointment dated 16 May 2017 pursuant to which the appointment of Neil Rafferty was confirmed as a non-executive director of the Company, the appointment being for an initial period of three years and unless terminated by either party giving to the other not less than three months prior written notice to expire at any time on or after the first anniversary of Admission, at an annual fee (exclusive of VAT) of £30,000.

6.21 The aggregate remuneration and benefits in kind payable to the Directors by the Company in respect of the current financial year ending 31 December 2017 (under the arrangements in force at the date of this Document) will be approximately £334,995.

6.22 There are no benefits payable by the Company upon early termination of the contracts of the Directors.

7. THE COMPANY AND ITS SUBSIDIARIES

7.1 The Company has no subsidiaries.

8. PLACING AND LOCK-IN ARRANGEMENTS

8.1 *Placing Agreement*

8.1.1 Under the Placing Agreement dated 23 June 2017 and made between (1) the Company, (2) the Directors, and (3) Arden Partners, Arden Partners has agreed (conditionally, *inter alia*, on Admission taking place not later than 31 July 2017) as agent for the Company to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price.

8.1.2 Under the Placing Agreement, and subject to its becoming unconditional, the Company has agreed to pay to Arden Partners commissions aggregating four and a half per cent. of the value at the Placing Price of the Placing Shares from Placees procured by Arden Partners, payable on Admission, and a corporate finance fee of £150,000. In addition the Company has also agreed to grant to Arden Partners the Arden Warrant.

8.1.3 The Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in connection with Admission, expenses of the registrars, printing and advertising expenses, postage and all other legal, accounting and other professional fees and expenses.

8.1.4 The Placing Agreement contains warranties given by the Company and the Directors and an indemnity given by the Company to Arden Partners as to the accuracy of the information contained in this Document and other matters relating to the Company and its business. Arden Partners is entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission.

8.2 *Lock-in Agreements*

Under the Lock-in Agreements made between the Directors, Arden Partners and the Company, the Directors have each undertaken that they shall not, except in certain specified circumstances, sell, transfer, grant any option over or otherwise dispose of the legal, beneficial or any other interest in any Ordinary Shares held by them at the date of Admission (or rights arising from any such shares or other securities or attached to any such shares) or any Ordinary Shares which they acquire as a result of the exercise of any warrants or options prior to the lapse of 12 months from Admission and that for a period 12 months thereafter will only deal in their Ordinary Shares only through Arden or the Company's broker from time to time in such a manner as they may reasonably require to ensure an orderly market in the Ordinary Shares.

8.3 *Orderly Market Agreement*

Under the Orderly Market Deed made between the Substantial Shareholders, Arden Partners and the Company, the Substantial Shareholders have each undertaken that, except in certain specified circumstances, for a period 12 months from Admission they will only deal in their Ordinary Shares only through Arden or the Company's broker from time to time in such a manner as they may reasonably require to ensure an orderly market in the Ordinary Shares.

8.4 *Arden Warrant Instrument*

8.4.1 The Company and Arden have entered into an agreement dated 23 June 2017 (the Arden Warrant Instrument). Under the Arden Warrant Instrument the Company has agreed to issue warrants to Arden, which represent 0.5 per cent. of the enlarged issued share capital of the Company at the date of Admission their exercise at the Placing Price. The Arden Warrant Instrument can be exercised in whole at any time between the first and fifth anniversary of Admission.

8.4.2 Arden has the right, but not the obligation, to exercise the warrants and notice of exercise should be made to the Directors in accordance with the form set out in the Arden Warrant Instrument.

8.5 ***Nominated Adviser and Broker Agreement***

The Company and Aden have entered into an agreement dated 23 June 2017 (the Nomad Agreement) under which the Company has appointed Arden as its nominated adviser and broker in connection with Admission. Under the terms of the Nomad and Broker Agreement, the Company has agreed to pay Arden a quarterly retainer fee of £15,000; and reimbursement of any directly incurred out of pocket expenses.

9. MERGERS, MANDATORY BIDS, SQUEEZE OUT AND SELL OUT ROLES RELATING TO THE ORDINARY SHARES

9.1 ***Takeover Code***

The Company is incorporated in Israel and, as such, the Takeover Code does not apply. However, certain provisions have been incorporated into the Articles which aim to mirror the material provisions of Rule 9 of the Takeover Code to the extent that it is possible to do so. Additionally, the Company will be subject to Israeli corporate law which regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving directors, officers or significant shareholders of the Company, and regulates other matters that may be relevant to these types of transactions. Further information on the equivalent applicable law can be found in paragraphs 9.2, 9.3 and 9.4 of this Part V. In particular, the Articles provide that (except in certain limited circumstances):

9.1.1 an acquisition of shares which increases the aggregate holding of the acquirer (and his concert parties) to shares carrying 30 per cent. or more of the voting rights of the Company; or

9.1.2 an acquisition of Ordinary Shares by a person holding (together with his concert parties) Ordinary Shares carrying between 30 and 50 per cent. of the voting rights in the Company which increases the voting rights of that person (together with his concert parties),

is prohibited unless the consent of the independent non-executive Directors is obtained. The main difference between these provisions and Rule 9 is that the Takeover Panel does not have any jurisdiction to enforce these provisions. For further information on the Articles, please see paragraph 3 of this Part V of this Document.

9.2 ***Mergers***

A merger is defined, for the purposes hereof, as the transfer of all assets and liabilities, including conditional, future, known and unknown liabilities of an absorbed company to a surviving company, as a result of which the absorbed company is wholly absorbed into the surviving company. The Companies Law permits merger transactions, provided that each party to the transaction obtains the approval of its board of directors and shareholders (excluding certain merger transactions which do not require the approval of the shareholders, as set forth in the Companies Law). For the purposes of the shareholder vote of each party, the merger will not be deemed approved if a majority of the shares not held by the other party, or by any person who holds 25 per cent. or more of the shares or the right to appoint 25 per cent. or more of the directors of the other party, has voted against the merger. The Companies Law requires the parties to a proposed merger to file a merger proposal with the Israeli Registrar of Companies, specifying certain terms of the transaction. Shares in one of the merging companies held by the other merging company or certain of its affiliates are disenfranchised for purposes of voting on the merger. A merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order blocking the merger and a court will only grant such an order if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that the merger proposal was filed with the Israeli Registrar of Companies and at least 30 days have passed from the approval of the shareholders of each of the merging companies. In addition, the provisions of the Companies Law that deal with "arrangements" between a company and its shareholders may be used to effect squeeze-out transactions in which the target company becomes a wholly-owned subsidiary of the acquirer. These provisions generally require that the merger be approved by a majority of the participating shareholders holding at least 75 per cent. of the shares voted on the matter, as well as

75 per cent. of each class of creditors. In addition to shareholder approval, court approval of the transaction is required.

9.3 ***Special Tender Offer***

The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if, as a result of the acquisition, the purchaser could become a holder of 25 per cent. or more of the voting rights in the Company. This rule does not apply if there is already another holder of at least 25 per cent. of the voting rights in the Company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser could become a holder of more than 45 per cent. of the voting rights in the company, if there is no other shareholder of the company who holds more than 45 per cent. of the voting rights in the company.

A special tender offer may be consummated only if at least 5 per cent. of the voting power attached to the company's outstanding shares will be acquired. if a special tender offer is accepted, then the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer. Shares that are acquired in violation of this requirement to make a tender offer will be deemed Dormant Shares (as defined in the Companies Law) and will have no rights whatsoever for so long as they are held by the acquirer.

9.4 ***Full Tender Offer***

Under the Companies Law, a person may not purchase shares of a public company such as the Company if, following the purchase, the purchaser would hold more than 90 per cent. of the company's shares or of any class of shares, unless the purchaser makes a full tender offer to purchase all of the target company's shares or all the shares of the particular class, as applicable. A full tender is deemed completed and approved if, following the full tender offer, either:

9.4.1 out of the total shareholders that did agree to sell their shares in the tender there is a majority of shareholders that have no personal interest in the transaction; and (ii) those shareholders that did not agree to sell their shares under the tender, constitute in the aggregate less than 5 per cent. of the total issued and outstanding share capital of the Company; or

9.4.2 those shareholders that did not agree to sell their shares under the tender, constitute in the aggregate less than 2 per cent. of the total issued and outstanding share capital of the Company.

If either one of the conditions set out above is met then the Companies Law provides for a mandatory squeeze out under which the purchaser automatically acquires ownership of all remaining shares. However, if the purchaser is unable to purchase more than 95 per cent. or 98 per cent., as applicable, of the company's shares or class of shares, the purchaser may not own more than 90 per cent. of the shares or class of shares of the target company.

10. NOTIFICATIONS OF SHAREHOLDINGS

Pursuant to the AIM Rules the provisions of Disclosure Guidance and Transparency Rule 5 are incorporated into the Articles as if the Company were an "issuer". Disclosure Guidance and Transparency Rule 5 sets out the notification requirements for Shareholders and the Company where the voting rights of a Shareholder exceed, reach or fall below the thresholds of 3 per cent., 4 per cent., 5 per cent., 6 per cent., 7 per cent., 8 per cent. 9 per cent., 10 per cent. and each 1 per cent. threshold thereafter up to 100 per cent. Disclosure Guidance and Transparency Rule 5 provides that disclosure by a Shareholder to the Company must be made within two trading days of the event giving rise to the notification requirement and the Company must release details to a regulatory information service as soon as possible following receipt of a notification.

11. MATERIAL CONTRACTS

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Company in the two years immediately preceding the date of this Document or which are expected to be entered into prior to Admission and which are, or may be, material or which have been entered into at any time by the Company and which contain any provision under which the Company has any obligation or entitlement which is, or may be, material to the Company as at the date of this Document:

11.1 *Contracts Relating to Admission*

Details of the following documents relating to Admission are set out in paragraphs 4.7 and 8 above and 11.3.3 below:

11.1.1 the Placing Agreement;

11.1.2 the Nominated Adviser and Broker Agreement;

11.1.3 the Lock-in Agreements;

11.1.4 the Orderly Market Agreement;

11.1.5 the Arden Warrant Instrument;

11.1.6 Deeds of Indemnification; and

11.1.7 the agreement with Mark Reichenberg summarised in paragraph 11.3.3.

11.2 *Registry and Depositary Arrangements*

11.2.1 *Registrar Agreement*

A registrar agreement dated 23 June 2017 and made between the Registrar and the Company pursuant to which the Company appointed the Registrar as its share registrar to maintain the Company's principal share register. The Registrar will perform the services of registrar using reasonable skill and care. The Registrar will perform certain specific services in its capacity as Registrar, including for example, to receive and register transfers and all other documents needed to maintain the register, to prepare and issue new share certificates and to prepare and dispatch dividend and interest payment instructions. Under this agreement, the Company will pay the Registrar an initial set up fee in relation to the initial set up costs of the necessary systems and procedures by the Registrar and an annual fee. Unless terminated in accordance with early termination provisions, the agreement shall continue for a fixed term of three year and thereafter until terminated by either party giving to the other party not less than three months' notice.

The Company has agreed to provide certain indemnities in favour of the Registrar including an indemnity respect of any loss the Registrar may suffer as a result of its performance of the Registrar Agreement, except to the extent such loss arises as a result of the fraud, negligence or wilful default of the Registrar. The Registrar Agreement is governed by the law of Guernsey.

11.2.2 *Depositary Agreement*

The depositary agreement dated 23 June 2017 between (1) the Company and (2) the Depositary pursuant to which the Depositary agrees to provide depositary services to the Company. Pursuant to the provision of these services, the Depositary will execute the Deed Poll, details of which are set out below.

The Depositary Interests will be created pursuant to and issued on the terms of the Deed Poll to be executed by the Depositary in favour of the holders of the Depositary Interests from time to time. Prospective holders of Depositary Interests should note that they will have no rights in respect of the underlying shares or the Depositary Interests representing them against Euroclear, or its subsidiaries. Ordinary Shares will be transferred to an account of the Depositary or its nominated custodian (a "Custodian") and the Depositary will issue Depositary Interests to participating members.

Each Depositary Interest will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends, and the Depositary will pass on to the holders of Depositary Interests any stock or cash benefits received by it as holder of Ordinary Shares on trust for such Depositary Interest holder. Depositary Interest holders will also be able to receive notices of meetings of holders of Ordinary Shares and other notices issued by the Company to its Shareholders. The Depositary Agreement is governed by English Law.

11.2.3 *Deed Poll*

The Deed Poll contains the following provisions:

11.2.3.1 the Depositary holds (itself or through the Custodian), as bare trustee, the underlying securities issued by the Company and all and any rights and other securities, property and cash attributable to the underlying securities pertaining to the Depositary Interests for the benefit of the holders of the relevant Depositary Interests;

11.2.3.2 holders of Depositary Interests warrant, *inter alia*, that the securities in the Company transferred or issued to the Custodian on behalf of the Depositary are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's constitutional documents or any contractual obligation, law or regulation;

11.2.3.3 the Depositary and any Custodian shall pass on to the Depositary Interest holders and, so far as they are reasonably able, exercise on behalf of the Depositary Interest holders all rights and entitlements received or to which they are entitled in respect of the underlying securities which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to call for, attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received together with amendments and additional documentation necessary to effect such passing-on, or, as the case may be, exercised in accordance with the Deed Poll;

11.2.3.4 the Depositary is entitled to cancel Depositary Interests and withdraw the underlying securities in certain circumstances including where a Depositary Interest holder has failed to perform any obligation under the Deed Poll or any other agreement or instrument with respect to the Depositary Interests;

11.2.3.5 the Deed Poll contains provisions excluding and limiting the Depositary's liability.

For example, the Depositary shall not be liable to any Depositary Interest holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent.

Furthermore, the Depositary's liability to a holder of Depositary Interests will be limited to the lesser of that proportion of £10 million which corresponds to the proportion which the amount the Depositary would otherwise be liable to pay to the Depositary Interest holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay all such holders in respect of the same act, omission or event or, if there are no such amounts, £10 million;

11.2.3.6 the Depositary is entitled to charge holders fees and expenses for the provision of its services under the Deed Poll;

11.2.3.7 each holder of Depositary Interests is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees), and hold each of them harmless from and against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of Depositary Interests held by that holder, other than those resulting from the wilful default, negligence or fraud of (i) the Depositary, or (ii) the Custodian or any agent if such Custodian or agent is a member of the Depositary's group or if, not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent;

11.2.3.8 the Depositary may terminate the Deed Poll by giving not less than 30 days' notice. During such notice period, Depositary Interest holders may cancel their Depositary Interests and withdraw their deposited property and, if any Depositary Interests remain outstanding after termination, the Depositary shall, as soon as reasonably practicable, and amongst other things:

11.2.3.9 the value of the shares and other deposited property properly attributable to the Depositary Interests to which the liability relates; and

(a) deliver the deposited property in respect of the Depositary Interests to the relevant Depositary Interest holder or, at the Depositary's discretion;

(b) sell all or part of such deposited property.

It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll *pro rata* to the Depositary Interest holders in respect of their Depositary Interests;

(i) the Depositary or the Custodian may require from any holder information as to the capacity in which Depositary Interests are owned or held by such holders and the identity of any other person with any interest of any kind in such Depositary Interests or the underlying securities in the Company and holders are bound to provide such information requested. Furthermore, to the extent that, *inter alia*, the Company's constitutional documents require the Depositary's disclosure to the Company of, or limitations in relation to, beneficial or other ownership of, or interests of any kind whatsoever in the Company's securities, the Depositary Interest holders are to comply with such provisions and with the Company's instructions with respect thereto. It should also be noted that holders of the Depositary Interests may not have the opportunity to exercise all of the rights and entitlements available to holders of Ordinary Shares including, for example, the ability to vote on a show of hands. In relation to voting, it will be important for holders of the Depositary Interests to give prompt instructions to the Depositary or its nominated Custodian, in accordance with any voting arrangements made available to them, to vote the underlying Ordinary Shares on their behalf or, to the extent possible, to take advantage of any arrangements enabling holders of the Depositary Interests to vote such Ordinary Shares as a proxy of the Depositary or its Custodian.

11.3 ***Other Material Contracts***

11.3.1 Loan Agreement with Cipio Partners Fund VI SCS Sicar and Pix Epsilon Pte Ltd and David Levi dated 28 November 2016 ("Cipio Loan Agreement") and related warrants

On 28 November 2016 the Company entered into an Agreement for Loan of $270,000 in connection with the Company's admission to the London Stock Exchange, of which Cipio Partners Fund VI SCS Sicar lent $130,000, Pix Epsilon Pte Ltd lent $100,000 and David Levi lent $40,000. Interest accrues at 6 per cent. per annum. The purpose of the loan under the Cipio Loan Agreement is to fund the Company's expenses of Admission. Repayment of the principal plus a success fee of 10 per cent. (in aggregate $297,000) is due under the Cipio Loan Agreement upon Admission. If the Company decides not to proceed with Admission, repayment will be in 24 equal monthly instalments beginning 30 days after any such resolution by the Board. In addition, a warrant to purchase shares in an amount equal to the lender's loan amount has been granted to each of the lenders under the Cipio Loan Agreement at the Placing Price which expires 12 months after the date of Admission.

11.3.2 Loan Agreement with David Levi dated 2 November 2016 ("David Levi Loan Agreement")

On 2 November 2016 the Company entered into the David Levi Loan Agreement pursuant to which the Company had borrowed NIS 1,100,000 from David Levi at a rate of 6 per cent. per annum, repayable on 15 January 2017. In the event that the sums borrowed under the David Levi Loan Agreement were not repaid by 15 January the interest rate would be increased to 8 per cent. per annum and the loan would become repayable on 15 March 2017. The balance of this loan is to be repaid on Admission.

11.3.3 On 4 December 2016 the Company entered into an agreement with Mark Reichenberg (trading as London AIM Advisory Services) pursuant to which Mr Reichenberg agreed to act as the Company's Israeli advisor, introducer and IPO manager, and to provide consulting and management services for the raising of funds or debt, CFO services, and to provide guidance, advice and assistance in preparing the Company for Admission. The Company has agreed to pay Mr Reichenberg (or his nominated Agent), a basic fee of NIS 16,000 per month excluding VAT, until such time as a contract is signed with a Nomad and Broker for a maximum of 3 (three) months, at which time an immediate payment of NIS 15,000 excluding VAT is due. Immediately thereafter the Company will pay Mr Reichenberg a monthly payment of NIS 20,000 per month excluding VAT until the agreement terminates, but in any event for no more than 7 months from the date of the agreement. Mr Reichenberg has agreed to continue to support the Admission process and to provide the services stipulated in this agreement after the expiry of 7 months provided that, if the date of Admission is extended beyond 9 months for reasons outside of the control of Mr Reichenberg, and the Company requires the ongoing services of Mr Reichenberg, any further fees shall be discussed and reasonably agreed between Mr Reichenberg and the Company. In addition a success fee of 1.2 per cent. of the gross proceeds of the Placing, excluding VAT, will be payable to Mr Reichenberg, such success fee to be capped at a maximum of £100,000 excluding VAT.

11.3.4 In or around May 2012 the Company entered into a "Restructure Agreement" with the founders of the Company, Cipio Partners S.a.r.l, Pix VC and EDIG Ltd. The effect of this agreement was to capitalise all loans issued to the Company by the parties in exchange for new share in the Company. Under the terms of this agreement the Company still has outstanding debts and liabilities in favour of Cipio Partners S.a.r.l. in the amount of approximately US$520,000. All such debts and liabilities will be repaid in advance of Admission.

11.3.5 In or around May 2012 the Company entered into an "Investor Rights Agreement" with the then holders of all of its issued Ordinary Shares and Preferred A Shares. On 23 June 2017 this Agreement was terminated and further liabilities and obligations of the Company were extinguished subject to and conditional upon Admission.

12. RELATED PARTY TRANSACTIONS

Details of related party transactions entered into by the Company during the period covered by the financial information are set out in the "Financial Information" in Part III of this Document.

13. CREST

13.1 CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK registered companies, such as the Company, cannot be held or transferred in the CREST system. However, to enable investors to settle such securities through CREST, a depositary or custodian can hold the relevant securities and issue dematerialised Depositary Interest ("DIs") representing the underlying securities which are held on trust for the holder of the DIs.

13.2 With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a DI arrangement established by the Company. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will also be able to do so. No temporary documents of title will be issued.

13.3 The Ordinary Shares will not themselves be admitted to CREST. Instead the Depositary will issue DIs in respect of the underlying Ordinary Shares. The DIs will be independent securities constituted under English law which may be held and transferred through CREST. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing on AIM. The DIs will be created and issued pursuant to the deed poll executed by the Depositary (details of which are set out at paragraph 11.2.3 of this Part V, above), which will govern the relationship between the Depositary, and the holders of DIs.

13.4 Application will be made for the DIs in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission. Holders of Ordinary Shares in certificated form who wish to hold DIs through the CREST system may be able to do so and should contact the Registrar.

14. REASONS FOR THE PLACING AND USE OF PROCEEDS

14.1 The Placing is intended to raise approximately £15.0 million before expenses. The Company intends to utilise these funds to strengthen the balance sheet to secure tier 1 customers of approximately £8.0 million, financing additional research and development in the amount of approximately £3.5 million, financing additional sales and marketing efforts in the amount of approximately £1.2 million and repaying shareholders' loans of approximately £370,000 (as described in paragraphs 11.3.1 and 11.3.2 of this Part V), whilst using the balance of funds raised as working capital, including paying the costs of the Placing.

15. WORKING CAPITAL

The Directors are of the opinion (having made due and careful enquiry) that the working capital of the Company will be sufficient for its present requirements, that is, for at least the period of 12 months from the date of Admission.

16. LITIGATION

16.1 The Company is not and has not been involved in any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Document, a significant effect on the Company's financial position or profitability and, so far as the Directors are aware, there are no such proceedings pending or threatened against the Company.

17. UK AND ISRAELI TAXATION

17.1 The following is only a general guide to the main UK and Israeli tax consequences that should apply to shareholders of the Company who acquire their shares via trading on AIM, hold their shares as investments, are the absolute beneficial owners of the shares and any dividends received in respect of those shares and are UK tax resident individuals or companies. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of shareholders of acquiring, holding or disposing of shares. Specifically, it is not addressed to certain categories of shareholders who are subject to special rules, such as dealers in securities or those who have acquired (or are deemed for tax purposes to have acquired) their shares by reason of employment.

17.2 Any statements made as regards the main UK tax consequences applicable to shareholders of the Company are based on current UK tax legislation and what is understood to be the current practice of Her Majesty's Revenue and Customs ("HMRC").

17.3 The descriptions of the Israeli tax laws and practices set forth below are based on the statutes, regulations, rulings, judicial decisions and other authorities in force and applied in practice as of the date of this Document, all of which are subject to change and differing interpretations.

17.4 If you are in any doubt as to your own tax position or are resident or subject to tax in a jurisdiction outside the UK, you should seek independent professional advice without delay.

17.5 The directors intend that the Company will be tax resident in Israel.

17.6 Provided that the Company is not resident in the UK for taxation purposes and does not carry out any trade in the UK (whether or not through a permanent establishment situated there), the Company should not be liable for UK taxation on its income and gains, other than in respect of interest and other income received by the Company from a UK source (to the extent that it is subject to withholding taxes in the UK).

17.7 It is the intention of the Directors to conduct the affairs of the Company so that the central management and control of the Company is not exercised in the UK in order that the Company does not become resident in the UK for taxation purposes. The Directors intend, insofar as this is within their control, that the affairs of the Company are conducted so the Company is not treated as carrying on a trade in the UK through a permanent establishment.

Dividends

17.8 With respect to dividends sourced from regular earnings, the current Israeli rate of withholding tax on dividends distributed to a foreign tax resident should be 25 per cent. for individuals and according to the corporate tax rate (24 per cent. in 2017) for foreign corporations. Where the recipient of the dividend has controlling interest in the company or had controlling interest sometime in the 12 months prior to the dividend allocation, the tax rate shall be 30 per cent. It should be noted that if not all the required tax was withheld from the substantial shareholder then according to the Israeli tax law he would be required to submit a tax return in Israel and pay the remaining tax that was not withheld.

17.9 The double taxation treaty between Israel and the UK (the "UK Treaty") provides for the foregoing withholding to be reduced to 15 per cent. where the recipient is subject to tax on the dividends received in the UK. This relief under the UK Treaty would not be available if the holder of Ordinary Shares had a permanent establishment in Israel and their holding of Ordinary Shares with respect to which the dividends are paid was effectively connected with the business or trade of that permanent establishment. The reduced rate of withholding tax is also not available under the UK Treaty if: (i) the recipient owns 10 per cent. or more of the class of shares in respect of which the dividend is paid, to the extent that the dividend in question could only have been paid out of profits which the Company earned or out of other income which it received in a period ending twelve months or more before the relevant date (for these purposes, the "relevant date" is the date on which the recipient of the dividend became the owner of 10 per cent. or more of the class of shares in question); and (ii) the recipient cannot show that the shares were acquired for *bona fide* commercial reasons and not primarily for the purpose of securing the benefit of the reduced withholding tax rate under the UK Treaty. It should be noted that where shares are held through the Depositary, and all the dividend amounts transferred through the Depositary, the Company would be required to withhold tax according to the maximum withholding tax rate.

17.10 In order to enjoy the reduced withholding tax rate prescribed under the UK Treaty, a certificate from the Israeli tax authorities must be obtained by the foreign tax resident and presented to the Company prior to the dividend distribution. Obtaining such a certificate usually requires the shareholder to confirm their tax residence.

17.11 A UK tax resident individual Shareholder who receives a dividend from the Company (the amount received being the "net dividend") will normally be entitled to a tax credit equal to one-ninth of the amount of the net dividend. The individual will be subject to UK income tax on the aggregate of the net dividend and the related tax credit (the "gross dividend"), which will be regarded as the top slice of the individual's income. The individual will be liable to income tax in respect of the dividend at the dividend ordinary rate, the dividend upper rate or the dividend additional rate.

17.12 Dividend income received by UK tax resident individuals will have a £5,000 dividend tax allowance. Dividend receipts in excess of £5,000 will be taxed at 7.5 per cent. for basic rate taxpayers, 32.5 per cent. for higher rate taxpayers and 38.1 per cent. for additional rate taxpayers (for the tax year

2017/18). This results in an adjusted tax rate of 25 per cent. taking into account of the tax credit. It should be noted that as of April 2018 the dividend tax allowance will be reduced to £2,000.

17.13 Individual Shareholders may be able to claim relief for withholding tax suffered on dividends paid to them.

17.14 UK resident individual Shareholders who are not domiciled within the UK and who are claiming the remittance basis of taxation (or who are within it automatically), will generally be subject to UK income tax on the dividend receipt only if the dividend is remitted (or deemed to be remitted) to the UK. In such a case, it should be noted that advantage can only be taken of the reduced rate of withholding tax under the UK Treaty if the dividends are subject to UK tax and the recipient qualifies as a resident under the UK Treaty.

17.15 A corporate Shareholder (within the charge to UK corporation tax) which is a "small company" for the purposes of the UK taxation of dividends legislation will not generally be subject to UK corporation tax on dividends from the Company.

17.16 Other corporate Shareholders (within the charge to UK corporation tax) will not be subject to tax on dividends from the Company provided the dividends fall within an exempt class and certain conditions are met. In general, most dividends received by corporate Shareholders will fall within an exempt class. Examples of dividends that fall within exempt classes include dividends paid on shares that are non-redeemable ordinary shares, and dividends paid to a person holding less than 10 per cent. of the issued share capital of the Company (or any class of that share capital).

17.17 The exemptions are not comprehensive and are subject to anti-avoidance rules. If the conditions for exemption are not, or cease to be, satisfied, or such a Shareholder elects for an otherwise exempt dividend to be taxable, the Shareholder will be subject to UK corporation tax on dividends received from the Company. UK corporation tax is charged on dividends at the rate applicable to that company.

17.18 Shareholders who are able to claim an exemption from UK corporation tax on dividends from the Company will not be entitled to claim relief in respect of any underlying tax or withholding tax imposed.

Capital gains tax

17.19 Israeli law provides that a substantial shareholder (being an individual who holds, directly or indirectly, by himself or "together with another", at least 10 per cent. of one or more of the means of control in the company – "together with another" means together with a relative, or together with someone who is not a relative but with whom, according to an agreement, there is regular cooperation in material matters of the Company, directly or indirectly) should be subject to tax at the rate of 30 per cent. on capital gains from sale of shares, where non-substantial shareholder would be subject to tax at the rate of 25 per cent. on capital gains from sale of shares. Companies should be subject to capital gains tax at the rate of corporate income tax (currently 24 per cent.).

17.20 Having stated that, Israeli law provides that non-Israeli residents who acquired shares in an Israeli company on January 1, 2009 or later should be exempt from Israeli tax on their capital gains from the sale of such shares, provided that (i) the gains are not attributable to a permanent establishment of the shareholder in Israel; (ii) the acquisition of the shares was not from a relative and the provisions of Part E2 of the Income Tax Ordinance (New Version) 1961, or the provisions of Section 70 of the Real Estate Taxation Law, do not apply to it; (iii) the shares were not traded on a stock exchange in Israel at the time of the sale; and (iv) most of the value of the assets held, directly or indirectly, by the company on the acquisition date of the shares and for the two years preceding their sale was not attributable to real estate rights or rights in a real estate association or use of real estate or natural resources in Israel. In addition, the regulations provide an exemption from Israeli tax on capital gains from sale of shares of Israeli companies that are traded in a stock exchange outside Israel.

17.21 Note, non-Israeli companies will not be entitled to such exemption if (i) an Israeli resident has a controlling interest, directly or indirectly, alone, together with another, or together with another Israeli resident, of 25 per cent. or more in one or more of the means of control in such non-Israeli resident company; or (ii) Israeli residents are the beneficiaries of or are entitled to 25 per cent. or more of the revenues or profits of such non-Israeli resident company, whether directly or indirectly.

17.22 An individual, who is resident in the UK shall be liable to capital gains tax where a gain arises on the disposal of chargeable assets situated anywhere in the world (including shares in the Company held as an investment) subject to the application of relevant reliefs and exemptions.

17.23 Gains accruing after 6 April 2016 the rate of capital gains tax on disposal of Ordinary shares by basic rate taxpayers will reduce from 18 per cent. to 10 per cent. and for upper rate and additional rate taxpayers the rate will fall from 28 per cent. to 20 per cent. A Shareholder who is an individual resident in the UK and who is not domiciled in the UK who makes gains on the disposal of Ordinary Shares where the proceeds are not remitted to the UK may benefit from the remittance basis of UK taxation. Such individuals should consult their own tax advisers concerning their UK tax liability.

17.24 A company resident in the UK for corporation tax purposes will be liable for corporation tax in respect of a chargeable gain (or an allowable loss may arise) on the disposal of shares in the Company, depending on the circumstances and subject to indexation allowance and any other available exemption or relief.

17.25 An individual Shareholder who is resident but not domiciled in the UK who claims the remittance basis of taxation (or who is automatically within the remittance basis) and whose shares are not situated in the UK, will be liable to UK capital gains tax only to the extent that chargeable gains made on the disposal of shares are remitted or deemed to be remitted to the UK. Provided the Company's share register is situated outside the UK, the shares should be considered to be located abroad for capital gains tax purposes, but dealings in the shares on AIM or through depositary interest programmes located in the UK may give rise to remitted profits which would therefore be taxable.

17.26 The UK Treaty provides the UK an exclusive right to tax UK residents on gains from disposal of certain assets that are located in Israel, including shares, provided that they are subject to tax in the UK. where the gains are not attributable to a permanent establishment of the shareholder in Israel. The applicant for treaty benefit would have to prove, amongst others, that he is the beneficial owner of the shares.

Stamp duty and stamp duty reserve tax

17.27 The following comments are intended as a guide to the general UK stamp duty and stamp duty reserve tax ("SDRT") position and do not relate to persons such as market makers, brokers, dealers, intermediaries, persons connected with voluntary arrangements, depositary receipt arrangements or clearing services or persons who enter into sale and repurchase transactions in respect of the Ordinary Shares for whom special rules apply.

17.28 No UK stamp duty or SDRT should be payable on the issue of the Ordinary Shares.

17.29 No stamp duty or SDRT should arise on the transfer of the Ordinary Shares to the Depositary (or one of its subsidiaries), to hold in its capacity as Depositary, nor on the subsequent issue by the Depositary to that transferor of DIs representing the underlying Ordinary Shares in an uncertificated form (which are eligible for settlement through CREST). Issues or transfers of shares to clearance services or depositary receipt systems may attract SDRT at 1.5 per cent. (stamp duty at 1.5 per cent. may be payable on instruments effecting transfers of shares to such services or systems). Transfers of bearer shares also attract stamp duty at 1.5 per cent.

17.30 Assuming that transfers of DIs operate without any written instrument or transfer or written assignment to transfer, no stamp duty will be payable by the purchasers of such DIs.

17.31 Neither UK stamp duty nor SDRT should arise on transfers of Ordinary Shares on AIM (including instruments transferring Shares and agreements to transfer Ordinary Shares) based on the following assumptions:

17.31.1 the Shares are admitted to trading on AIM, but are not listed on any market (with the term "listed" being construed in accordance with section 99A of the Finance Act 1986), and this has been certified to Euroclear; and

17.31.2 AIM continues to be accepted as a "recognised growth market" as construed in accordance with section 99A of the Finance Act 1986).

In the event that either of the above assumptions does not apply, stamp duty or SDRT may apply to transfers of Ordinary Shares in certain circumstances.

17.32 The above comments are intended as a guide to the general stamp duty and SDRT position and may not relate to persons such as charities, market makers, brokers, dealers, intermediaries and persons.

17.33 There is no stamp duty in Israel on issuance or transfer of shares.

18. GENERAL

18.1 Save as disclosed in this Document there has been no significant change in the financial or trading position of the Company since 31 December 2016, the date to which the last audited accounts of the Company were prepared.

18.2 The estimated costs and expenses relating to Admission and the Placing (including those fees referred to in paragraph 9 above) payable by the Company are estimated to amount to approximately £1.3 million. The total net proceeds of the Placing, after settling fees, will be £13.7 million.

18.3 The Auditors of the Company for the period covered by the historical financial information provided herein were Fahn Kanne Grant Thornton, who are regulated for audit work by the Institute of Certified Public Accountants in Israel.

18.4 Fahn Kanne Grant Thornton has given and not withdrawn its written consent to the inclusion in this Document of its report in Part III and the references to its report and to its name in the form and in the context in which they appear.

18.5 Arden Partners is registered in England and Wales under company number 04427253 and its registered office is at Arden House, 17 Highfield Road, Edgbaston, Birmingham, West Midlands, B15 3DU. Arden Partners is regulated by the Financial Conduct Authority and is acting in the capacity as nominated adviser and broker to the Company.

18.6 Arden Partners has given and not withdrawn its consent to the issue of this Document with the inclusion of its name and references to it in the form and context in which they appear.

18.7 Save as otherwise disclosed in this Document, there are no patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Company's business or profitability or on which the Company is dependent.

18.8 No person other than as disclosed in paragraph 11.3.3 of this Part V (excluding professional advisers otherwise disclosed in this Document and trade suppliers) has:

18.8.1 received, directly or indirectly, from the Company within the 12 months preceding the date of application for Admission; or

18.8.2 entered into contractual arrangements (not otherwise disclosed in this Document) to receive, directly or indirectly, from the Company on or after Admission, any of the following:

18.8.2.1 fees totalling £10,000 or more;

18.8.2.2 securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or

18.8.2.3 any other benefit with a value of £10,000 or more at the date of Admission.

18.9 The Placing will result in the interests of existing Shareholders being diluted by 32.9 per cent. on Admission.

18.10 Save as disclosed in this Document, the Company currently has no significant investments in progress and the Company has made no firm commitments concerning future investments.

18.11 Save in connection with the application for Admission, none of the Ordinary Shares has been admitted to dealings on any recognised investment exchange and no application for such admission has been made and it is not intended to make any other arrangements for dealings in the Ordinary Shares on any such exchange.

18.12 Save as disclosed in this Document, the Directors are not aware of any environmental issues that may affect the Company's utilisation of its tangible fixed assets.

18.13 No Director or member of a Director's family has any related financial products referenced to the Ordinary Shares.

18.14 The Directors are all interested in Ordinary Shares and/or parties to personal employment agreements or letters of appointment. Save as set out herein there are no other potential conflicts of interest between any duties to the Company, the Directors and their private interests.

18.15 There are no family relationships between the Directors.

18.16 The number of employees in the Company as at 31 December 2014 was 14, as at 31 December 2015 was 14 and as at 31 December 2016 was 13.

18.17 Save as disclosed in this Document, the Directors are unaware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for the current financial year.

18.18 Where information contained in this Document has been sourced from a third party, the information has been accurately reproduced and, as far as the Company and the Directors are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

19. DOCUMENTS AVAILABLE FOR INSPECTION

19.1 Copies of this document are available free of charge to the public at the registered office of the Company during normal business hours on any weekday (public holidays excepted) until the date falling one month after the date of Admission. Copies of this document are also available to the public free of charge on the Company's website at www.ethernitynet.com/investor-relations/ in accordance with the AIM Rules.

Dated 23 June 2017

Perivan Financial Print 245295