19 April 2024

Ethernity Networks Ltd.
("**Ethernity**" or the "**Company**")

Results for the Year Ended 31 December 2023

Ethernity Networks Ltd (AIM: ENET.L; OTCMKTS: ENETF), a leading supplier of data processing semiconductor technology for networking appliances, today announces its audited results for the year ended 31 December 2023.

Highlights

- FY 2023 revenue of $3.8 million represents 29% growth vs. 2022 revenues (2022: $2.9 million).
- FY 2023 cash collections from customers amounted to $4.9 million.
- Gross profit increased by 46% to $2.3 million (2022: $1.6 million).
- Operating loss decreased from $8.7 million in 2022 to $5.3 million in 2023 reflecting a decrease of 27%.
- EBITDA loss for 2023 decreased by 47% to $3.9 million (2022: $7.3 million).
- EBITDA loss for H2 2023 decreased by 74% to $0.8 million from $3.1 million in H1 2023.
- Net cash funds raised during the year amounted to $3.6 million.
- Cash at 31 December 2023 of $2 million (31 December 2022: $0.7 million)

David Levi, Chief Executive, said *"During this past year, we achieved significant growth in revenue and gross margin, with a major turnaround in the second half. This success came despite facing headwinds from the global economic climate. Based on the scopes of work being discussed with potential new customers, Ethernity expects to secure new contracts for our Carrier Ethernet and PON technology, in incremental non-recurring engineering (NRE) revenue in 2024 on top of our established business. This momentum positions us for significant future growth as our OEM partners leverage our solutions to win market share and generate revenue for themselves. We anticipate this will translate into substantial new revenue opportunities for Ethernity in 2025".*

Posting of Annual Report

The annual report and accounts for the year ended 31 December 2023 is being posted to shareholders shortly and will be available on the Company's website at www.ethernitynet.com. The notice of annual general meeting will be dispatched in due course.

For further information, please contact:

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About Ethernity (www.ethernitynet.com)

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

Chairman's Statement

I am pleased to present my report as Chairman of the Board.

The year 2023 commenced with several unfortunate events and challenges, yet following strategic measures taken by the Board and Management, the year concluded with notable improved results and growth.

The Chinese PON contract which failed to deliver the expected results, together with a slow market in the first half of the year, necessitated the Board and Management to implement several restructuring measures, including a meaningful cut of expenses and reduction of headcount, together with adopting an improved business model. Consequently, during the second half of the year several major, high margin contracts were signed resulting in revenue growth and improved cash flow.

Outlook

Since the beginning of 2024, the Company appointed a highly experienced and knowledgeable VP Marketing and a talented and professional new CFO. In addition, two External Directors have joined the board, bringing deep know-how in finance, marketing, and strategy.

With a robust technology and IP foundation, a diverse portfolio of products and services, an efficient R&D structure, and recent additions of professional talent, the Company is now better positioned than ever to face the future and capitalize on the growing market opportunities.

Yosi Albagli

Chairman

19 April 2024

Chief Executive's Statement

In 2023, we achieved significant growth in revenue and gross margin, with a major turnaround in the second half. This success came despite facing headwinds from the global economic climate and a disappointing performance in the Chinese PON market. We delivered 29% revenue growth and a 46% improvement in gross profit. To further strengthen our position, we streamlined our R&D efforts to optimize resource allocation and accelerate the completion of our Universal Edge Platform (UEP) platform. We also optimized our workforce to enhance efficiency and position the Company for positive cash flow in 2024.

To capitalize on our strengths, we strategically focused on two key areas. First, we leveraged our core competence in Carrier Ethernet, where we have a proven track record of supporting OEM partners in deploying over one million products globally. This established leadership position gives us a strong foundation for further growth. Second, we are actively pursuing opportunities in the high-growth PON market, particularly in North America. The US government's BEAD initiative, allocating $42 billion to bridge the digital divide by deploying and expanding broadband specifically in underserved areas, presents a significant opportunity for us to contribute our expertise and expand our market share.

The Ethernity UEP is a powerful platform that combines an FPGA with our ENET flow processor and a comprehensive suite of application software. This innovative solution delivers MEF-compliant Carrier Ethernet functionality, along with precise timing synchronization and Link Bonding capabilities. Throughout the second half of 2023 and the first quarter of 2024, the UEP underwent rigorous testing by two new OEM vendors. We are working with these vendors with the target of them launching solutions based on our technology.

The Ethernity UEP extends its capabilities beyond Carrier Ethernet by incorporating industry-leading Remote OLT (GPON and XGS-PON) functionality for the PON market. This versatile platform delivers a comprehensive feature set, including MEF-compliant Carrier Ethernet, precise timing synchronization, Link Bonding, and advanced PON capabilities. This unified solution empowers OEM customers to address a broad range of markets and applications while significantly reducing integration efforts. Furthermore, the UEP's FPGA-based architecture provides Ethernity with the flexibility to adapt its capabilities to meet the ever-evolving needs of the market.

Throughout the past year, the Company remained committed to delivering comprehensive solutions, encompassing both software and hardware. Notably, we placed a strong emphasis on mobile backhaul products that integrate our patented wireless link bonding technology. Additionally, we've made significant progress on our ENET 5200 FPGA System-on-Chip (SoC) as well as Quad XGS-PON OLT and GPON OLT MAC capabilities and is now available for customer adoption.

We are pleased to report continued revenue growth in 2023 from our U.S. fixed wireless broadband solution customer. Furthermore, we are actively engaged in the development of a second-generation product for this customer. This development effort is ongoing in 2024, and we have been advised that the customer anticipates placing new orders for both the first and second generation products throughout the second half of 2024. The customer's rollout ramp-up plan for the second-generation product is scheduled to take place during 2025. We ended 2023 with two significant contract wins from existing customers:

- Tier-1 U.S. Aerospace and Defence Company: Following government approval, this longstanding customer signed a $475,000 contract extension to leverage Ethernity's technology on a critical military project. We are committed to supporting them throughout 2024 with ongoing paid maintenance and support.
- Long-Term Networking Customer: We secured a substantial $800,000 contract with a customer who has been a loyal partner since 2008. They initially adopted our Carrier Ethernet technology and have since deployed hundreds of thousands of Ethernity-inside products, generating tens of millions in annual revenue for the customer. Both Ethernity and the customer are actively exploring new market opportunities to expand our collaboration.

Ethernity Networks stands out for its cost-effective routing data plane functionality on FPGAs, enabling a versatile solution that supports services from 1Gbps to 100Gbps. This translates to significant advantages for our customers. They can leverage the base data processing engine to offer Carrier Ethernet services at a competitive price point, with the option to unlock premium features by enabling the routing application. Furthermore, for high-volume applications, Ethernity offers a seamless migration path to eASIC or ASICs, ensuring dramatic cost reductions as customer needs evolve.

Ethernity Networks offers a compelling value proposition for OEM customers by combining the power of our cost-effective Data Processing Unit (DPU) SoC with our innovative low-latency PON technology. This comprehensive suite provides a versatile umbrella of wired, fiber, and wireless access solutions.

Fueled by market growth:

- Surging Bandwidth Demands: The ever-increasing demand for bandwidth, driven by cloud services and artificial intelligence at the network edge, creates a significant opportunity for Ethernity's solutions.
- IP-Based Network Expansion: The growth of IP-based next-generation networks is a key market driver for our high-performance offerings.
- Fiber Access Boom: The widespread deployment of fiber optics and the dominance of PON technology for fiber access perfectly align with Ethernity's strengths.
- Rise of Edge Computing: The growing adoption of edge computing deployments creates a strong demand for our low-latency solutions.
- 5G Expansion: The global rollout of 5G networks fuels the need for innovative wireless backhaul solutions, a core competency of Ethernity.
- Carrier Ethernet Adoption: The increasing adoption of Carrier Ethernet for wireless backhaul applications presents a significant growth opportunity.

Outlook

While 2023 presented its share of challenges, Ethernity successfully finalised its UEP as a complete system product. This marks a significant step forward, enabling us to evolve beyond offering just FPGA SoCs and provide comprehensive solutions which all integrate ENET implementation of FPGA SoC, hardware and software application. This shift empowers our customers to achieve faster time-to-market and accelerate revenue generation. Previously, deploying products based on our FPGA SoCs typically took 18 months. With the UEP all integrated system, the time to revenue or deployment from sign-off can be dramatically reduced to just six months. This enhanced efficiency positions Ethernity to capitalize on planned customer wins and drive near-term growth.

By transitioning to a system-based approach, Ethernity unlocks significant value for a broader customer base. Our comprehensive solutions, combining powerful FPGA SoCs with Ethernity's semiconductor expertise and application software, eliminate the need for in-house product development by our customers. This empowers companies without extensive engineering resources to leverage our technology and quickly launch their own solutions. This strategic shift positions Ethernity to strengthen its market position, expand its OEM customer base, and attract new partners who can significantly contribute to our revenue growth.

Based on the scopes of work being discussed with potential new customers, Ethernity expects to secure new contracts for our Carrier Ethernet and PON technology, generating approximately $2.2- $3 million in incremental non-recurring engineering (NRE) revenue in 2024 on top of our established business. This momentum positions us for significant future growth as our OEM partners leverage our solutions to win market share and generate revenue for themselves. We anticipate this will translate into substantial new revenue opportunities for Ethernity in 2025.

David Levi

Chief Executive Officer

19 April 2024

Financial Review

Financial Performance

I am pleased to present my first Annual Report as CFO of the Company. Since assuming the CFO duties in August 2023, it has been a period of both excitement and challenge for the Company from a financial standpoint. On the one hand, we achieved substantial growth in every financial metric; and on the other hand, we encountered significant cashflow and legal challenges. I am pleased to present that despite these obstacles, we succeeded to conclude the 2023 fiscal year with exceptionally robust financial results.

Highlights and achievements:

- FY 2023 revenue of $3.8 million represents 29% growth vs. 2022 revenues (2022: $2.9 million).
- FY 2023 cash collections from customers amounted to $4.9 million.
- Gross profit increased by 46% to $2.3 million (2022: $1.6 million).
- Operating loss decreased from $8.7 million in 2022 to $5.3 million in 2023 reflecting a decrease of 27%.
- EBITDA loss decreased by 47% to $3.9 million (2022: $7.3 million).
- Net cash funds raised during the year amounted to $3.6 million.
- Cash at 31 December 2023 of $2 million (31 December 2022: $0.7 million)

Key financial results

EBITDA

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

The EBITDA for the financial year ended 31 December 2023 is as follows:

EBITDA	US Dollar For the year ended 31 December 2023	2022	Increase (Decrease)	%
Revenues	**3,777,919**	**2,937,424**	**840,495**	**29%**
Gross Profit	**2,340,142**	**1,598,328**	**741,814**	**46%**
Gross Margin %	*61.9%*	*54.4%*		*7.5 ppts*
Operating loss	**(5,280,652)**	**(8,696,876)**	**(2,369,401)**	**27%**
Adjusted for:				
Amortisation of intangible assets	961,380	961,380	-	
Depreciation charges on fixed assets	138,782	108,673	30,109	
Depreciation in respect of IFRS16 lease assets	315,884	339,561	(23,677)	

EBITDA	**(3,864,606)**	**(7,287,262)**	**3,422,656**	**(47%)**
Add back share based compensation charges	72,287	221,362	(149,075)	
Add back vacation accrual charges	(109,026)	35,646	(144,672)	
Add back impairments	220,220	599,200	(378,980)	
Adjust IFRS16 rent expense reversals	(398,033)	(378,128)	(19,905)	
Adjusted EBITDA	**(4,079,158)**	**(6,809,182)**	**2,730,024**	**(40%)**

The EBITDA losses decreased during the 2023 year by 47% from $7.3 million in 2022 to $3.9 million in 2023. The decrease is attributed to the significant growth in revenues as well as the cost savings which have been implemented across the board in the various operating department expenses.

The adjusted EBITDA measure which adds back various non-cash items improved by 40% in comparison to the previous year from an adjusted EBITDA loss of $6.8 million in 2022 to $4.1 million in 2023.

When comparing the EBITDA figures of the first six months of 2023 with those of the latter half of 2023, notable growth is evident in the second half of 2023, as detailed below:

EBITDA	**US Dollar** **For the six months ended** **31-Dec-23**	 **30-Jun-23**	**Increase (Decrease)**	**%**
Revenues	**2,379,048**	**1,398,871**	**980,177**	**70%**
Gross Profit	**1,537,648**	**802,494**	**735,154**	**92%**
Gross Margin %	*64.6%*	*57.4%*		*7.2 ppts*
Operating loss	**(1,506,397)**	**(3,774,255)**	**2,267,858**	**(60%)**
Adjusted for:				
Amortisation of intangible assets	480,690	480,690	-	
Depreciation charges on fixed assets	71,168	67,614	3,554	
Depreciation in respect of IFRS16 lease assets	157,942	157,942	-	
EBITDA	**(796,597)**	**(3,068,009)**	**2,271,412**	**(74%)**
Add back share-based compensation charges	16,262	56,025	(39,763)	
Add back vacation accrual charges	(86,702)	(22,324)	(64,378)	
Add back impairments	26,683	193,537	(166,854)	
Adjust IFRS16 rent expense reversals	(193,767)	(204,266)	10,499	

Adjusted EBITDA	**(1,034,121)**	**(3,045,037)**	**2,010,916**	**(66%)**

Summarised trading results

Summarised Trading Results	**US Dollar** **For the year ended 31 December** **2023**	 **2022**	**Increase (Decrease)**	**%**
Revenues	**3,777,919**	**2,937,424**	**840,495**	**29%**
Gross Profit	**2,340,142**	**1,598,328**	**741,814**	**46%**
Gross Margin %	*61.9%*	*54.4%*		*7.5 ppts*
Operating Loss	**(5,280,652)**	**(8,696,876)**	**3,416,224**	**(39%)**
Financing costs	(1,267,906	(573,388	(694,518)	121%
Financing income	183,811	1,267,652	(1,083,841)	(85%)
Net comprehensive loss for the year	**(6,364,747)**	**(8,002,612)**	**1,637,865**	**(20%)**
Basic and Diluted earnings per ordinary share	**(0.04)**	**(0.11)**	**0.06**	**(58%)**
Weighted average number of ordinary shares for basic earnings per share	**143,876,859**	**76,013,296**		

Revenue Analysis

Revenues for the twelve months ended 31 December 2023 increased by 29% to $3.8 million (2022: $2.9 million).

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

Margins

The gross margin percentage increased to 61.9% in 2023 from 54.4 % in 2022 reflecting an increase of 7.5 percentage points which is mainly attributed to the increased licensing revenues which carry a 100% profit margin.

Operating Costs and Research & Development Costs

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

	US Dollar		**%**

Operating Costs	For the year ended 31 December 2023	2022	Increase (Decrease)	
Total R&D Expenses	5,160,697	6,618,795	(1,458,098)	(22%)
R&D Intangible amortisation	(961,380)	(961,380)	-	
Vacation accrual reversals (expenses)	57,569	(21,700)	79,269	
Share Based Compensation IFRS adjustment	(58,755)	(160,134)	101,379	
Research and Development Costs net of amortisation, Share Based Compensation, IFRS adjustments and Vacation accruals	**4,198,131**	**5,475,581**	**(1,277,450)**	**(23%)**
Total G&A Expenses	1,841,842	2,523,916	(682,074)	(27%)
Share Based Compensation IFRS adjustment	(17,710)	(51,627)	33,917	
Vacation accrual reversals (expenses)	21,196	(3,189)	24,385	
Impairment losses of financial assets	(220,220)	(599,200)	378,980	
Fixed Assets Depreciation Expense	(138,782)	(108,673)	(30,109)	
Depreciation in respect of IFRS16	(315,884)	(339,561)	23,677	
General and Administrative expenses, net of depreciation, Share Based Compensation, IFRS adjustments, Vacation accruals and impairments.	**1,170,442**	**1,421,666**	**(251,224)**	**(18%)**
Total Sales and Marketing Expenses	621,052	1,167,534	(546,482)	(47%)
Share Based Compensation IFRS adjustment	4,178	(9,601)	13,779	
Vacation accrual reversals (expenses)	30,261	(10,757)	41,018	
Sales and Marketing expenses, net of Share Based Compensation and Vacation accruals.	**655,491**	**1,147,176**	**(491,685)**	**(43%)**
Total	**6,024,064**	**8,044,423**	**(2,020,359)**	**(25%)**

Research and Development costs after reducing the costs for the amortisation of the capitalised Research and Development intangible asset, share based compensation and add back for vacation accrual adjustment have decreased by 23% from $5.5 million in 2022 to $4.2 million in 2023. This is mainly attributed to the headcount cost savings announced during 2023.

A further decrease of 18% is noted in the General and Administrative costs over 2022 to $1.2 million after adjusting for depreciation, share based compensation, IFRS adjustments, impairments and vacation accrual adjustments. This decrease as well is attributable to the headcount cost savings as well as further administrative cost savings.

Similar decrease in the Sales and Marketing costs during the 2023 financial year due to cessation of many marketing travel and travel related activities resulted in a decrease of 43% of the Sales and Marketing costs net of the non-cash item adjustments of IFRS share based compensation adjustment as well as the vacation accrual adjustment from $1.1 million in 2022 to $655K in 2023.

Recognition of Research and Development Costs

In line with the change in policy adopted by the Company from 1 July 2019 the Company continues to no longer recognise the Research and Development costs as an intangible asset and is recognising them as an expense being charged against income in the year incurred.

For the years ending 31 December 2021 and 2022 management performed their own internal assessment of the fair value of the intangible asset and concluded that the value of the asset is fair and no impairment of the intangible asset on the balance sheet is required. This process was repeated by management for the financial year under review, the year ended 31 December 2023, and the assertion that the underlying value of the intangible asset exceeds the carrying value on the balance sheet remains unchanged.

Balance Sheet

The Company presents a stronger cash position for 31 December 2023 as a result of the cash collections from customers for the year which amounted to $4.9 million. In addition, the Company completed three placings during the year which resulted in net cash inflows amounting to $3.6 million.

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

- Reduction in Trade receivables due to the successful collection of outstanding debts from 2022.
- Inventories reduced as the Company no longer stocks up on high-cost inventory following the ease of the global components' shortage and reduction in the inventory lead-times.
- Intangible asset on the balance sheet continues to reduce in carrying value due to the annual amortisation with an approximate 4.5 years of amortisation remaining. The current carrying value of $4.5 million is a result of the Company historically adopting the provisions of IAS38 relating to the recognition of Development Expenses, which methodology as noted in the 2019 Annual Report has ceased from 1 July 2019.
- Operating lease right of use asset and the lease liability – in October 2021 the Company committed to a five-year agreement for its primary offices in Airport City Israel. At the termination of the lease, the Company has an option to renew it for a further five years. As at 31 December 2022 such renewal option was considered as reasonably certain to be exercised according to IFRS16. As at 31 December 2023, the Company's assessment was that such the option for the five year extension may not be exercised due to the decline in rental prices within the premises market. In light of the reassessment, the lease asset as well as the lease liability have been adjusted to reflect the current state of the Company's asset and commitment given the end of lease in November 2026. Under the signed contract, the remaining liability as at 31 December 2023 is $1.1 million.
- Trade payables and other liabilities increased in light of the signing of the settlement plan following the Company's exit of the Temporary Suspension of Proceedings ("**TSP**"). According to the settlement plan, the Company will repay in full all debts outstanding as of 16 October 2023 (date at which the Company entered into the TSP) in quarterly instalments in the order of the debts' seniority and in compliance with the settlement plan. To date, the Company has fully repaid its guaranteed debts and has partially paid the priority creditors.

Summary of fundraising transactions, related liabilities and finance expense in respect of fundraising transactions.

During the twelve-month period ended on 31 December 2023, the Company has completed the following placing deals:

- January 2023 – Gross proceeds of £1.65 million (approximately $2 million)
- May 2023 – Gross proceeds of £780K (approximately $980K)
- December 2023 – Gross proceeds of £700K (approximately $880K)

At the year end, the Company holds zero liability in respect of the share subscription agreement first announced in February 2022 with 5G Innovation Leaders Fund LLC.

In accordance with IFRS, the Company recognised a net finance expense of $975K as a result of adjusting the fair value of the shares allotted to 5G Innovation Leaders Fund LLC as part of the liability exhaustion.

The Company holds a liability for the outstanding warrants it has issued as part of the January 2023 placing amounting to $2,841.

Going Concern

In the presentation of the annual financial statements for the year ended 31 December 2023, the Company makes reference to going concern within the audit report. Reference to this is further made in Note 2 to the Annual Financial Statements presented herein.

Ayala Deutsch

Chief Financial Officer

19 April 2024

STATEMENT OF FINANCIAL POSITION

	Notes	US dollars 31 December 2023	2022
ASSETS			
Current			
Cash	5	1,993,808	715,815
Trade receivables	6	186,145	1,299,072
Inventories	7	535,689	773,076
Other current assets	8	427,875	343,872
Current assets		**3,143,517**	**3,131,835**
Non-Current			
Property and equipment	9	820,310	810,326
Intangible asset	10	4,501,420	5,462,800
Right -of -use asset	11	1,175,950	2,816,641
Other long term assets		35,144	35,689
Non-current assets		**6,532,824**	**9,125,456**
Total assets		**9,676,341**	**12,257,291**
LIABILITIES AND EQUITY			
Current			
Short Term Borrowings	12	96,306	428,935
Trade payables		1,237,113	785,583
Liability related to share subscription agreement	15.E.[2]	-	1,836,555
Warrants liability	15.E.[1]	2,841	-
Other current liabilities	11,13	1,607,897	1,121,909
Current liabilities		**2,944,157**	**4,172,982**
Non-Current			
IIA royalty liability	14	50,645	-
Lease liability	11	764,366	2,505,777
Non-current liabilities		**815,011**	**2,505,777**
Total liabilities		**3,759,168**	**6,678,759**
Equity	15		
Share capital		103,417	21,904
Share premium		47,299,358	40,786,623
Other components of equity		1,334,531	1,225,391
Accumulated deficit		(42,820,133)	(36,455,386)
Total equity		**5,917,173**	**5,578,532**
Total liabilities and equity		**9,676,341**	**12,257,291**

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

STATEMENT OF COMPREHENSIVE LOSS

	Notes	US dollars For the year ended 31 December 2023	2022
Revenue	17,27	3,777,919	2,937,424
Cost of sales		1,437,777	1,339,096
Gross margin		2,340,142	1,598,328
Research and development expenses	18	5,160,697	6,618,795
General and administrative expenses	19	1,841,842	2,523,916
Marketing expenses	20	621,052	1,167,534
Other income	21	(2,797)	(15,041)
Operating loss		**(5,280,652)**	**(8,696,876)**
Financing costs	22	(1,267,906)	(573,388)
Financing income	23	183,811	1,267,652
Loss before tax		**(6,364,747)**	**(8,002,612)**
Tax expense	24	-	-
Net comprehensive loss for the year		**(6,364,747)**	**(8,002,612)**
Basic and diluted loss per ordinary share	25	**(0.04)**	**(0.11)**
Weighted average number of ordinary shares for basic loss per share		143,876,859	76,013,296

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

STATEMENT OF CHANGES IN EQUITY

	Notes	Number of shares	Share Capital	Share premium	Other components of equity	Accumulated deficit	Total equity
Balance at 1 January 2022		**75,351,738**	**21,140**	**40,382,744**	**1,004,029**	**(28,452,774)**	**12,955,139**
Employee share-based compensation		-	-	-	221,362	-	221,362
Exercise of employee options		-	-	-	-	-	-
Shares issued pursuant to share subscription agreement	15.E.[2]	2,695,593	752	383,733	-	-	384,485
Expenses paid in shares and warrants	15.E.[3]	37,106	12	20,146	-	-	20,158
Net comprehensive loss for the year		-	-	-	-	(8,002,612)	(8,002,612)
Balance at 31 December 2022		**78,084,437**	**21,904**	**40,786,623**	**1,225,391**	**(36,455,386)**	**5,578,532**
Employee share-based compensation		-	-	-	72,287	-	72,287
Net proceeds allocated to the issuance of ordinary shares	15.E.[1]	127,188,097	35,441	3,530,205	-	-	3,565,646
Shares issued pursuant to share subscription agreement	15.E.[2]	168,933,439	45,331	2,762,249	-	-	2,807,580
Expenses paid in shares and warrants	15.E.[3]	2,515,118	741	220,281	36,853	-	257,875
Net comprehensive loss for the year		-	-	-	-	(6,364,747)	(6, 364,747)
Balance at 31 December 2023		**376,721,091**	**103,417**	**47,299,358**	**1,334,531**	**(42,820,133)**	**5,917,173**

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

STATEMENT OF CASH FLOWS

	US dollars	
	For the year ended 31 December	
	2023	2022
Operating activities		
Net comprehensive loss for the year	(6,364,747)	(8,002,612)
Non-cash adjustments		
Depreciation of property and equipment	138,129	108,581
Depreciation of right of use asset	315,884	339,561
Share-based compensation	72,287	221,362
Amortisation of intangible assets	961,380	961,380
Amortisation of liabilities	(113,078)	(396,434)
Lease liability Interest	200,261	235,204
Foreign exchange losses on cash balances	3,377	381,480
Revaluation of financial instruments, net	818,521	(984,001)
Expenses paid in shares and options	257,875	20,158
Net changes in working capital		
Decrease in trade receivables	1,112,927	246,526
Decrease (Increase) in inventories	237,387	(488,266)
Increase in other current assets	(84,003)	(102,908)
Increase in other long-term assets	545	3,267
Increase in trade payables	451,530	133,825
Increase (decrease) in other liabilities	422,658	(12,261)
Increase in IIA royalty liability	73,645	-
Net cash used in operating activities	**(1,495,422)**	**(7,335,138)**
Investing activities		
Purchase of property and equipment	(148,113)	(258,838)
Net cash used by investing activities	**(148,113)**	**(258,838)**
Financing activities		
Proceeds from share subscription agreement	-	2,000,000
Proceeds allocated to ordinary shares	3,756,391	-
Proceeds allocated to warrants	132,544	-
Issuance costs	(262,444)	(9,952)
Proceeds from exercise of warrants and options	-	-
Proceeds from short term borrowings	1,239,657	527,790
Repayment of short-term borrowings	(1,543,210)	(493,338)
Repayment of lease liability	(398,033)	(394,053)
Net cash provided by financing activities	**2,924,905**	**1,630,447**
Net change in cash	1,281,370	(5,963,529)
Cash beginning of year	715,815	7,060,824
Exchange differences on cash	(3,377)	(381,480)
Cash end of year	**1,993,808**	**715,815**
Supplementary information:		
Interest paid during the year	64,239	13,321
Interest received during the year	226	1,507
Supplementary information on non-cash activities:		
Shares issued pursuant to share subscription agreement	1,778,468	384,485
Expenses paid in shares and options	257,875	20,158
Non-cash issuance costs	26,757	-
Update of lease liability	1,324,807	-

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS AND GENERAL

ETHERNITY NETWORKS LTD. (hereinafter: the "Company"), was incorporated in Israel on the 15th of December 2003 as Neracore Ltd. The Company changed its name to ETHERNITY NETWORKS LTD. on the 10th of August 2004.

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

In June 2017 the Company completed an Initial Public Offering ("IPO") together with being admitted to trading on the AIM Stock Exchange and issued 10,714,286 ordinary shares at a price of £1.40 per share, for a total consideration of approximately $19,444,000 (£15,000,000) before underwriting and issuance expenses. Total net proceeds from the issuance amounted to approximately $17,800,000. The Company trades on the AIM Stock Exchange under the symbol "ENET".

On 12 October 2023, the Company voluntarily applied to the court in Tel Aviv, Israel for a Temporary Suspension of Proceedings order ("TSP") and the convening of a meeting of creditors in accordance with the Israeli Insolvency and Economic Rehabilitation Law. This TSP order, which was granted by the court, was requested by the Company to protect the Company's business, as the Company experienced liquidity issues from the delay in payments from expected debtors. At the time of this application, the Company's cash balance was approximately $107,000, while the creditors amounts due approximated $1.6 million. The TSP order prevented the creditors of the Company from enforcing any payments due to them.

Following an equity raise in December 2023 and the collection of funds from the Company's debtors, the Company was able to make a settlement proposal, whereby valid creditors at the time of the TSP order, will be repaid in full per the timetable and conditions of the TSP court approved settlement plan over a period of 12 months. Guaranteed and priority creditors would have priority for repayment, followed by general creditors. The creditors approved this proposal which was endorsed by the court on 4 February 2024 and the Company exited the TSP process. To date the Company has fully repaid its guaranteed creditors and partially paid the priority creditors, all in compliance with the settlement plan. Following conclusion of the TSP, and approval of the settlement plan, the Company continues to undertake its business and operations as usual with no restrictions.

NOTE 2 - GOING CONCERN

As of December 31, 2023 the Company has an accumulated deficit of $42.8 million and during the year ended December 31, 2023, the Company incurred a net comprehensive loss of $6.4 million (2022: $8 million) and negative cash flows from operating activities of $1.5 million (2022: $7.5 million). The financial statements have been prepared assuming that the Company will continue as a going concern. Under this assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future unless management intends or has no realistic alternative other than to liquidate the entity or to stop trading for at least, but not limited to, 12 months from the reporting date. The assessment has been made of the Company's prospects, considering all available information about the future, which have been included in the financial budget, from managing working capital and among other factors such as debt repayment schedules. Consideration has been given inter alia to the significant values of funds raised ($3.64 million) and cash collections from customers during the year ended 31 December 2023 ($4.9 million). Furthermore, the Company implemented a cost reduction plan during the second half of 2023 and going forward, the results of which are apparent in the 60% reduction of the H2 2023 operating loss (of $1.5 million) compared to the H1 2023 operating loss (of $3.8 million).

The Company depends on potential growth derived from the indicated growing interest of original equipment manufacturers (OEM) to adopt the Company's offerings and solutions, as well as on the successful execution of new contracts with new and existing customers, and income from existing contracts. Considering the outlined factors, including reduction in expenses, and based on experience, the directors have an expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future.

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

NOTE 3 - MATERIAL 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 2023, no new standards that had a material effect on these financial statements become effective.

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

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

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

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

The applicable law jurisdiction in which the Company operates is in Israel.

The financial statements for the year ended 31 December were approved and authorised for issue by the board of directors on April 18, 2024.

B. Use of significant accounting estimates, assumptions, and judgements

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

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

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

Regarding significant judgements and estimate uncertainties, see Note 4.

C. Functional and presentation currency

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

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

D. Foreign currency transactions and balances

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

Assets and liabilities denominated in or linked to foreign currency are presented on the basis of the representative rate of exchange as of the date of the statement of financial position.

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

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

	2023	**2022**
New Israeli Shekel (“NIS”)	0.276	0.284
Great British Pound (“GBP”)	1.274	1.204
Euro	1.106	1.066

E. Inventories

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

F. Property and equipment

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

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

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

	%
Computers	33
Testing equipment	15-33
Furniture and equipment	6-15
Leasehold improvements	Over period of lease

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

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

G. Research and development expenses

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

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

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

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

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

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

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

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

An intangible asset that was capitalised but not yet available for use, is not amortised and is subject to impairment testing once a year or more frequently if indications exist that there may be a decline in the value of the asset until the date on which it becomes available for use (see also Note 10).

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

The useful life and the amortisation method of each of the intangible assets with finite lives are reviewed at least at each financial year end. If the expected useful life of an asset differs from the previous estimate, the amortisation period is changed accordingly. Such a change is accounted for as a change in accounting estimate in accordance with IAS 8.

H. Financial instruments

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

1. Classification and measurement of financial assets and financial liabilities

Initial recognition and measurement

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

Financial assets - subsequent classification and measurement

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

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

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

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

Financial assets at amortised cost

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

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

Financial assets at fair value through profit or loss

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

Financial liabilities - classification, subsequent measurement and gains and losses

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

Financial liabilities are measured at amortised cost

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

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss, including derivative financial instruments entered into by the Company, including warrants derivative liability related to warrants with an exercise price denominated in a currency other than the Company's functional currency and also including the Company’s liability to issue a variable number of shares, which include certain embedded derivatives (such as prepayment options) under a share subscription agreement - see Note 15.

Separated embedded derivatives are classified as held for trading.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

2. Derecognition of financial liabilities

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

3. Impairment

Financial assets

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

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

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

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

Measurement of expected credit losses

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

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

4. Derivative financial instruments

Derivative financial instruments are accounted for at FVTPL.

Embedded derivatives

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

As described in Note 15.E.[2]., the Company has determined to designate its liability with respect to the share subscription agreement which include several embedded derivatives in its entirety at FVTPL category.

I. 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 the purpose of estimating the fair value of the granted equity instruments, the Company takes into consideration conditions which are not vesting conditions (or vesting conditions that are performance conditions which constitute market conditions). Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, an estimate is made of the number of instruments expected to vest. No expense is recognised for awards that do not ultimately vest because of service conditions and/or if non-market performance conditions have not been met. As an expense is recognised over the vesting period, when an expense has been recorded in one period and the options are cancelled in the following period, then the previously recorded expenses for options that never vested, as reversed. Grants that are contingent upon vesting conditions (including performance conditions that are not market conditions) which are not ultimately met are not recognised as an expense. A change in estimate regarding prior periods is recognised in the statement of comprehensive income over the vesting period. No expense is recognised for award that do not ultimately vest because service condition and/or non-market performance condition have not been made.

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

J. Fair Value Measurements

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

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

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

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

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

- Level 1 - unadjusted quoted prices are available in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

- Level 2 – pricing inputs are other than quoted prices in active markets that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

- Level 3 – pricing inputs are unobservable for the non-financial asset or liability and only used when there is little, if any, market activity for the non-financial asset or liability at the measurement date. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 inputs are considered as the lowest priority within the fair value hierarchy.

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

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

Fair-value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in Note 26.

K. Revenue recognition

The Company generates revenues mainly from:

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

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

Identification of the contract

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

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

Identification of performance obligations

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

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

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

Contracted revenues attached to milestone performance in a contract are recognised by the Company when it has completed a milestone requirement and the Company has delivered the goods and/or services connected to such milestone.

Determination of the transaction price

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

Variable consideration

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

In accordance with the requirements in IFRS 15 on constraining estimates of variable consideration, the Company includes the amount of the variable consideration, or part of it, in the transaction price at contract inception, only when it is considered highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Company revises the amount of the variable consideration included in the transaction price.

Satisfaction of performance obligations

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

Sales of goods

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

Contracts with milestone payments

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

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

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

Multiple element transactions

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

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

Revenue from royalties

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

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

Accordingly, revenues from royalties that are reported by the customer are recognised based on the actual sales of products as reported to the Company.

Revenues from maintenance and support

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

L. Impairment testing of non-financial assets

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

An impairment loss is recognised for the amount by which the asset's (or cash-generating unit's) carrying amount exceeds its recoverable amount, being the value in use. To determine the value in use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable discount rate, in order to calculate the present value of those cash flows. The data used for impairment testing procedures are linked to the Company's latest approved budget, see also Note 10.

M. Leased assets

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

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

Measurement and recognition of leases as a lessee

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

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

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

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

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

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

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

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

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

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Other Standards and amendments that are not yet effective and have not been adopted early by the Company are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made.

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

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

Significant management judgement

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

  The Company enters into leases with third-party landlords and in order to calculate the lease liability, the Company assess if any lease option extensions will be exercised. The lease for the Company’s offices was for 5 years with an option to extend it for a further 5 years. The Company initially expected this lease to be extended for an additional 5 years. At the end of 2023, the Company's assessment was that it may not exercise the additional 5-year option given the decline in rental prices within the premises market - see Note 11.

Estimation uncertainty

- Impairment of non-financial assets

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

- Fair value measurement of financial instruments

  When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, Management uses various valuation techniques to determine the fair value of such financial instruments and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments (see Note 15).

NOTE 5 - CASH

Cash consist of the following:

	US dollars 31 December 2023	2022
In Great British Pounds	855,348	89,695
In U.S. Dollar	470,595	205,285
In Euro	-	2,751
In New Israeli Shekel	667,865	418,084
	1,993,808	**715,815**

The cash does not have any restrictions as to what it may be used for.

NOTE 6 - TRADE RECEIVABLES

Trade receivables consist of the following:

	US dollars 31 December 2023	2022
Trade receivables and unbilled revenue	885,145	1,878,072
Less: provision for expected credit losses	(699,000)	(579,000)
Total receivables	**186,145**	**1,299,072**

All amounts are short-term. The net carrying value of these receivables is considered a reasonable approximation of fair value. All of the Company's trade and other receivables have been reviewed for the possibility of loss (an allowance for impairment losses). See also Note 26A.

NOTE 7 - INVENTORIES

	US dollars 31 December 2023	2022
Components and raw materials	331,815	613,218
Finished cards and boards	203,874	159,858
Total inventories	**535,689**	**773,076**

NOTE 8 - OTHER CURRENT ASSETS

Other current assets consist of the following:

	US dollars 31 December 2023	2022
Prepaid Expenses	377,419	203,955
Deposits to suppliers	-	1,857
Government institutions	50,456	129,659
Other current assets	-	8,401

Total other current assets	**427,875**	**343,872**

NOTE 9 - PROPERTY AND EQUIPMENT

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

	US dollars				
	Testing equipment	**Computers**	**Furniture and equipment**	**Leasehold improve-ments**	**Total**
Gross carrying amount					
Balance 1 January 2023	1,122,474	176,129	55,397	11,193	1,365,193
Additions	147,333	780	-	-	148,113
Balance 31 December 2023	1,269,807	176,909	55,397	11,193	1,513,306
Depreciation					
Balance 1 January 2023	(378,576)	(155,512)	(19,473)	(1,306)	(554,867)
Depreciation	(121,330)	(11,942)	(3,460)	(1,397)	(138,129)
Balance 31 December 2023	(499,906)	(167,454)	(22,933)	(2,703)	(692,996)
Carrying amount 31 December 2023	**769,901**	**9,455**	**32,464**	**8,490**	**820,310**

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

NOTE 10 - INTANGIBLE ASSET

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

	US dollars
	Total
Gross carrying amount	
Balance 1 January 2023	9,550,657
Additions	-
Balance 31 December 2023	9,550,657
Amortisation	
Balance 1 January 2023	4,087,857
Amortisation	961,380
Balance 31 December 2023	5,049,237
Carrying amount 31 December 2023	**4,501,420**

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

The Company tested the capitalised intangible assets for impairment as of 31 December 2023. Such analysis revealed a similar calculation as that determined as at 31 December 2022 and therefore no impairment is warranted.

Having given due consideration to the following, the Company believes that no impairment is required.

- Considering the past and future expected revenues from the capitalized R&D assets;
- The anticipated outcomes of current discussions and engagements with customers;
- The customer projections and where the customer believes engagement, testing, field trials and deployment will take place;
- Signed engagements or commercial discussion phases and anticipated outturns;
- Development cost elements (R&D resources);
- Cash resources required to meet the forecast costs for the developments;
- Current cash resources at the time;
- Requirements if any for raising funds to ensure funds are freely available;
- Ease of fund raising;
- Revenues recognised and collected to date which are attributed to the intangible asset technology.

The valuation method determined, to best reflect the fair value of the intangible assets, was the Discounted Cash Flow (“DCF”) to be generated from such assets between 2024 through 2033.

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

- Corporate tax rate for the Company remains at 23%.
- The pre-tax discount rate used to value future cash flows is 28.3% (post-tax 23.5%).

The possibility exists that there could be a change in these key assumptions used to calculate the value-in-use of the intangible assets, which could cause the balance recorded in these financial statements to exceed such value-in-use. As at 31 December 2023 the value-in-use of the intangible assets exceeds the amount shown in these financial statements by $4.8 million.

NOTE 11 - LEASES

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

	US dollars
	Buildings
Gross carrying amount	
Balance 1 January 2023	3,158,849
Expectation change, of option to exercise the lease	(1,324,807)

Balance 31 December 2023	1,834,042
Accumulated depreciation	
Balance 1 January 2023	(342,208)
Depreciation expense	(315,884)
Balance 31 December 2023	(658,092)
Total right-of-use assets as at 31 December 2023	**1,175,950**

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

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

	US dollars	
	31 December	
	2023	**2022**

Current	341,991	207,161
Non-current	764,366	2,505,777
	1,106,357	**2,712,938**

C. In October 2021, the Company committed to a five-year lease agreement for its primary offices in Airport City Israel. At the termination of the lease, the Company has an option to renew it for a further five years. As at 31 December 2022 such renewal option was considered as reasonably certain to be exercised according to IFRS 16. At 31 December 2023, the Company's assessment was that it may not exercise the additional 5-year option given the change in the Company's needs and the decline in rental market prices. As such the Company recalculated the lease liability using an updated discount rate. The amount of such reduction in the liability, was accordingly reduced from the right-of-use asset value.

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

D. The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2023 were as follows:

	Minimum lease payments due		
	US dollars		
	2024	**2025-2026**	**Total**
Lease payments	442,011	847,186	1,289,197
Finance charges	(100,020)	(82,820)	(182,840)
Net present values	**341,991**	**764,366**	**1,106,357**

NOTE 12 - SHORT- TERM BORROWINGS

Borrowings include the following financial liabilities:

	Annual % Interest rate[1] 2023	US dollars 31 December 2023	2022
Bank borrowings	P+4.5%	96,306	428,935
Total short- term borrowings		96,306	428,935

(1) The loans bore variable interest of prime + 4.5%. The loans were fully repaid by February 2024.

NOTE 13 - OTHER CURRENT LIABILITIES

Other short-term liabilities consist of:

	US dollars	
	31 December	
	2023	2022
Salaries, wages and related costs	458,435	426,211
Provision for vacation	118,955	235,442
Current portion of IIA royalty liability (see Note 14)	23,000	-
Accrued expenses and other	127,691	121,770
Deferred revenue	250,200	20,337
Short term lease liability	341,991	207,161
Related parties *	287,625	110,988
Total other short-term liabilities	1,607,897	1,121,909

* Relates to compensation from prior years and the outstanding preferred loan to the Company (see Note 28.A.). These amounts do not bear interest.

NOTE 14 - IIA ROYALTY LIABILITY

During the years 2005 through 2012, the Company received grants from the Israel Innovation Authority ("IIA") totaling approximately $3.1 million, to support the Company's various research and development programs. The Company is required to pay royalties to the IIA at a rate of 3.5%, of the Company’s revenue attributable to the technology funded by the IIA, up to an amount equal to the grants received plus interest from the date of the grant, which after having repaid approximately $543,000 (2022: $535,000) of these grants over numerous years, as at 31 December 2023 the amount still due is approximately $4.4 million. Such contingent obligation has no expiration date.

NOTE 15 - EQUITY

A. Details regarding share capital and number of shares at 31 December 2023 and at 31 December 2022 are:

Share capital:

	US dollars	
	31 December	
	2023	2022
Ordinary shares of NIS 0.001 par value	103,417	21,904
Total share capital	103,417	21,904

Number of shares:

	31 December	
	2023	2022
Ordinary shares of NIS 0.001 par value - authorised	600,000,000	100,000,000
Ordinary shares of NIS 0.001 par value - issued and paid up	376,721,091	78,084,437

B. Description of the rights attached to the Ordinary Shares

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

C. Share premium

Share premium includes proceeds received from the issuance of shares, after allocating the nominal value of the shares issued to share capital. Transaction costs associated with the issuance of shares are deducted from the share premium, net of any related income tax benefit. The costs of issuing new shares charged to share premium during the year ended 31 December 2023 was $262,484 (2022: $9,952).

D. Other components of equity

Other components of equity include the value of equity-settled share and option-based payments provided to employees and consultants. When employees and consultants forfeit their options, the costs related to such forfeited options are reversed out to other components of equity – see Note 16.A.

E. Shares issued during the accounting periods

During the year ended 31 December 2023, 298,636,654 (2022: 2,732,699) ordinary shares were issued, as follows:

		Number of shares issued during year ended 31 December	
	Note	**2023**	**2022**
Issuance of ordinary shares (issued together with warrants)	[1]	127,188,097	-
Shares issued pursuant to share subscription agreement	[2]	168,933,439	2,695,593
Expenses paid for in shares	[3]	2,515,118	37,106
		298,636,654	2,732,699

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

January 2023 equity raise

In January 2023 the Company issued 23,571,430 shares attached to a corresponding 23,571,430 warrants. Each share with its attached warrant was issued for £0.07, realising gross proceeds of $2.02 million (£1.65 million) and net proceeds after issuance expenses of approximately $1.89 million (£1.54 million).

Each warrant was initially exercisable at £0.15 with a life term of approximately 24 months. The warrants are not transferable, are not traded on an exchange and have an accelerator clause, whereby these warrants may be called by the Company if the closing mid-market share price of the Company exceeded £0.20 over a 5-consecutive day period. If such 5-consecutive day period condition is met, the Company may serve notice on the warrant holders to exercise their relevant warrants within 7 calendar days, failing which, such remaining unexercised warrants shall be cancelled.

As the exercise price of the warrants is denominated in GBP and not in the Company's functional currency, it was determined that the Company's obligation under such warrants cannot be considered as an obligation to issue a fixed number of equity instruments in exchange for a fixed amount of cash. Accordingly, it was determined that such warrants represent a derivative financial liability required to be accounted for at fair value through the profit or loss category. Upon initial recognition the Company allocated the gross proceeds as follows: an amount of approximately $133,000 was allocated as a derivative warrants liability with the remainder of the proceeds amounting to $1.75 million (after deduction of the allocated issuance costs of $0.14 million) being allocated to share capital and share premium. The issuance expenses were allocated in a consistent manner to the above allocation. The expenses related to the warrant component were carried to profit or loss as an immediate expense while the expenses related to the share capital component were netted against the amount carried to equity. In subsequent periods the company measures the derivative financial liability at fair value and the periodic changes in fair value are carried to profit or loss under financing costs or financing income, as applicable. The fair value of the derivative warrant liability is categorized as level 3 of the fair value hierarchy.

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

Risk free rate	4.2%
Volatility	82.3%

In May 2023, the Company changed the terms of the warrants as follows:

Changed:	**From**	**To**
Exercise price of warrants	£ 0.15	£ 0.060
Share price at which accelerator clause may be activated	£ 0.20	£ 0.075

David Levi and Shavit Baruch hold 3,028,571 and 668,771 warrants respectively, by virtue of their participation in the January 2023 fundraise as outlined below. The terms of the warrants David Levi and Shavit Baruch hold were varied alongside the other warrants issued as detailed above.

Of the 23,571,430 shares and 23,571,430 warrants subscribed for, the director's participation in this issuance was 3,697,342 shares and 3,697,342 warrants, on the same terms that outside investors participated as detailed below:

- David Levi subscribed for 3,028,571 placing shares for an aggregate sum of £212,000.
- Shavit Baruch subscribed for 668,771 placing shares for an aggregate sum of £46,814.

None of these warrants had been exercised by 31 December 2023 and their fair value of approximately $3,000 at such date is disclosed as a warrants liability in the statement of financial position.

Upon this successful equity raise being concluded, the brokers for this transaction received 573,429 two year warrants exercisable at £0.07 per warrant. The fair-value of these warrants at the time of issuance was approximately $23,000. As at 31 December 2023, none of these warrants have been exercised.

May 2023 equity raise

In May 2023 the Company issued 26,116,667 shares at £0.03 per share, realising gross proceeds of $0.98 million (£0.78 million) and net cash proceeds after issuance expenses of $0.92 million (£0.74 million).

Of the 26,116,667 shares subscribed for, the director's participation in this issuance was 916,668 shares, on the same terms that outside investors participated as detailed below:

- David Levi, subscribed for 833,334 Placing Shares for an aggregate sum of £25,000
- Yosi Albagli, subscribed for 83,334 Placing Shares for an aggregate sum of £2,500

The gross proceeds, after deduction of the issuance costs were allocated to share capital and share premium.

Upon this successful equity raise being concluded, the brokers for this transaction received 772,500 two year warrants exercisable at £0.03 per warrant. The fair-value of these warrants at the time of issuance was approximately $14,000. As at 31 December 2023, none of these warrants have been exercised.

December 2023 equity raise

In December 2023 the Company issued 70,000,000 shares at £0.01 per share, realising gross proceeds of $0.88 million (£0.70 million) and net cash proceeds after issuance expenses of $0.83 million (£0.66 million).

Concurrent with this equity raise the Company's CEO and director, David Levi, converted $94,500 (£75,000) of loans owed to him, into 7,500,000 shares.

The gross proceeds, after deduction of the issuance costs were allocated to share capital and share premium.

No warrants were issued in this equity raise.

[2] **Shares issued pursuant to share subscription agreement**

In February 2022, an institutional investor (“Investor”) who had previously subscribed for shares in the Company, signed a new $2.0 million share subscription agreement bearing a face value of $2,060,000.

The Investor has the right, at its sole discretion to require the Company to issue shares in relation to the subscription amount outstanding (or a part of it), under which, the number of shares to be issued for such settlement, shall be determined by dividing the face value of the subscription amount by the Settlement Price.

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

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

Accounting treatment

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

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

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

The fair value of the liability related to share subscription agreement is categorised as level 3 of the fair value hierarchy. See Note 26.B.

Activity for year ending 31 December 2022

In March 2022 the full $2.0 million was funded as a prepayment for the subscription shares.

The Investor converted the following subscription amount during 2022:

Notice date of conversion	Face value converted - USD	Shares Issued
22 September 2022	320,000	2,695,593

As described above, the Investor converts subscription amounts into shares of the Company at a discounted price. Upon each conversion, the difference between the actual market value of shares issued to the Investor and the amount converted, is recorded in finance costs, which in 2022 amounted to $74,437.

Activity for year ending 31 December 2023

All remaining outstanding subscription amounts were converted during 2023, thereby bringing the relationship to a conclusion, without any balances remaining as at 31 December 2023:

The following subscription amounts were converted during 2023:

Notice date of conversion	Face value converted - USD	Shares Issued
22 May 2023	230,000	6,629,236
31 July 2023	100,000	4,897,352
29 September 2023	74,000	7,406,851
(*) 10 November 2023	1,336,000	150,000,000
		168,933,439

(*) Per settlement deed, described below.

As mentioned above, the Investor converts subscription amounts into shares of the Company at a discounted price. Upon each conversion, the difference between the actual market value of shares issued to the Investor and the amounts converted amounted to $22,771 in 2023, which is recorded as a reduction to finance income.

In November 2023 the Company and the Investor entered into a settlement deed, whereby the Company would issue 150,000,000 shares to the Investor (the "Settlement Shares") to terminate the Subscription Agreement and extinguish the Company's liability to the Investor. The Settlement Shares would be issued in tranches, to comply with a restriction that the Investor cannot hold an interest in more than 24.99% of the Company's issued share capital. The Settlement Shares were issued in tranches. 44.9 million shares on 10 November 2023, 43.6 million shares on 29 November 2023 and 61.5 million shares on 14 December 2023. The resulting finance charges recognized from this transaction was approximately $1,030,000.

[3] **Expenses paid for in shares**

As part of the agreed remuneration as non-Executive Chairman for the period from 10 March 2021 to 28 February 2022, Joseph Albagli is entitled to receive shares equal to a monthly amount of £1,250. On 14 April 2022 the Company issued 37,106 shares in lieu of the $20,158 owing to Joseph Albagli for the above-mentioned period. On 6 July 2023 the Company issued 126,347 shares in lieu of the £15,000 owing to Joseph Albagli for the period from 1 March 2022 to 28 February 2023. See Note 28.C.

In January 2023, service providers to the Company agreed to receive 2,388,771 shares at the January 2023 equity raise issue price of GBP 0.07 in satisfaction of £167,214 of outstanding fees due to them. These shares are subject to a one-year lock-in period.

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

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		
	22 Feb 2023	17 Feb 2022	17 Feb 2022
Number of options granted	590,000	130,000	751,000
Exercise price in $	0.166	0.545	0.395
Recipients of the options	Employees	Employees	Employees
Approximate fair value at grant date (in $):			
Total benefit	31,685	35,902	219,220
Per option benefit	0.2905	0.29	0.29
Assumptions used in computing value:			
Risk-free interest rate	3.93%	2.98%	2.98%
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	70%	70%	70%
Expected term (in years)	10.0	10.0	10.0
Expensed amount recorded for year ended:			
31 December 2022	-	22,477	119,599
31 December 2023	7,296	19,739	101,316

The remaining value of these options at 31 December 2023, which have yet to be recorded as expenses, amount to $45,045 (2022: $159,127).

As some of these employees left the employ of the company prior to 31 December 2023, their options were cancelled.

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

	US dollars	
	Year ended 31 December	
	2023	**2022**
Total expensed amount recorded	72,287	221,362
Total	72,287	221,362

The following tables present a summary of the status of the employee option grants by the Company as of 31 December 2023 and 2022:

	Number	Weighted average exercise price (US$)
Year ended 31 December 2023		
Balance outstanding at beginning of year	3,691,920	0.31
Granted	590,000	0.17
Exercised	-	0.10
Forfeited	(2,524,920)	(0.26)
Balance outstanding at end of the year	1,757,000	0.37
Balance exercisable at the end of the year	1,177,333	

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

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

C. The following table summarises information about employee options outstanding at 31 December 2023:

Exercise price	Outstanding at 31 December 2023	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Exercisable at 31 December 2023	Weighted average remaining contractual life (years)
$0.20	20,000	3.2	0.20	20,000	3.2
£0.12	33,000	6.6	0.16	33,000	6.6
£0.14	130,000	6.3	0.17	50,000	6.3
£0.20	230,000	6.9	0.26	230,000	6.9
£0.21	70,000	6.5	0.26	70,000	6.5
£0.21	200,000	6.9	0.27	200,000	6.9
£0.29	164,000	8.1	0.39	41,000	8.1
£0.29	400,000	8.1	0.39	233,333	8.1
£0.33	65,000	6.6	0.46	32,500	6.6
£0.40	130,000	5.0	0.54	65,000	5.0
£0.45	225,000	6.6	0.60	112,500	6.6
£1.05	40,000	3.2	1.28	40,000	3.2
£1.00	30,000	4.5	1.32	30,000	4.5
£1.00	20,000	5.6	1.25	20,000	5.6
	1,757,000			1,177,333	

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

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

The fair value of options granted to employees was determined at the date of each grant. The fair value of the options granted are expensed in the profit and loss, except for those that were allocated to capitalised research and development costs (up to and including 30 June 2019).

D. Options issued to the IPO broker

Upon the IPO consummation the Company issued five-year options to the IPO broker to purchase up to 162,591 shares of the Company at an exercise price of £1.40. These options were valued at approximately $121,000 with the Black Scholes option model, using the assumptions of a risk-free rate of 1.82% and volatility of 46%. The options may only be exercised after 28 June 2018. Costs incurred in raising equity finance were applied as a reduction from those equity sale proceeds and is recorded in Other Components of Equity. Such warrants expired on 29 June 2022.

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

a. Upon the successful equity raise concluded in January 2023, as described in Note 15.E.[1], the brokers responsible for this transaction received 573,429 two year warrants exercisable at £0.07 per warrant. The fair-value of these warrants at the time of issuance was approximately $23,000.

b. Upon the successful equity raise concluded in May 2023, as described in Note 15.E.[1], the brokers responsible for this transaction received 573,429 two year warrants exercisable at £0.07 per warrant. 772,500 two year warrants exercisable at £0.03 per warrant. The fair-value of these warrants at the time of issuance was approximately $14,000.

c. During 2023 the Company issued 126,347 (2022: 37,106) shares to the Company's non-executive chairman in lieu of $19,000 (2022: $20,000) owing as part of his agreed remuneration. See also Note 15.E.[3] and Note 28.C.

d. In January 2023, service providers to the Company agreed to receive 2,388,771 shares at the January 2023 equity raise issue price of GBP 0.07 in satisfaction of £167,214 of outstanding fees due to them. See also Note 15.E.[3].

NOTE 17 - REVENUE

	US dollars	
	Year ended 31 December	
	2023	**2022**
Sales	3,386,583	2,546,289
Royalties	231,344	232,805
Maintenance and support	159,992	158,330
Total revenue	3,777,919	2,937,424

NOTE 18 - RESEARCH AND DEVELOPMENT EXPENSES

	US dollars	
	Year ended 31 December	
	2023	2022
Employee remuneration, related costs and subcontractors (*)	3,845,860	5,458,163
Maintenance of software and computers	151,473	134,651
Insurance and other expenses	120,719	57,006
Amortisation	961,380	961,380
Grant procurement expenses	81,265	7,595
Total research and development expenses	5,160,697	6,618,795
(*) Including share based compensation.	58,755	160,134

NOTE 19 - GENERAL AND ADMINISTRATIVE EXPENSES

	US dollars	
	Year ended 31 December	
	2023	2022
Employee remuneration and related costs (*)	459,345	666,500
Professional fees	488,198	496,865
Rentals and maintenance	220,066	305,927
Depreciation	454,013	446,816
Travel expenses	-	8,608
Impairment losses of trade receivables	220,220	599,200
Total general and administrative expenses	1,841,842	2,523,916
(*) Including share based compensation.	17,710	51,627

NOTE 20 - MARKETING EXPENSES

	US dollars	
	Year ended 31 December	
	2023	2022
Employee remuneration and related costs (*)	541,674	903,834
Marketing expenses	66,669	258,094
Travel expenses	12,709	5,606
Total marketing expenses	621,052	1,167,534
(*) Including share based compensation.	(4,178)	9,601

NOTE 21 - OTHER INCOME

This is a government grant related to an expense item and is recognised as other income.

NOTE 22 - FINANCING COSTS

	US dollars	
	Year ended 31 December	
	2023	2022
Bank fees, interest and others	82,570	35,150
Lease liability financial expenses	200,260	227,246
Revaluation of liability related to share subscription agreement measured at FVTPL	974,980	230,992
Expenses allocated to issuing warrants	10,096	-
Expenses allocated to share subscription agreement	-	80,000
Total financing costs	1,267,906	573,388

NOTE 23 - FINANCING INCOME

	US dollars	
	Year ended 31 December	
	2023	2022
Revaluation of warrant derivative liability	129,703	1,214,993
Interest received	226	1,507
Exchange rate differences, net	53,882	51,152
Total financing income	183,811	1,267,652

NOTE 24 - TAX EXPENSE

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

B. As of 31 December 2023, the Company has carry-forward losses for Israeli income tax purposes of approximately $35 million (2022: $31 million). These tax losses have no expiry date. According to management's estimation of the Company's future taxable profits, it is no longer probable in the foreseeable future, that future taxable profits would utilise all the tax losses.

C. Theoretical tax reconciliation

For the years ended 31 December 2023 and 2022, the following table reconciles the expected tax expense (benefit) per the statutory income tax rate to the reported tax expense in profit or loss as follows:

	US dollars	
	Year ended 31 December	
	2023	2022
Loss before tax	6,364,747	8,002,612
Tax expense (benefit) at statutory rate	23%	23%
Expected tax expense (benefit) at statutory rate	(1,463,892)	(1,840,601)
Changes in taxes from permanent differences in share-based compensation	16,626	50,913
Increase in loss carryforwards	1,447,266	1,789,688
Income tax expense	-	-

NOTE 25 - BASIC AND DILUTED LOSS PER ORDINARY SHARE

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

	US dollars	
	Year ended 31 December	
	2023	2022
Loss for the year attributable to ordinary shareholders	(6,364,747)	(8,002,612)

	Number of shares	
	Year ended 31 December	
	2023	2022
Weighted average number of ordinary shares used in the computation of basic loss per ordinary share	143,876,859	76,013,296

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

NOTE 26 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. Financial risk and risk management

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

- **Exposure to changes in exchange rates**

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

Currency basis of financial instruments

	US dollars			
	31 December 2023			
	NIS	GBP	US $	Total
Assets				
Cash	667,865	855,348	470,595	1,993,808
Trade receivables	31,145	-	155,000	186,145
	699,010	855,348	625,595	2,179,953
Liabilities				
Short term borrowings	96,309	-	-	96,309
Trade payables	899,920	22,417	314,776	1,237,113
Warrants liability	-	2,841	-	2,841

IIA royalty liability	-	-	50,645	50,645
Non-current lease liabilities	764,366	-	-	764,366
	1,760,595	25,258	365,421	2,151,274
	(1,061,582)	830,090	260,174	28,682

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

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

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

	US dollars				
	Sensitivity to changes in exchange rates of the non US dollar currencies to the US dollar				
	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor		Book value	Effect on profit (loss)/equity (before tax) from the changes caused by the market factor	
	Increase at the rate of		31 December	Decrease at the rate of	
	10%	**5%**	**2023**	**5%**	**10%**
Cash	(152,321)	(76,161)	1,523,213	76,161	152,321
Trade receivables	(3,115)	(1,557)	31,145	1,557	3,115
Short term borrowings	9,631	4,815	(96,306)	(4,815)	(9,631)
Trade payables	92,234	46,117	(922,337)	(46,117)	(92,234)
Warrants liability	284	142	(2,841)	(142)	(284)
Non-current lease liabilities	76,437	38,218	(764,366)	(38,218)	(76,437)
Total	**23,150**	**11,574**	**(231,492)**	**(11,574)**	**(23,150)**

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

- **Credit risk**
  All of the cash and cash equivalents and other short-term financial assets as of 31 December, 2023 and 2022 were deposited with one of the major banks in Israel.

  Trade receivables as of 31 December 2023 and 2022 were from customers in Israel, the U.S., Europe, and Asia, which included the major customers as detailed in Note 27. The Company performs ongoing reviews of the credit worthiness of customers, the amount of credit granted to customers and the possibility of loss therefrom. The Company includes an adequate allowance for impairment losses (expected credit loss).

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

  In measuring the expected credit losses, the trade receivables have been assessed by management on a collective basis as well as on a case by case basis. Trade receivables are written off when there is no reasonable expectation of recovery. Management have indicated a concern regarding the receivable from a few customers, for which a provision has been made. As at 31 December 2023, the provision for expected credit losses was $699,000 (2022: $579,000) - see Note 6 for more details.

	US dollars
Balance at 1 January 2022	**230,000**
Additions	589,000
Reductions	(240,000)
Balance at 31 December 2022	**579,000**
Additions	150,000
Reductions	(30,000)
Balance at 31 December 2023	**699,000**

Liquidity risk
The Company financed its activities from its operations, issuing shares and warrants, shareholders' loans and short and long-term borrowings from the bank. For further details on the Company's liquidity, refer to Note 2. All the non-current liabilities at 31 December 2023 and 2022 were lease liabilities which are serviced monthly. The short-term borrowings at 31 December 2023 and 2022 and the trade payables and other current liabilities are expected to be paid within 1 year. It is therefore not expected that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company's non-derivative financial liabilities have contractual maturities as summarized below:

	US dollars			
	31 December 2023			
	Within 6 months	**6 to 12 months**	**1 to 3 years**	**More than 3 years**
Short term borrowings	96,306	-	-	-
Trade payables	123,711	1,113,402	-	-
Other short-term liabilities	1,033,123	232,783	-	-
Lease liabilities	163,726	178,265	764,366	-
Total	**1,416,866**	**1,524,450**	**764,366**	**-**

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

B. Fair value of financial instruments

General

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

The principal methods and assumptions used in calculating the estimated fair value of the financial instruments are as follows (fair value for disclosure purposes):

Financial instruments included in current asset items

Certain instruments (cash and cash equivalents, other short-term financial assets, trade receivables and debit balances) are of a current nature and, therefore, the balances as of 31 December, 2023 and 2022, approximate their fair value.

Financial instruments included in current liability items

Certain instruments (credit from banking institutions and others, trade payables and credit balances, suppliers and service providers and balances with shareholders) - in view of the current nature of such instruments, the balances as at 31 December, 2023 and 2022 approximate their fair value. Other instruments are measured at fair value through profit or loss.

Financial instruments' fair value movements

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

	US dollars	
	Financial liabilities	
	Liability related to share subscription agreement	**Warrants liability**
Balance at 1 January 2022	**-**	**(1,214,993)**
Recognition in asset (liability)	(2,000,000)	-
Proceeds received for shares issued	320,000	-
Warrants exercised	(156,555)	1,214,993
Fair Value at 31 December 2022	**(1,836,555)**	-
Recognition in asset (liability)	-	(132,544)
Liability exchanged for shares issued	1,778,468	-
Revaluation Adjustment	58,087	129,703
Fair Value at 31 December 2023	**-**	**(2,841)**

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

Measurement of fair value of financial instruments

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

Liability related to share subscription agreement

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

The liability is valued by adding:

- the number of shares that the Investor would receive from a unilateral exchange for his outstanding subscription amount, multiplied by the current share price of the Company, and
- the outstanding subscription amount that the Company may choose to repay in cash amount.

Pursuant to the February 2022 share subscription agreement, the investor has the right, at its sole discretion to require the Company to issue shares in relation to the subscription amount outstanding (or a part of it), under which, the number of shares to be issued for such settlement, shall be determined by dividing the face value of the subscription amount by the Settlement Price. The Settlement Price is equal to the sum of (i) the Reference Price and (ii) the Additional Price. The Reference Price is the average of the 3 daily volume-weighted average prices ("VWAPs") of Shares selected by the Investor during a 15 trading day period immediately prior to the date of notice of their issue, rounded down to the next one tenth of a penny. The Additional Price is equal to half of the excess of 85% of the average of the daily VWAPs of the Shares during the 3 consecutive trading days immediately prior to the date of notice of their issue over the Reference Price. As at 31 December 2023, this liability had been extinguished - see Note 15.E.[2].

<u>Warrants liability</u>

This liability is valued at the fair value of the £0.60 Warrants as described in detail in Note 15.E.[1]. Should the Company's share price increase, then the warrants' fair value will increase by a lower amount, as is inherent in the Black Scholes option pricing model. In addition, as the Company has a "put" warrant which is triggered under certain circumstances when the Company's share price reaches £0.80, the value of the Warrants will not increase indefinitely for the 12 month period that the "put" option is in place.

C. Capital management

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

NOTE 27 - SEGMENT REPORTING

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

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

	US dollars	
	Year ended 31 December	
	2023	**2022**
Asia	154,700	290,800
Europe	12,390	131,000
Israel	758,445	429,954
United States	2,852,384	2,085,670
	3,777,919	2,937,424

	%	
	Year ended 31 December	
	2023	**2022**
Asia	4.1%	9.9%
Europe	0.3%	4.5%
Israel	20.1%	14.6%
United States	75.5%	71.0%
	100.0%	100.0%

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

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

	%	
	Year ended 31 December	
	2023	**2022**
Customer A	54%	58%
Customer B	19%	10%
Customer C	15%	8%
Customer D	5%	6%
Customer E	3%	5%
	96%	88%

B. All of the Company’s non-current assets are located in the Company’s country of domicile.

NOTE 28 - RELATED PARTIES

A. Founders

In April 2017, the employment agreement of the two founders of the Company Mr. David Levi and Mr. Shavit Baruch, was amended, in terms of which each of them, in addition to their salary, is entitled to a performance bonus of 5% of the Company's annual profit before tax. For each year, the bonus shall be capped at $250,000 each. Such bonus is dependent on their continual employment by the Company.

Shavit Baruch had an amount due to him for compensation originating in prior years. As at 31 December 2023, the Company owed him in this regard a balance of $106,683 (2022: $110,988) – see Note 13.

In October 2023, David Levi, a co-founder of the Company provided a non-interest bearing loan to the Company of 1,000,000 NIS (approx. £200,000 or $250,000), This loan was approved by the court and, entitles David Levi to be repaid as a priority creditor in any event.

In December 2023, David Levi subscribed for 7,500,000 shares at the same price as outside investors paid in the Company's equity raise of £700,000 ($880,000). David Levi settled the purchase price for these shares in exchange for the satisfaction of £75,000 ($ 94,500) of his non-interest bearing priority loan.

B. Chief Financial Officer

Mark Reichenberg stepped down from the board on 31 July 2023, when his tenure as CFO terminated and the 209,000 ESOP options he held were cancelled.

From August 2023, Ayala Deutsch took over the CFO duties and was formally appointed as permanent CFO in February 2024, when she was also appointed to the board of directors.

C. Remuneration of key management personal including directors for the year ended 31 December 2023

		US dollars		
Name	**Position**	**Salary and benefits**	**Share based compe-nsation**	**Total**
David Levi	Chief Executive Officer [1]	260,700	17,177	277,877
Mark Reichenberg [3]	Chief Financial Officer [1]	116,408	-	116,408
Shavit Baruch	VP Research & Development [1]	249,908	17,177	267,085
Chen Saft-Feiglin [4]	Non Executive Director	17,959	-	17,959
Zohar Yinon [4]	Non Executive Director	16,712	-	16,712
Joseph Albagli [2]	Non Executive Chairman	31,493	18,655	50,148
Richard Bennett	Non Executive Director	24,864	-	24,864
		718,044	53,009	771,053

[1] Key management personnel as well as directors long-term employee benefits and termination benefits account for less than 12.5% of their salary and benefits.

[2] As part of the agreed compensation, monthly shares equal to the value of £1,250 are accrued. In July 2023 - 126,347 shares accrued have been allotted. The remaining accrued shares as of year-end were allotted in March 2024, amounting to 921,152 shares.

[3] Terminated employment and ended directorship on 31 July 2023.

(4) Ceased to act as directors on 14 November 2023.

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

Name	Position	US dollars: Salary and benefits	Share based compe-nsation	Total
David Levi	Chief Executive Officer [2]	288,495	37,661	326,156
Mark Reichenberg	Chief Financial Officer [2]	201,038	3,173	204,211
Shavit Baruch	VP Research & Development [2]	276,691	37,661	314,352
Chen Saft-Feiglin [1]	Non Executive Director	18,318	-	18,318
Zohar Yinon [1]	Non Executive Director	18,806	-	18,806
Joseph Albagli [3]	Non Executive Chairman	34,582	18,532	53,114
Richard Bennett [1][4]	Non Executive Director	13,379	-	13,379
		851,309	97,027	948,336

(1) Independent director.

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

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

(4) Appointed 7 April 2022.

D. Directors' equity interests in the Company as at 31 December 2023

Name	Shares: Direct holdings	Options and warrants: Unexercised vested options	Unvested options	Unexercised 6p warrants	Total options and warrants
David Levi	20,949,065	177,379	83,331	3,028,571	3,289,281
Shavit Baruch	5,760,438	177,379	83,331	668,771	929,481
Joseph Albagli	256,787	-	-	-	-
	26,966,290	354,758	166,662	3,697,342	4,218,762

As set out further in note 15E, the above directors have participated in certain of the placings and the variation of the warrant instruments during the year ended 31 December 2023.

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

Name	Shares: Direct holdings	Options and warrants: Unexercised vested options	Unvested options	Total options and warrants
David Levi	9,587,160	110,710	150,000	260,710
Shavit Baruch	5,091,667	110,710	150,000	260,710
Joseph Albagli	47,106	-	-	-
Mark Reichenberg	-	175,667	33,333	209,000

14,725,933		397,087	333,333	730,420

NOTE 29 - RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Lease Liabilities	Short Term Borrowings	Total
1 January 2023	2,712,938	428,935	3,141,873
Cashflow			
- Repayments	(197,772)	(1,543,210)	(1,740,982)
- Proceeds	-	1,239,657	1,239,657
Non-cash movement			
- Terminations	(1,324,807)	-	(1,324,807)
- Exchange rate differences	(84,002)	(29,076)	(113,078)
31 December 2023 (*)	1,106,357	96,306	1,202,663

(*) Including current maturities of $341,991.

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

(*) Including current maturities of $207,161.

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

NOTE 30 - SUBSEQUENT EVENTS

1. On 14 February 2024, Ayala Deutsch was appointed as Chief Financial Officer, together with her joining the board of directors.
2. On 16 April 2024, Aviva Banczewski and Julie Kunstler were appointed as external directors of the Company.
3. On 16 April 2024, 17,377,225 options to the following directors were approved at the General Meeting of the Company. These options have an exercise price of 1.5p, vest over three years in 12 equal portions, with 1/12 of the options vesting at the end of each quarter.

Director	Number of options
David Levi (CEO)	11,447,309
Shavit Baruch (VP R&D)	4,235,247
Ayala Deutsch (CFO)	1,200,000
Yosi Albagli (Chairman)	494,669
	17,377,225