

This English translation of the Company's consolidated financial statements as of December 31, 2021, which is part of the periodic report of the Company, is for convenience purposes only. This is not an official translation, is not binding and does not replace the need to review the Periodic Report in its entirety. Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the original Hebrew version. In the event of any discrepancy between the Hebrew version and this translation, the Hebrew version shall prevail.

GLASSBOX LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2021

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**AUDITORS' REPORT
To the Shareholders of
GLASSBOX Ltd.**

We have audited the accompanying consolidated statements of financial position of Glassbox Ltd. ("the Company") as of December 31, 2021 and 2020 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the years in the period ended December 31, 2021. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2021 and 2020, and the results of their operations, changes in their equity and cash flows for each of the years in the period ended December 31, 2021, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

We also audited the consolidated pro forma statements of the Company's profit or loss and other comprehensive income for the year ended December 31, 2020 included in Note 28 to these financial statements (pro forma statements). These pro forma reports are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these proforma statements based on our audits.

We did not audit the financial statements of a consolidated company whose revenues included in the pro forma statements constitute approximately 31% of the total consolidated pro forma revenues for the year ended December 31, 2020. The financial statements of that company have been audited by another auditor whose reports have been furnished to us and his opinion as far as it relates to the amounts included for the same company, are based on the reports of the other auditor.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the pro forma financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the pro forma financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall pro forma financial statement presentation. We believe that our audits and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the pro forma financial statements referred to above present fairly, in all material respects, the pro forma results of operations of the Company and its subsidiaries for the year ended December 31, 2020 in conformity with the provisions of Regulation 9a of the Securities Regulations (Periodic and Immediate Reports) 1970 based on the assumptions specified in Note 28.

Tel-Aviv, Israel
March 15, 2022

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31,	
		2021	2020
		U.S. Dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	12,123	19,087
Short term deposits		43,690	2,000
Short term restricted deposits		467	460
Trade receivables	7	2,922	1,854
Other receivable and prepaid expenses	8	3,693	2,897
		<u>62,895</u>	<u>26,298</u>
NON-CURRENT ASSETS:			
Long term restricted deposits		477	492
Prepaid expenses		880	-
Property and equipment, net	9	1,188	1,143
Right of use assets, net	10	2,472	2,944
Intangible assets	11	10,761	11,975
Goodwill	11	15,471	15,638
Deferred taxes		765	-
Customer acquisition costs		774	463
		<u>32,788</u>	<u>32,655</u>
		<u>95,683</u>	<u>58,953</u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31,	
		2021	2020
		U.S. Dollars in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables		2,663	1,019
Deferred revenues	7	8,026	9,213
Other accounts payable	12	9,518	5,997
Contingent consideration for purchase of investment in a subsidiary	5	5,799	-
Deferred consideration for purchase of investment in a subsidiary	5	3,915	-
Lease liabilities	13,10	592	605
		<u>30,513</u>	<u>16,834</u>
NON CURRENT LIABILITIES:			
Deferred revenues	7	943	659
Contingent consideration for purchase of investment in subsidiary	5	-	2,270
Deferred consideration for purchase of investment in subsidiary	5	-	3,725
Deferred tax liability	19	1,955	2,538
Lease liabilities	13,10	2,287	2,696
		<u>5,185</u>	<u>11,888</u>
TOTAL LIABILITIES		<u>35,698</u>	<u>28,722</u>
COMMITMENTS AND CONTINGENT LIABILITIES	17		
SHAREHOLDERS' EQUITY:			
Ordinary share capital	16	32	5
Preferred share capital		-	20
Additional paid-in capital		120,929	66,632
Capital reserve for share based payment		10,272	1,891
Translation adjustments of foreign operations		931	828
Accumulated deficit		(72,179)	(39,145)
TOTAL SHAREHOLDERS' EQUITY		<u>59,985</u>	<u>30,231</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>95,683</u>	<u>58,953</u>

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

March 15, 2022			
Approval date of the financial statements	Brian Abrams	Yaron Morgenstern	Kobi Carlebach
	Chairman of the Board of Directors	Chief Executive Officer	Chief Financial Officer

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended December 31,	
		2021	2020
		U.S. Dollars in thousands	
Revenues	20,28	36,990	22,122
Cost of revenues	21	<u>12,465</u>	<u>6,790</u>
Gross profit		24,525	15,332
Research and development expenses	22	18,395	9,313
Sales and marketing expenses	23	25,460	15,324
General and administrative expenses	24	9,800	5,186
Other expenses	5	<u>3,055</u>	<u>-</u>
		56,710	29,823
Operating loss		32,185	14,491
Finance expense	25a	1,314	308
Finance income	25b	<u>(196)</u>	<u>(849)</u>
Finance expenses (income), net		1,118	(541)
Loss before taxes on income		33,303	13,950
Taxes income	19	<u>(269)</u>	<u>(15)</u>
Loss		33,034	13,935
Other comprehensive income:			
Amounts that will be reclassified or reclassified to profit or loss subject to specific conditions:			
Translation adjustments of foreign operations		<u>103</u>	<u>828</u>
Total other comprehensive income		<u>103</u>	<u>828</u>
Total comprehensive loss for the year		<u>32,931</u>	<u>13,107</u>
Basic and diluted loss per share	26	<u>4.40</u>	<u>6.56</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Ordinary share capital	Preferred share capital	Additional paid in capital	Capital reserve for share based payment	Translation adjustments of foreign operations	Accumulated deficit	Total
U.S Dollars in thousands							
<u>Balance as of January 1, 2020</u>	5	13	33,198	884	-	(25,210)	8,890
Loss						(13,935)	(13,935)
Other comprehensive income					828		828
Comprehensive loss for the year	-	-	-	-	828	(13,935)	(13,107)
Issuance of preferred shares net of issuance costs		7	33,271				33,278
Exercise of employee options	*		163	(78)			85
Cost of share based payment				1,085			1,085
<u>Balance as of December 31, 2020</u>	5	20	66,632	1,891	828	(39,145)	30,231
Loss						(33,034)	(33,034)
Other comprehensive income					103		103
Comprehensive loss for the year					103	(33,034)	(32,931)
Issuance of shares and stock options net of issuance costs	26	(20)	53,388				53,394
Exercise of employee options	1		909	(226)			684
Cost of share based payment				8,607			8,607
<u>Balance as of December 31, 2021</u>	<u>32</u>	<u>-</u>	<u>120,929</u>	<u>10,272</u>	<u>931</u>	<u>(72,179)</u>	<u>59,985</u>

* amount lower than NIS 1 thousand

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2021	2020
	U.S. Dollars in thousands	
Cash flows from operating activities:		
Net loss for the year	(33,034)	(13,935)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortizations	1,927	552
Changes in deferred taxes	(566)	(243)
Finance expenses, net	161	309
Amortization of right of use assets	577	540
Advancement of interest of contingent and deferred consideration	733	-
Increase in short term deposits	(7)	-
Advancement of estimated contingent consideration	3,055	-
Cost of share based payment	8,607	1,085
	<u>14,487</u>	<u>2,243</u>
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables, net	(1,102)	803
Increase in other receivable and prepaid expenses	(1,576)	(600)
Decrease (increase) in customer acquisition costs	(311)	284
Increase (decrease) in trade payables	1,660	(432)
Increase in other accounts payable	4,212	1,400
Increase in deferred tax assets	(765)	-
Increase (decrease) in deferred revenues	(837)	3,246
	<u>1,281</u>	<u>4,701</u>
Taxes paid	(537)	(140)
	<u>(537)</u>	<u>(140)</u>
Net cash used in operating activities	<u>(17,803)</u>	<u>(7,131)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2021	2020
	U.S. Dollars in thousands	
Cash flows from investing activities:		
Purchase of a newly consolidated subsidiary net of cash purchased (a)	-	(15,275)
Drawing down from deposits	-	4,790
Depositing amounts in deposits	(41,675)	-
Purchase of other assets	(500)	(25)
Purchase of property and equipment	(363)	(610)
Net cash used in investing activities	<u>(42,538)</u>	<u>(11,120)</u>
Cash flows from financing activities:		
Proceeds from issuance of preferred shares net of issuance expenses	-	33,278
Consideration from issuance of shares and stock options	53,394	-
Loan repayment	-	(1,360)
Proceeds from exercise of options, net	684	85
Interest payments for liabilities	(74)	(89)
Receipt of government grants	-	-
Repayment of liabilities for government grants	-	(580)
Repayment of lease liabilities	(613)	(528)
Net cash provided by financing activities	<u>53,391</u>	<u>30,806</u>
Increase (decrease) in cash and cash equivalents	(6,950)	12,555
Exchange rate differences for cash and cash equivalents	(14)	25
balance of cash and cash equivalents at the beginning of the year	<u>19,087</u>	<u>6,507</u>
balance of cash and cash equivalents at the end of the year	<u>12,123</u>	<u>19,087</u>
(a) Purchase of a newly consolidated subsidiary		
Assets and liabilities of the subsidiary as of the purchase date:		
Working capital (excluding cash and cash equivalents)	-	(1,533)
Property and equipment	-	32
Intangible assets	-	11,634
Goodwill	-	14,832
Loan	-	(1,360)
Tax provision	-	(2,644)
Contingent consideration in respect of purchase of an investment	-	(3,533)
Deferred consideration in respect of purchase of an investment	-	(2,153)
	-	15,275
(b) Information regarding non cash investing and financing activities:		
Recognizing right of use asset for leasing offices against lease liability	105	-
Deferred consideration in respect of a purchase of a subsidiary	-	(3,533)
Contingent consideration in respect of a purchase of a subsidiary	-	(2,153)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: - GENERAL

- a. Glassbox Ltd. (the Company) was incorporated and commenced its operations in November 2010. The Company has wholly owned subsidiaries in the United Kingdom named Glassbox Digital UK Ltd which commenced its operations in November 2015 and Glassbox US Inc. in the United States which commenced its operations in January 2016. In October 2020, the Company completed the purchase of Sessioncam in the United Kingdom which became a wholly owned subsidiary effective from this date (for further details see Note 5). (The Group)
- b. The Group develops and markets software products in the field of customer experience. The Company sells its products mainly to large and medium sized customers in order to help them improve their customer experience on websites and applications on smartphones.
- c. The Group is a Tel-Tech company and will be included, after the initial public offering of its shares in the Tel Aviv Stock Exchange Ltd., in the Tel Aviv-Tech-Elite index, conferring upon the Company benefits for reporting and presentation of financial statements, and in particular, disclosing comparative data for a period of one year instead of two years. Starting 2022, the company is no longer entitle for those benefits.
- d. The Group sells to large and medium-sized customers and organizations, mainly in North America, Europe and Asia Pacific. The main areas of activity of the Company's customers are banking, insurance, retail, telecom and tourism.
- e. On September 13, 2021, the Company entered into agreement for the purchase of assets with Convertize Ltd. a British company specializing in technology development in the area of smart A/B testing in a consideration of \$ 500 thousand.
- f. Corona virus crisis

1. General

During the first quarter of 2020, the Corona virus (COVID-19) ("Corona virus" or "virus") broke out around the world and began to spread in many countries around the world, including Israel. The spread of the virus has far-reaching macroeconomic and microeconomic effects, which naturally have a significant effect on the group's activities. The spread of the virus caused, among other things, disruptions in supply chains, a decrease in the volume of global transportation, restrictions on movement and employment imposed by the Israeli government and many governments around the world and decreases in the value of financial assets and goods in markets in Israel and around the world. Also, in accordance with the directives of the Government of Israel, towards the end of the first quarter and the beginning of the second quarter of 2020, various measures were taken including, among others, significant reduction of business activity and leisure culture, isolation of persons who may contracted the virus, reduction of public transportation, comprehensive closure of education system, directive ordering to avoid reaching workplaces that are not defined as essential workplace, flight cancellations and closing of borders, a ban on crowding and other restrictions. These measures led to a significant slowdown in the business activity of the Israeli economy and also adversely affected global economic activity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: - GENERAL (Cont.)2. The effect on the Group

The Company's growth was slowed down and was less than expected before the crisis, however this trend changed significantly in the fourth quarter of 2020. The Company estimates that no significant harm is expected in its long-term activity due to the spread of the corona virus. Almost all of the Company's customers who have reached the stage of extending the license in 2020 extended the license and purchased a license for receiving the Company's services for additional year/s.

e. Definitions

In these financial statements -

The Company	-	Glassbox Ltd.
The Group	-	Glassbox Ltd. and its subsidiaries
Subsidiaries	-	Glassbox US Inc. (USA), Glassbox Digital UK Ltd.) (UK) Sessioncam Ltd. (UK)
Interested parties	-	As defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
Related parties	-	As defined in IAS 24 (revised)
Dollar	-	US Dollar

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIESa. Basis of presentation of the financial statements1. Basis of measurement

The Company's financial statements have been compiled based on cost, with the exception of contingent consideration in business combinations, derivative instruments at fair value against profit or loss and share based transactions.

The Company has elected to present its statement of comprehensive income or loss according to the operations attribute method.

b. Preparation format of the financial statements

These financial statements have been compiled in accordance with International Financial Reporting Standards ("IFRS") and include the additional disclosure required in accordance with the Securities Regulations (Periodic and Immediate Reports) – 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- 1) The accounting policies applied in the financial statements have been consistently applied in all periods presented unless stated otherwise
- 2) The preparation of the financial statements in accordance with IFRS standards requires the use of certain material accounting estimates. It also requires the Group's management to exercise discretion in the process of implementing the Group's accounting policies. Note 3 discloses areas in which discretion or complexity is involved, or areas in which assumptions and estimates have a material effect on the financial statements. The actual results may differ materially from the estimates and assumptions used by the Group's management.
- 3) The Group's operating cycle is 12 months.
- 4) The group analyzes the expenses recognized in profit or loss statement according to the operating cost method.

c. Consolidated financial statements

Subsidiaries and business combinations

Subsidiaries are entities (including structured entities) controlled by the Company. The Company controls the entity when the Company has an influence over the investee, it has exposure or rights to variable returns from its involvement in the entity and it has the ability to use its power of influence over the investee to influence the amount of returns from that entity. Subsidiaries are fully included in the consolidation from the date on which control is achieved by the Company. Their consolidation is terminated at the time when control ceases.

Potential voting rights are considered when assessing whether an entity has control including potential voting rights held by other parties. Potential voting rights are rights to achieve voting rights in investee such as rights deriving from convertible instruments or options including forward contracts. Potential voting rights are considered only if the rights are substantial.

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed including contingent liabilities assumed.

Contingent consideration and deferred consideration are recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IFRS 9. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. Deferred consideration is measured in subsequent periods at amortized cost on the basis of the effective interest method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Intra-group balances and transactions, including revenues, expenses and dividends in respect of transactions among the Group companies, were eliminated. Gains and losses arising from intra-group transactions, which were recognized as assets (such as inventory and property and equipment) were also eliminated.

The accounting policies applied in the subsidiaries have been updated as necessary, in order to assure consistency with the accounting policies adopted by the Group.

d. Functional currency presentation currency and foreign currency:

1. Functional currency and presentation currency

The functional currency and presentation currency of the financial statements is the US dollar (dollar).

The Group determines the functional currency of each Group company. The functional currency of the Company and Glassbox US Inc. is the dollar. The functional currency of Glassbox Digital UK Ltd. and Sessioncam Ltd. is a pound. The functional currency of each entity is the currency of the main economic environment in which the entity operates and in which it is expected to continue operating in the foreseeable future.

Assets and liabilities of subsidiaries that constitute foreign operations (Glassbox Digital UK Ltd. and Sessioncam Ltd. whose functional currency is the pound) are translated at the closing rate on each reporting date. Profit or loss statement items are translated at average exchange rates in all periods presented. (Unless this average is not a reasonable approximation of the cumulative effect of exchange rates on transaction dates. In this case, income and expenses are translated at the exchange rate on transaction dates). The resulted translation differences are carried to other comprehensive income (loss).

Goodwill and fair value adjustments arising from the acquisition of foreign operations are treated as assets and liabilities of foreign operations and translated at the closing rate. Exchange rate differences in respect of such translation are charged to other comprehensive income.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE - :2 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition.

f. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of acquisition which do not comply with the definition of cash equivalents. The deposits are presented according to their terms of deposit.

g. Trade receivables

The balance of trade receivables refers to the amounts receivable from customers of the Company for goods sold or services rendered in the ordinary course of business. When collection of these amounts is expected to occur in one year or less, they are classified as current assets, otherwise, they are classified as noncurrent assets.

The Group recognizes the provision for loss in respect of projected credit losses on financial assets that are debt instruments measured at reduced cost of assets in respect of contracts with customers under IFRS 15.

The Group examines at each date of statement of financial position whether credit loss of the financial asset has significantly increased from the date of its initial recognition, on an individual or group basis. To this end, the Group compares the risk of a financial instrument failure occurring at the reporting date with the risk of failure of the financial instrument at the date of initial recognition, taking into account all reasonable and verifiable information, including forward-looking information.

The Group measures the provision for loss in an amount equal to projected credit losses over the life of the instrument for customers or assets in respect of contracts with customers arising from transactions under IFRS 15. As of the cut-off date, the provision for credit losses is immaterial.

h. Property and equipment

Property and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Computers, software and peripheral equipment	33
Office furniture and equipment	6-15
Leasehold Improvement	See below

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Company which it intends and anticipates to exercise) and the useful life of the improvement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE - :2 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As to the impairment of property and equipment see section o below.

i. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized on a straight-line basis over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable.

1) Research and development expenditures:

Research expenditures are recognized in profit or loss when incurred. Costs incurred in an internal development project are recognized as an intangible asset only if the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the ability to measure reliably the expenditures attributable to the intangible asset during its development.

Other development expenses, which do not meet these conditions, are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a later period. Development expenses up to the reporting date did not meet the aforementioned conditions and were therefore recognized in the statement of comprehensive loss when incurred.

2) Customer relations

Customer relations acquired as part of a business combination are recognized at fair value on the acquisition date, customer relations acquired separately are measured with cost recognition with direct acquisition costs. Customer relations have a defined useful life (10 years) and are presented net of accumulation amortization based on the straight-line method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3) Technology

Technology acquired as part of a business combination is recognized at fair value on the acquisition date, technology has a defined useful life (2-4 years) and is presented net of accumulation amortization based on the straight-line method.

4) Domain

Domain purchased separately is measured at historical cost. A domain that is purchased as part of a business combination is recognized at its fair value at the date of purchase. A domain has a defined useful life and is presented at cost less accumulated depreciation. The amortization is calculated using the straight-line method over the expected useful life.

5) Goodwill

Goodwill created upon the acquisition of a subsidiary represents the total excess amount of the consideration transferred, the amount of any non-controlling interests in the acquiree and in business combination achieved in stages - also the fair value at the acquisition date of the capital right previously held by the Company over the net amount on the acquisition date of the identifiable assets being acquired and liabilities and contingent liabilities of the acquiree being assumed.

An examination of impairment of a cash-generating unit, to which goodwill has been allocated, is performed annually and whenever there is any indicator of impairment of the unit, by comparing its book value including goodwill, to its recoverable amount, which is higher of the realizable value and the fair value net of selling costs. Impairment loss, if any, is allocated first to impairment of any goodwill in the books allocated to the unit and then to the other assets of the unit, proportionately on the basis of the book value of each asset in the unit.

Any impairment loss is recognized immediately in profit or loss. Such loss recognized in respect of goodwill will not be canceled in a later period.

j. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use and its realizable value. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

k. Impairment of financial assets

The Company has short-term financial assets such as trade receivables in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses.

l. Leases

The Company accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

1. The Group as a lessee

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the Company has elected to apply the practical expedient in the Standard and does not separate the lease components from the non-lease components such as management and maintenance services, etc. included in a single contract.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life and the lease term.

The amortization period of right-of-use asset of offices is 2.5-8 years.

2. Lease extension and termination options

A non-cancelable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

m. Government grants

Government grants are recognized when it is reasonably assured that the grants will be received and the Company will meet all the conditions for receiving the grant.

Government grants received from the Israel Innovation Authority at the Ministry of Industry and Economy – formerly Chief Scientist) are recognized when received as a commitment if there is reasonable assurance as a result of the research activities that will lead to sales entitling the state to royalties.

n. Financial instruments

A liability for grants received is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a Government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability.

At each reporting date, the Company evaluates whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties) based on the best estimate of future sales and using the original effective interest method, and if so, the appropriate amount of the liability is derecognized against a corresponding reduction in research and development expenses. Amounts paid as royalties are recognized as settlement of the liability.

1. Financial assets:

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:

- The Company's business model for managing financial assets; and
- The contractual cash flow terms of the financial asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)2. Debt instruments are measured at amortized cost when:

The Company's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

These assets are classified as current assets, except for maturities for a period of more than 12 months after the date of the statement of financial position, which are classified as non-current assets. The financial assets at amortized cost of the Company are included in sections: "cash and cash equivalents" "trade receivables" "other accounts receivable" "short term deposits" and "restricted deposits" in the statement of financial position.

3. Recognition and measurement:

Investments are initially recognized at fair value plus transaction costs for all financial assets that are not measured at fair value through profit or loss, except trade receivables. Financial assets at reduced cost are measured in subsequent periods at a reduced cost, based on the effective interest method.

Purchases and sales in the ordinary way of financial assets are recorded in the Company's books at the date of the transaction, which is the date on which the Company undertakes to purchase or sell the asset.

4. Derecognition of financial assets:

A financial asset is derecognized only when:

- The contractual rights to the cash flows from the financial asset has expired; or
- The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

4. Financial liabilities

a) Financial liabilities measured at amortized cost:

At initial recognition, the Company measures financial liabilities at fair value net of transaction costs directly attributable to the issue of financial liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest method.

b) Financial liabilities at fair value through profit or loss:

At initial recognition, the Company measures financial liabilities that are not measured at amortized cost at fair value, when transaction costs are recognized in profit or loss. Such financial liabilities include convertible loan at fair value in profit or loss and contingent liability in business combinations.

After initial recognition, changes in fair value are carried to profit or loss.

c) Derivative financial instruments that are not used as hedges:

The Company enters into contracts for derivative financial instruments such as forward currency contracts associated with foreign exchange rate to hedge risks associated with fluctuations in foreign currency.

Any gains or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting are recorded immediately in profit or loss.

o. Fair value measurement:

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.

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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.

Level 3 - inputs that are not based on observable market data

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

q. Employee benefit liabilities

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

Under Israeli law, every employee is entitled to vacation days and recreation pay, both of which are calculated on an annual basis. Eligibility is based on the length of the employment period. The Company recognizes a liability and expense in respect of vacation and recreation pay, based on the benefit accrued for each employee.

To the extent that the Group anticipates that the vacation pay will be fully settled during 12 months following the end of the annual reporting period in which employees provide the related services, the liability for this benefit is measured by additional amount the Group anticipates to pay for the unused entitlement accrued at the end of the reporting period. If the Group does not anticipate that the benefit in respect of vacation pay will be paid in full during said period, the liability in respect of that benefit is measured in the same manner as the liability in respect of defined benefit plans is measured.

2. Post-employment benefits

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans.

The Company has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

The Company deposited for its employees under section 14 \$ 928 and \$ 635 thousand for 2021 and 2020, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Share-based payment transactions

The Company's employees and other service providers are entitled to remuneration in the form of equity-settled share-based payment plans.

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using B&S pricing model.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments granted.

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period"). Vesting conditions that are not market conditions are included in the assumptions used to measure the number of options expected to vest.

No expense is recognized for awards that do not ultimately vest, provided that all other vesting conditions (service and/or performance) are satisfied. Upon exercising the options, the Company issues new shares. The proceeds less transaction costs which can be attributed directly are attributed to share capital (par value) and share premium.

s. Taxes on income:

Current or deferred taxes are recognized in the statement of profit or loss except to the extent that the tax arises from items which are recognized directly in other comprehensive income or in equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes other than a limited number of exceptions.

Deferred taxes are measured at the tax rates that are expected to apply when the asset is disposed or the liability is extinguished, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority. In the absence of an expectation of taxable income in the foreseeable future, no deferred tax asset was recognized in the Company's books.

t. Revenue recognition:

Revenue from contracts with customers is recognized in profit or loss when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

In determining the amount of revenue from contracts with customers, the Company examines whether it is acting as a main supplier or as an agent in a contract. The Company is a main supplier when it controls goods or service promised prior to delivery to the customer. In these cases, the Company recognizes revenue in the gross amount of the consideration. In cases where the Company acts as an agent, the Company recognizes the income in a net amount, after deducting the amounts due to the main supplier.

Revenue from software licensing arrangements and rendering similar services:

The Company recognizes revenue from software licensing transactions at a point in time when the Company provides the customer a right to use the Company's intellectual property as it exists at the point in time at which the license is granted to the customer.

Revenue from the provision of similar services is recognized over time, over the period in which the customer receives and consumes the benefits generated by the company's performance.

Right of access to software in cloud:

The Company recognizes revenue from granting access to software in cloud over time, over the relevant service period.

Revenue from rendering of services:

The Company provides implementation services of support services, business consulting as well as training. Revenue from rendering of services is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by the Company's performance. The Company charges its customers based on payment terms agreed upon in specific agreements. When payments are made before or after the service is performed, the Company recognizes the resulting contract asset or liability. Most service transactions are utilized by customers as part of the first year of purchase.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Allocating the transaction price

For contracts that consist of more than one performance obligation, at contract inception the Company allocates the contract transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. The stand-alone selling price is the price at which the Company would sell the promised goods or services separately to a customer. When the stand-alone selling price is not directly observable by reference to similar transactions with similar customers, the Company applies suitable methods for estimating the stand-alone selling price including: the adjusted market assessment approach, the expected cost plus a margin approach and the residual approach. The Company may also use a combination of these approaches to allocate the transaction price in the contract.

Costs of obtaining a contract

In order to obtain certain contracts with customers, the Company incurs incremental costs in obtaining the contract (such as sales commissions which are contingent on making binding sales). Costs incurred in obtaining the contract with the customer which would not have been incurred if the contract had not been obtained and which the Company expects to recover are recognized as an asset and amortized on a systematic basis that is consistent with the provision of the services under the specific contract.

u. Loss per share

A loss per share is calculated by dividing the loss attributed to the Company's shareholders by the weighted number of ordinary shares outstanding during the period. The calculation of basic loss per share is generally based on the loss distributable to ordinary shareholders, divided by the weighted average number of ordinary shares in circulation during the period.

Potential ordinary shares are included in the calculation of diluted loss per share if their effect dilutes loss per share. Potential ordinary shares converted during the period are included in diluted earnings per share only up to the date of conversion and from that date are included in basic loss per share.

v. Segment reporting

Operating segments are reported on the same basis used for internal reporting purposes submitted to the Group's chief operating decision maker, who is responsible for allocating resources to the Group's operating segments and evaluating their performance.

Since its inception, the Company has been operating in one segment of activity, which is the development and marketing of software products in the field of customer experience.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: - SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

As part of the financial reporting process, the Company's management is required to make certain assumptions and estimates that may affect the value of the assets, liabilities, income, expenses and some of the disclosures provided in the Group's consolidated financial statements. By their very nature these estimates may be subjective and complex and as a result, may be other than actual results.

The accounting estimates and assumptions used in the preparation of the financial statements are reviewed on an ongoing basis and are based on past experience and other factors, including future events whose occurrence is reasonably expected in light of the existing circumstances.

The following is a description of the material accounting estimates used in the preparation of the financial statements at the time of their preparation the Company was required to make assumptions as to the circumstances and events involving significant uncertainty. In exercising its discretion for the purpose of determining the accounting estimates, the Company takes into account, as the case may be, the relevant facts, past experience, influence of external factors and reasonable assumptions depending on the circumstances:

a. Judgments:

- Determining the timing of satisfaction of performance obligations:

In order to determine the timing of recognizing revenues from contracts with customers at a point in time or over time, the Company evaluates the date of transfer of control over the assets or services promised in the contracts. Among others, the Company evaluates whether the customer obtains control of the asset at a specific point in time or consumes the economic benefits associated with the contract simultaneously with the Company's performance. In determining the timing of revenue recognition, the Company also considers the provisions of applicable laws and regulations.

- Impairment of goodwill

The Company examines impairment of goodwill at least annually. The examination requires management to make an estimate of future cash flows that are expected to result from the continued use of the cash-generating unit to which the goodwill has been allocated.

- Discount rate for a lease liability:

When the Company is unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, the Company uses an incremental borrowing rate. That rate represents the rate of interest that the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: - SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

- Determining the lease period

As stated in Note 10, the Company estimates that it is reasonable to assume that the existing extension option of the lease agreement the Company has entered into will be exercised. The Company's management reassesses whether it is probable that an extension option will be exercised, in the event of a significant event or significant change in circumstances, which is under the Company's control and also influences the decision whether the Company will not reasonably exercise an option previously included in the lease term.

- Deferred taxes

Based on management's discretion, the Company has not created deferred tax assets in respect of accumulated losses for tax purposes, as it is not expected that the Company will be able to utilize these losses in the foreseeable future against taxable income.

- Development costs:

The Company's management assesses whether the criteria for recognizing development project costs as intangible assets are met.

The Company estimates that in all the reported years the conditions for recognizing costs in respect of development projects as intangible assets were not met in view of the fact that in the manner the Company conducts the development it is unable to prove on the development date a technical feasibility to complete the intangible asset and it intends to complete the intangible asset and use it. Therefore, all development costs are recognized in profit or loss.

- Customer relations and technology

The balance of intangible assets recognized as a result of business combinations carried out by the Group is continuously reduced using the straight-line method in accordance with the expected useful life at the date of recognition. The Company is examining annually the need to change the useful life of intangible assets (see also Note 2i2 and 2i3).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: - SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

b. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Legal claims:

In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the companies rely on the opinion of their legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

- Determining separate selling price of performance obligations in contracts with customers

The Company estimates the separate selling price of various performance obligations in contracts with customers when the separate selling price cannot be identified according to data obtainable directly from transactions in similar circumstances to similar customers, the Company applies appropriate methods for estimating the separate selling price and include: coordinated market valuation approach, projected cost approach plus margin and residual approach. The Company sometimes uses a combination of methods for allocating the transaction price in the contract.

- Estimating intangible assets and goodwill

The Company is required to allocate the cost of acquisition of investee companies to assets acquired and liabilities assumed based on their fair value estimate. The Company has entered into agreement with an independent external appraiser to assist in determining the fair value of these assets and liabilities. These valuations require the use of significant estimates and assumptions by management. The intangible assets recognized in 2020 (see Note 5) include customer relations and technology.

Critical estimates used in assessing useful life of such intangible assets include, among others, the period of customer relations, the period of using the technology and expected developments in the market. Critical estimates used in the valuation of certain intangible assets include, but are not limited to, expected cash flows from contracts with customers. Management's estimates regarding fair value and useful life are based on assumptions that have been found reasonable by management, but are inherently uncertain and as a result actual results may differ.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: - DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

a. Amendment to IAS 1, "Presentation of Financial Statements":

In January 2020, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("the Amendment") regarding the criteria for determining the classification of liabilities as current or non-current in the statement of financial position.

The Amendment includes the following clarifications:

- Liability will be classified as a non-current liability if the entity has a substantive right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The amendment also clarifies that the entity's intention regarding the exercise of the right is not relevant for the purpose of classifying liability and eliminates the reference to the existence of an unconditional right.
- Such substantive right exists only if the entity meets the relevant conditions on the balance sheet date.
- "extinguishment" of the liability includes extinguishment by way of cash payment, other financial resources or equity instruments of the entity. However, the conversion right in respect of convertible instrument which has been classified to equity does not affect the classification of the liability in respect of the instrument.

b. Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The amendment to IAS 8 clarifies how to distinguish between changes in accounting policies and changes in accounting estimates. This distinction is substantial, since changes in accounting estimates are applied prospectively, for other transactions and events in the future, while changes in accounting policies, as a rule, are applied retrospectively to other transactions and events in the past, as well as to current events and transactions.

The amendments will be applied retrospectively starting from the annual period beginning on or after January 1, 2023. Early adoption is permitted.

The Company examines the possible impact of the amendments, but is unable at this stage to estimate the impact of the amendments, if any, on the financial statements.

NOTE 5: - BUSINESS COMBINATIONS

During October 2020, the Company completed the acquisition of Sessioncam Ltd. in England, which became a wholly owned subsidiary from that date. The acquisition was made through the UK subsidiary, Glassbox Digital UK Ltd. Under the purchase agreement, the consideration was divided into £ 12.2 million (approximately \$ 15.8 million) in cash at the closing of the transaction, £ 3 million (\$ 3.9 million) in cash two years after closing and an additional amount that depends on customer contracts that will be valid for two years from the transaction date, as specified in the agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - BUSINESS COMBINATIONS (Cont.)

The company has engaged with an external valuer to allocate the purchase cost. As part of the purchase cost allocation, the assets and liabilities were measured and presented at fair value, including technology, customer relationships and goodwill that were included in the intangible assets.

The table below presents the consideration for the acquisition of Sessioncam Ltd. and the amounts recognized for the assets acquired and the liabilities assumed on the acquisition date at fair value:

	Fair value
	US Dollars in thousands
Purchase cost	
Cash paid	15,751
Deferred consideration	3,533
Contingent consideration	<u>2,153</u>
Total consideration	<u>21,437</u>
Amounts recognized for identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	476
Trade receivables	931
Receivables	631
Property and equipment	32
Right of use assets	45
Customer relations	10,883
Technology	751
Provision for deferred tax	(2,644)
Trade payables	(694)
Deferred revenues	(1,540)
Lease liabilities	(45)
Loan	(1,360)
Other accounts payable	<u>(861)</u>
Total identifiable assets	6,605
Goodwill	<u>14,832</u>
Total consideration	<u>21,437</u>
Cash flows from the acquisition that were included in cash flows from investing activities	
Cash paid	15,751
Cash and cash equivalents of a subsidiary	<u>(476)</u>
Acquisition of a subsidiary, less acquired cash, as presented as part of cash flows from investing activities	<u>15,275</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - BUSINESS COMBINATIONS (Cont.)

Direct acquisition costs attributed to the transaction in the amount of approximately \$ 1,114 thousand were recognized as an expense and included in the item Administrative and general expenses.

See also Note 28 – proforma data

Contingent consideration

In the purchase agreement from the previous owners of Sessioncam Ltd., it was agreed that the previous owners will be entitled to additional consideration if certain conditions are met (contingent consideration). The contingent consideration the group will pay the previous owners of the Company at the end of two years from the date of sale is as follows:

- a. A payment of £ 2.1 million (approximately \$ 2.7 million), if customer contracts that are valid for two years from the date of the transaction exceed £ 7.2 million (approximately \$ 9.3 million).
- b. A payment of at least £ 7.0 million (approximately \$ 9 million), if customer contracts that are valid for two years from the date of the transaction exceed £ 9.6 million (approximately \$ 12.4 million).

As of the purchase date, the fair value of the contingent consideration is estimated at £ 1.7 million (approximately \$ 2.2 million). The fair value is determined according to the OPM method.

The following are the non-observable significant data that were used to measure the fair value of the contingent consideration liability:

Discount rate: 4.03%

Volatility rate: 11.95%

A significant increase in the estimated amount of customer contracts that will be valid for two years from the date of the transaction will result in a significant increase in the fair value of the contingent consideration, while a significant increase in discount rate and volatility rate will result in a decrease in the fair value of the liability.

The time value from the date of purchase to December 31, 2021 was recorded as interest expense in the amount of \$ 685 thousand.

On December 31, 2021, the Company made another estimate of the fair value of the contingent consideration. The fair value is determined by using the models that were used to estimate the value at the time of purchase. As of that day, the value of the contingent consideration was estimated at £ 4.29 million (approximately \$ 5.799 million) with the value update resulted in expenses of \$ 3.055 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: - CASH AND CASH EQUIVALENTS

	December 31,	
	2021	2020
	U.S. Dollars in thousands	
Cash and cash equivalents in dollar	10,617	17,475
Cash and cash equivalents in NIS	584	594
Cash and cash equivalents in other currencies	922	1,018
	<u>12,123</u>	<u>19,087</u>

NOTE 7: - TRADE RECEIVABLES AND ASSETS AND LIABILITIES IN RESPECT OF CONTRACTS WITH CUSTOMERS

	December 31,	
	2021	2020
	U.S. Dollars in thousands	
Trade receivables	2,922	1,854
Contract assets	10,416	5,154
Deferred revenues (short term and long term)	19,385	15,026
Deferred revenues net of contract assets	8,969	9,872

NOTE 8: - OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2021	2020
	U.S. Dollars in thousands	
Government authorities	487	237
Prepaid expenses	2,157	1,726
Customer acquisition cost	785	631
Others	264	303
	<u>3,693</u>	<u>2,897</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: - PROPERTY AND EQUIPMENT

2021

	<u>Computers and peripheral equipment</u>	<u>Office furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
	<u>U.S. Dollars in thousands</u>			
<u>Cost</u>				
Balance as of January 1, 2021	589	199	786	1,574
Additions during the year	337	26	-	363
Disposals during the year	(12)	-	-	(12)
Translation adjustments of financial statements of foreign operations	(2)	-	-	(2)
Balance as of December 31, 2021	<u>912</u>	<u>225</u>	<u>786</u>	<u>1,923</u>
<u>Accumulated depreciation</u>				
Balance as of January 1, 2021	293	14	124	431
Additions during the year	188	11	117	316
Disposals during the year	(12)	-	-	(12)
Balance as of December 31, 2021	<u>469</u>	<u>25</u>	<u>241</u>	<u>735</u>
<u>Depreciated cost as of December 31, 2021</u>	<u>443</u>	<u>200</u>	<u>545</u>	<u>1,188</u>
<u>Depreciated cost as of December 31, 2020</u>	<u>296</u>	<u>185</u>	<u>662</u>	<u>1,143</u>

2020

	<u>Computers and peripheral equipment</u>	<u>Office furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
	<u>U.S. Dollars in thousands</u>			
<u>Cost</u>				
Balance as of January 1, 2020	404	131	390	925
Additions during the year	146	68	396	610
Newly consolidated company	37	-	-	37
Translation adjustments of financial statements of foreign operations	2	-	-	2
Balance as of December 31, 2020	<u>589</u>	<u>199</u>	<u>786</u>	<u>1,574</u>
<u>Accumulated depreciation</u>				
Balance as of January 1, 2020	173	4	11	188
Additions during the year	120	10	113	243
Balance as of December 31, 2020	<u>293</u>	<u>14</u>	<u>124</u>	<u>431</u>
<u>Depreciated cost as of December 31, 2020</u>	<u>296</u>	<u>185</u>	<u>662</u>	<u>1,143</u>
<u>Depreciated cost as of December 31, 2019</u>	<u>231</u>	<u>128</u>	<u>380</u>	<u>739</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: - LEASES

The Company has lease agreements that include leases of offices that are used for the purpose of maintaining the Company's operating activities.

The lease agreements of the buildings are for a period ranging from 2.5 to 8 years.

One lease agreement includes an extension option.

1. Details regarding lease transaction2021

<u>Cost</u>	<u>Buildings</u>	<u>Total</u>
	<u>U.S. Dollars in thousands</u>	
Balance as of January 1, 2021	3,301	3,301
Additions during the year	105	105
Finance expenses in respect of lease liabilities	160	160
Total negative cash flow for leases	(687)	(687)
	<u>2,879</u>	<u>2,879</u>
Balance as of December 31, 2021	<u>2,879</u>	<u>2,879</u>

2020

<u>Cost</u>	<u>Buildings</u>	<u>Total</u>
	<u>U.S. Dollars in thousands</u>	
Balance as of January 1, 2020	3,562	3,562
Newly consolidated company	45	45
Finance expenses in respect of lease liabilities	305	305
Total negative cash flow for leases	(611)	(611)
Balance as of December 31, 2020	<u>3,301</u>	<u>3,301</u>

As to the Company's total finance expenses in respect of lease liabilities see Note 25.

2. Extension and cancellation options

The Company has one lease agreement that includes an extension option. This option confers upon the Company flexibility in managing lease transactions and adapting to the Company's business needs. The Company exercises significant discretion in examining whether it is reasonably certain that the extension option will be exercised. In this lease agreement the Company estimates that it will exercise the extension options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: - LEASES (Cont.)

3. Disclosures regarding right of use assets2021

	<u>Buildings</u>	<u>Total</u>
	<u>U.S. Dollars in thousands</u>	
<u>Cost</u>		
Balance as of January 1, 2021	3,717	3,717
Additions during the year	<u>105</u>	<u>105</u>
Balance as of December 31, 2021	3,822	3,822
<u>Accumulated depreciation</u>		
Balance as of January 1, 2021	773	773
Additions during the year	<u>577</u>	<u>577</u>
Balance as of December 31, 2021	<u>1,350</u>	<u>1,350</u>
<u>Depreciated cost as of December 31, 2021</u>	<u>2,472</u>	<u>2,472</u>
<u>Depreciated cost as of December 31, 2020</u>	<u>2,944</u>	<u>2,944</u>

2020

	<u>Buildings</u>	<u>Total</u>
	<u>U.S. Dollars in thousands</u>	
<u>Cost</u>		
Balance as of January 1, 2020	3,670	3,670
Translation adjustments of financial statements of subsidiaries	2	2
Newly consolidated company	<u>45</u>	<u>45</u>
Balance as of December 31, 2020	3,717	3,717
<u>Accumulated depreciation</u>		
Balance as of January 1, 2020	233	233
Additions during the year	540	540
Translation adjustments of financial statements of foreign operations	<u>-</u>	<u>-</u>
Balance as of December 31, 2020	<u>773</u>	<u>773</u>
<u>Depreciated cost as of December 31, 2020</u>	<u>2,944</u>	<u>2,944</u>
<u>Depreciated cost as of December 31, 2019</u>	<u>3,437</u>	<u>3,437</u>

4. For maturity dates of lease liabilities see Note 18g.
5. Short term lease expenses for 2021 and 2020 amounted to \$ 84 thousand and \$ 164 thousand, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: - GOODWILL AND OTHER INTANGIBLE ASSETS

	<u>Technology</u>	<u>Customer relations</u>	<u>domain</u>	<u>Goodwill</u>	<u>Total</u>
	<u>U.S. Dollars in thousands</u>				
<u>Cost</u>					
Balance as of January 1, 2021	797	11,468	25	15,638	27,928
Purchase of intangible asset	400	100	-	-	500
Translation adjustments of financial statements of foreign operations	-	(103)	-	(167)	(270)
Balance as of December 31, 2021	<u>1,197</u>	<u>11,465</u>	<u>25</u>	<u>15,471</u>	<u>28,158</u>
<u>Accumulated amortization and impairment losses</u>					
Balance as of January 1, 2021	80	232	3	-	315
Amortization recognized during the year	<u>428</u>	<u>1,178</u>	<u>5</u>	<u>-</u>	<u>1,611</u>
Balance as of December 31, 2021	<u>508</u>	<u>1,410</u>	<u>8</u>	<u>-</u>	<u>1,926</u>
Net balance as of December 31, 2021	<u><u>689</u></u>	<u><u>10,055</u></u>	<u><u>17</u></u>	<u><u>15,471</u></u>	<u><u>26,232</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: - GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)

	Technology	Customer relations	domain	Goodwill	Total
	U.S. Dollars in thousands				
<u>Cost</u>					
Balance as of January 1, 2020	-	-	-	-	-
Purchase of intangible asset	-	-	25	-	25
Newly consolidated company	751	10,883	-	14,832	26,466
Translation adjustments of financial statements of foreign operations	46	585	-	806	1,437
Balance as of December 31, 2020	797	11,468	25	15,638	27,928
<u>Accumulated amortization and impairment losses</u>					
Balance as of January 1, 2020	-	-	-	-	-
Amortization recognized during the year	80	232	3	-	315
Balance as of December 31, 2020	80	232	3	-	315
Net balance as of December 31, 2020	717	11,236	22	15,638	27,613

b. Purchase during the year

Technology and customer relations were purchased in business combinations see Note 5. The Company amortizes technology over 2 years. The Company amortizes customer relations over 10 years.

In January 2020, the Company purchased the Glassbox.com domain. The domain is amortized over five years.

On September 13, 2021, the Company entered into agreement with Convertize Ltd. for the purchase of assets. Under this purchase, the Company purchased technology that is amortized over 4 years and customer relations are amortized over one year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: - GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)

c. Amortization expenses

Amortization expenses of intangible assets are classified in profit or loss as follows:

	<u>Year ended December 31</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S. Dollars in thousands</u>	
Research and development expenses	428	80
Selling and marketing expenses	1,178	232
General and administrative expenses	5	3

NOTE 12: - OTHER ACCOUNTS PAYABLE

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S. Dollars in thousands</u>	
Payroll payable	7,286	4,766
Expenses payable	1,140	844
Government authorities	868	65
Others	224	322
	<u>9,518</u>	<u>5,997</u>

NOTE 13: - LEASE LIABILITIES

	<u>Weighted</u>	<u>December 31</u>	
	<u>Interest rate</u>	<u>2021</u>	<u>2020</u>
	<u>December 31,</u>	<u>U.S. Dollars in thousands</u>	
	<u>2020</u>		
	<u>%</u>		
Lease liabilities	2.49	2,879	3,301
Less- current maturities		592	605
		<u>2,287</u>	<u>2,696</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: - ACCRUED SEVERANCE PAY

Israeli labor law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The Company's pension and severance pay liability to certain employees is covered mainly by purchase of insurance policies. Pursuant to section 14 of the Severance Compensation Act, 1963 ("section 14"), all of the Company's employees are entitled to monthly deposits, at a rate of 8.33% of their monthly salary, made in their name with insurance companies. Payments in accordance with section 14 relieve the Company from any future severance payments in respect of those employees and as such the Company may only utilize the insurance policies for the purpose of disbursement of severance pay.

NOTE 15: - LIABILITIES FOR GOVERNMENT GRANTS

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S. Dollars in thousands</u>	
Balance as of January 1	-	580
Receipts from the Chief Scientist	-	-
Accumulated interest	-	6
Royalties paid during the year	-	(586)
	<u>-</u>	<u>-</u>
Balance as of December 31	<u>-</u>	<u>-</u>

Pursuant to the Law for the Encouragement of Industrial Research and Development- 1984, the Company is obligated to pay royalties to the State of Israel, in respect of grants received, calculated on the basis of the proceeds from sales of products in the development of which the State participated. Said royalties shall be at a rate of 3% of the amount of product sales up to 100% of the grants received by the Company when they are linked to the dollar plus LIBOR interest rate. As of December 31, 2020, the Company has repaid said liability in full.

During 2017, the Company received a grant in a total of \$ 97 thousand for the "Smart Money" program to increase sales in the UK. As part of the conditions for receiving the assistance, the Company must pay the program royalties of 3% of the increase in the volume of exports in the target market for which the Company received grants. The Company has created a commitment for said amount as it assess to be paid.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: - SHAREHOLDERS' EQUITY

a. Composition of share capital

	<u>Authorized</u>	<u>Issued and outstanding</u>	
	<u>December 31</u>	<u>December 31,</u>	
	<u>2021</u>	<u>2021</u>	<u>2020</u>
	<u>Number of shares</u>		
Ordinary shares of NIS 0.01 par value each	50,000,000	11,652,966	884,882
Ordinary A shares of NIS 0.01 par value each	-	-	1,139,965
Preferred A shares of NIS 0.01 par value each	-	-	1,692,273
Preferred B-1 shares of NIS 0.01 par value each	-	-	886,682
Preferred B-2 shares of NIS 0.01 par value each	-	-	2,124,967
Preferred B-3 shares of NIS 0.01 par value each	-	-	360,812
Preferred C shares of NIS 0.1 par value each	-	-	2,391,157
	<u>50,000,000</u>	<u>11,652,966</u>	<u>9,480,738</u>

b. Ordinary shares

Ordinary shares confer upon their holder the right to receive notice of, and to participate and vote in, all general meetings, to appoint board members, to receive dividends, to participate in the distribution of the surplus assets and funds of the Company in the event of the liquidation.

c. Preferred shares

Preferred shares confer upon their holders all the rights conferred to ordinary shareholders of the Company as well as additional rights specified in the Company's articles of association.

1. In September 2018, the Company entered into agreement for allocating Preferred B shares with new and existing investors up to an amount of \$ 17.6 million, received in two installments in exchange for allocation of 1,856,050 Preferred B shares at a price of \$ 9.4825 per share. In October 2018, \$ 10.5 million was received and in October 2019, an additional \$ 7.1 million was received. As part of the round, a \$ 5,000 thousand convertible loan was converted (see Note 15).
2. In March 2020, the Company entered into agreement for an allocation of Preferred C shares with new and existing investors up to an amount of \$ 33,400 thousand which were received in two installments, in exchange for allocation of 2,391,157 Preferred C shares at a price of \$ 13.968 per share. Issuance expenses amounted to \$ 122 thousand.
3. Preferred shares confer upon their holders the right to vote and participate in shareholders' meetings (when a shareholder of NIS 0.01 par value has one vote).

In addition, preferred shares confer the following rights:

- a. Preferred shares may be converted into ordinary shares according to the conversion ratio of the same type of shares according to the decision of the preferred shareholder.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: - SHAREHOLDERS' EQUITY (Cont.)

Automatic conversion - All preferred shares will be converted into ordinary shares according to the conversion ratio of the same type of shares, whichever comes first: (1) Closing of an initial public offering (IPO) in which the Company will raise at least \$ 75 million and at a share price of at least 1.5 times the original price of preferred shares C, or (2) by a decision of conversion of the shares to be made by (a) a majority of preferred shares A, (b) a majority of preferred shares B, (c) a majority of preferred shares C.

- b. Deemed Liquidation Event is a Company Acquisition Event (M&A) unless the majority of preferred A shares, the majority of preferred B shares, and the majority of preferred C shares decide in writing (each separately) that the acquisition event will not be considered Deemed Liquidation.

An acquisition event is defined in the Articles of Association as the closing of a transaction that includes (1) the acquisition of the Company through a merger, reorganization, capital change, sale, allocation or consolidation of all of the Company's issued shares with one entity (except the Company's wholly owned subsidiary) and as a result of such event the Company's shareholders do not hold a majority of the surviving entity; (2) Transfer, sale, disposition or transfer of all assets or almost all assets or shares of the foreign company to a wholly owned subsidiary of the Company or change performed for the purpose of residency, (3) transfer, sale, disposition of an exclusive license of all or almost all of (a) the Company's intellectual property, (b) the Company's assets (on a cumulative basis).

For the avoidance of doubt, granting an exclusive license to sell or distribute the Company's products in a particular area during the Company's ordinary course of business will not be considered a purchase event.

In view of the fact that the price adjustment mechanism and the following events, preferred shares will be entitled to payment in cash (except in the Company's liquidation), are under the control of the Company, preferred shares were classified to equity.

4. Preferred shares

On June 4, 2021, the Company issued on the Tel Aviv Stock Exchange. The Company issued 1,883,042 ordinary shares, of NIS 0.01 par value each of the Company ("Ordinary Shares"). In addition, 1,403,722 ordinary shares were sold in a put offer. The gross issue price amounted to approximately \$55,143 thousand. The amount of the issue expenses in the amount of \$1,757 thousand was credited to offset from the capital. Also, as part of the offering, 364,549 options were granted to underwriters.

In addition, the Company listed 9,601,442 ordinary shares, registered in the name of shareholders (who were before the issue), with a nominal value of NIS 0.01 each of the Company, which are in the issued and paid-up capital of the Company and up to 2,924,748 ordinary shares, NIS 0.01 Nominal value of each of the Company, to be derived from the exercise (to the extent possible) of 2,924,748 unlisted options allocated to employees and other parties.

Upon the issuance of the Company's shares to the public on the Tel Aviv Stock Exchange, all types of shares in the Company's capital were immediately converted (ordinary A shares preferred A shares, preferred B1 shares, preferred B2 shares, preferred B3 shares and preferred C shares) into ordinary shares, so upon the completion of the issuance, all the shares in the registered and issued capital of the Company are ordinary shares, as well as warrants allocated to employees, officers and consultants of the Company, will be exercisable into ordinary shares only.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: - SHAREHOLDERS' EQUITY (Cont.)

Following the completion of the said issue, the Company's ordinary shares began to be traded on the Tel Aviv Stock Exchange. The issue was carried out by way of a non-uniform offer, as defined in this term in the Securities (How to Offer Securities to the Public) Regulations, 2007.

5. Share based payment1. Share option plan

As part of the Company's incentive plan by shares (from 2013), options can be granted to officers, directors, employees and consultants of the Company.

Usually, an option granted under the plan will expire no later than seven years after the grant date, unless the board approves an extension at a later date. Usually, options vest over a period of between one and four years of work. Options that have been forfeited or not exercised before their expiration are available for future grants.

2. The movement in the number of stock options and the weighted averages of their exercise prices are as follows:

	Year ended December 31 2021	
	Number of options	Weighted average exercise price
Balance at the beginning of the year	1,849,417	3.48
Cancelled	(89,250)	5.49
Granted	1,031,299	14.12
Exercised	(294,061)	2.33
	<u>2,497,405</u>	<u>7.94</u>
Balance at the beginning of the year	<u>2,497,405</u>	<u>7.94</u>
Exercisable at the end of the year	<u>1,419,681</u>	<u>3.64</u>

	Year ended December 31 2020	
	Number of options	Weighted average exercise price
Balance at the beginning of the year	1,699,027	3.13
Cancelled	(128,756)	5.20
Granted	353,748	5.28
Exercised	(74,602)	1.15
	<u>1,849,417</u>	<u>3.48</u>
Balance at the beginning of the year	<u>1,849,417</u>	<u>3.48</u>
Exercisable at the end of the year	<u>1,152,862</u>	<u>2.51</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: - SHAREHOLDERS' EQUITY (Cont.)

Expense classification by department:

	December 31,	
	2021	2020
	U.S. Dollars in thousands	
Cost of revenues	130	91
Research and development	2,581	317
Selling and marketing	3,625	367
General and administrative	2,271	310
	<u>8,607</u>	<u>1,085</u>

3. Measurement of fair value of stock options settled with equity instruments

The fair value of the grant of stock options settled with equity instruments is estimated at the time of grant in accordance with the Black-Scholes-Merton model. The table below lists the data used in the Black-Scholes-Merton model and the measurement of fair value of stock options settled with equity instruments regarding the above plan.

	Year ended December 31	
	2021	2020
Dividend yield (%)	0	0
Value of base asset (dollar)	19.2-31.1	4.1-9.1
Expected volatility in share price (%) *	59.0-66.5	76.5-81.7
Risk free interest rate (%)	0.5-1.1	0.3-1.2
Expected life of stock options (years)	3.3-5.5	5.5

*The degree of volatility is based on the historical volatility of shares of similar companies for the corresponding periods over the expected life of the option up to the exercise date.

NOTE 17: - COMMITMENTS AND CONTINGENT LIABILITIES

a) Commitments

The Company and its subsidiary Sessioncam Ltd. entered into an agreement with Amazon for provision of cloud services (Amazon Web Services) at discounted rates as part of the Enterprise Discount Program. (EDP) The Company entered into agreement for a three-year period ending in August 2023, and the subsidiary entered into agreement for a two-year period ending in December 2021. Under the agreement that was signed, the Company and the subsidiary committed to a minimum annual expense. The minimum expense for the two companies for the years 2022 and 2023 is approximately \$ 2,535 and 1,690 thousand, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17: - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

b) Contingent liabilities

From time to time the Company is a party to legal claims that are part of its ordinary course of business for which it makes appropriate provisions in accordance with the assessments of the Company's legal counsel (if required).

In January 2021, a claim was filed against the subsidiary SessionCam Ltd. and another party filed a claim in the US. According to the claim, the subsidiary and the other party allegedly violated the privacy laws of California. In April 2021, the claim was dismissed after the plaintiff filed a motion to strike out the claim without waiver of rights.

On January 24, 2022, a lawsuit was filed in the Tel Aviv-Yafo District Court (Economic Department) against the company (the "lawsuit") which was filed by a former consultant of the company (the "plaintiff"). In the lawsuit, the plaintiff claims that the consultation agreement reached between the parties did not come to an end in April 2015, but was allegedly extended indefinitely and that he is entitled to remedies totaling NIS 2.8 million, including: declaring that the plaintiff is entitled to register as the owner of A total of 25,000 ordinary shares of the company and alternatively to order payment to the plaintiff a total of approximately NIS 2.5 million; Declare that the plaintiff is entitled to receive a commission estimated by the plaintiff in the amount of NIS 280,000 for a transaction in which the company contracted with a client; Alternatively, order the company to pay the plaintiff a proper salary in the amounts specified above for his services to the company. In the opinion of the Company's legal counsel, at this preliminary stage of the legal proceedings, in which the pleadings have not yet been filed in full and no pre-trial hearing has taken place, the chances of a lawsuit cannot be assessed.

NOTE 18: - FINANCIAL INSTRUMENTSa. Management goals and policies on financial risk management

The Company's main assets include trade receivables, other accounts receivable, deposits and cash which arise directly from the Company's operations.

Credit risk management for customers is managed by the Group in accordance with its policies, procedures and controls with respect to credit risk management for customers. The assessment of a customer's credit quality is based on performing an analysis and credit rating of each customer, according to which credit terms are determined for each specific customer.

The Group does not hold collateral to secure these obligations from customers. The Group estimates the risk of its customers' concentration to be low, since its customers are located in different countries and in different industries and operate in large markets that are independent of each other. Also, most customers pay in advance for the year.

Credit risk arising from balances in banks and financial institutions is managed by the Group's management in accordance with its policies. Investments of excess liquidity are made only with pre-approved entities and only within a ceiling for each counterparty. Such ceilings are reviewed by the Board of Directors on an annual basis and may be updated during the year subject to the approval of the Group's Balance Sheet Committee. The purpose of setting ceilings is to minimize the concentration of credit risk and thus reduce the loss in the event of insolvency of the counterparty.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: - FINANCIAL INSTRUMENTS (Cont.)

a. Management goals and policies on financial risk management (Cont.)

The Company is exposed to market risk and liquidity risk. The Company's senior management oversees the management of these risks.

b. Charges

The group has restricted deposits mainly for using credit cards, for securing lease and for hedging transactions. The fair value of restricted deposits as of December 31, 2021 and 2020 is \$ 944 thousand and \$ 952 thousand, respectively. There are no additional terms or restrictions regarding the use of the restricted deposits.

c. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risks, such as share price risk and commodity risk. Financial instruments affected by market risk include, among others, loans and borrowings and deposits.

d. Foreign currency risk

The Company is exposed to exchange rate risk resulting from exposure to various currencies, mainly the NIS and the pound. Exchange rate risk arises from the liabilities denominated in foreign currency other than the functional currency and from net investments from foreign operations.

e. Foreign currency sensitivity analysis:

The following table demonstrates the sensitivity test to a reasonably possible change in USD exchange rates, with all other variables held constant. The impact on the Company's income before tax is due to changes in the fair value of monetary assets and liabilities.

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
	<u>US Dollars in thousands</u>	
Sensitivity test to changes in the exchange rate of the dollar		
Pretax loss from the change		
Exchange rate increase of 5%	215	184
Exchange rate decrease of 5%	(262)	(203)

f. Fair value

The balance in the financial statements of cash and cash equivalents, other accounts receivable, restricted cash, short-term bank credit, trade payables, other accounts payable matches or approximates their fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: - FINANCIAL INSTRUMENTS (Cont.)

g. Liquidity risk

The Group monitors the risk to a shortage of funds using a liquidity planning tool.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments (including interest payments):

December 31, 2021

	<u>Up to one year</u>	<u>From one to two years</u>	<u>From two to three years</u>	<u>From three to four years</u>	<u>From four to five years</u>	<u>Over five years</u>	<u>Total</u>
<u>US Dollars in thousands</u>							
Lease liabilities	655	588	419	558	571	286	3,077
Trade payables	2,663	-	-	-	-	-	2,663
Liabilities for government grants		-	-	-	-	-	
Contingent consideration	3,987	-	-	-	-	-	3,987
Deferred consideration	9,460	-	-	-	-	-	9,460
Other accounts payable	9,455	-	-	-	-	-	9,455
	<u>26,220</u>	<u>588</u>	<u>419</u>	<u>558</u>	<u>571</u>	<u>286</u>	<u>28,642</u>

December 31, 2020

	<u>Up to one year</u>	<u>From one to two years</u>	<u>From two to three years</u>	<u>From three to four years</u>	<u>From four to five years</u>	<u>Over five years</u>	<u>Total</u>
<u>US Dollars in thousands</u>							
Lease liabilities	679	594	527	395	540	819	3,554
Trade payables	1,019	-	-	-	-	-	1,019
Liabilities for government grants	-	-	-	-	-	-	
Contingent consideration	-	4,030	-	-	-	-	4,030
Deferred consideration	-	9,562	-	-	-	-	9,562
Other accounts payable	5,853	-	-	-	-	-	5,853
	<u>7,551</u>	<u>14,186</u>	<u>527</u>	<u>395</u>	<u>540</u>	<u>819</u>	<u>24,018</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: - FINANCIAL INSTRUMENTS (Cont.)h. Capital management in the Company:

The Company's capital management objectives are to preserve the Company's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.

i. Hedging activities and derivatives:

The Company has entered into foreign exchange forward contracts with the intention to manage some of its transactional exposure to fluctuations in exchange rates. These forward foreign exchange contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 12 months. Hedging transactions are classified in other accounts payable.

NOTE 19: - TAXES ON INCOME

- a. The Company and its subsidiaries are assessed for taxes separately in accordance with local tax laws in the state of incorporation of each entity.

b. Tax laws applicable to the Company

The Law for the Encouragement of Industry (Taxation), 1969:

The Company has the status of an "industrial company", as defined by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law. The Company is also entitled to amortize a patent or rights to use a patent or intellectual property that are used in the enterprise's development or advancement, to deduct issuance expenses for shares listed for trading, and to file a consolidated income tax report under certain conditions.

c. Tax rates applicable to the Company:

The Israeli corporate income tax rate is 23%.

A company is taxable on its real capital gains at the corporate income tax rate in the year of sale.

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law") was enacted. The Law includes, among others, provisions for the taxation of revaluation gains effective from August 1, 2013. The provisions regarding revaluation gains will become effective only after the publication of regulations defining what should be considered as "retained earnings not subject to corporate tax" and regulations that set forth provisions for avoiding double taxation of foreign assets. As of the date of approval of these financial statements, these regulations have not been published.

d. Tax rates applicable to the group companies:

The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19: - TAXES ON INCOME (Cont.)

A company incorporated in the U.S. - weighted tax rate of about 25% (Federal tax, State tax and City tax of the city where the company operates).

Companies incorporated in England - tax rate of 19%.

e. Carryforward losses for tax purposes

Carryforward operating tax losses total approximately \$ 45,786 thousand as of December 31, 2021.

f. Final tax assessments

The Company's assessments in Israel, the US and UK until and including 2015, 2016 and 2019, respectively are deemed final.

g. Deferred tax liabilities

	<u>Year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S dollars in thousands</u>	
Deferred tax liabilities the settlement of which is expected after more than 12 months from the statement of financial position date	1,681	1,976
Deferred tax liabilities the settlement of which is expected in 12 months from the statement of financial position date	<u>274</u>	<u>562</u>
	<u>1,955</u>	<u>2,538</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20: - REVENUES

1. Types of revenues:

	<u>Year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S dollars in thousands</u>	
On Premise licenses and related services	13,709	10,842
Cloud licenses	20,695	9,263
Services and others	<u>2,586</u>	<u>2,017</u>
	<u>36,990</u>	<u>22,122</u>

2. Geographic regions

	<u>Year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S dollars in thousands</u>	
America and Canada	28,259	18,630
Europe	7,831	2,804
Rest of the world	<u>900</u>	<u>688</u>
	<u>36,990</u>	<u>22,122</u>

The Company has two major customers. Customer A constitutes approximately 12% and 18% of the Company's revenues as of December 31, 2021 and 2020, respectively. Customer B constitutes 8% and 14% of the Company's revenues as of December 31, 2021 and 2020, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21: - COST OF SALES

	<u>Year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S dollars in thousands</u>	
Salaries and related expenses	5,093	3,419
Cost of share based payment	130	91
Depreciation and amortizations	99	91
Servers and cloud services	6,710	2,751
Other expenses	433	438
	<u>12,465</u>	<u>6,790</u>

NOTE 22: - RESEARCH AND DEVELOPMENT EXPENSES

	<u>Year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S dollars in thousands</u>	
Salaries and related expenses	13,147	7,457
Cost of share based payment	2,581	317
Depreciation and amortizations	857	444
Rent and maintenance	232	167
Servers and cloud services	602	381
Communications	205	175
Other expenses	771	372
	<u>18,395</u>	<u>9,313</u>

NOTE 23: -SALES AND MARKETING EXPENSES

	<u>Year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S dollars in thousands</u>	
Salaries and related expenses	15,364	10,881
Cost of share based payment	3,625	367
Commercials and advertising	2,288	2,263
Professional services	591	76
Servers and cloud services	650	219
Depreciation and amortizations	1,432	454
Rent and maintenance	98	192
Communications	670	171
Travel	110	162
Other expenses	632	539
	<u>25,460</u>	<u>15,324</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24: -GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2021	2020
	U.S dollars in thousands	
Salaries and related expenses	4,139	2,578
Cost of share based payment	2,271	310
Professional services	2,361	553
Depreciation and amortizations	130	103
Rent and maintenance	58	56
Communications	372	226
Travel	62	20
Other expenses	407	1,340*
	<u>9,800</u>	<u>5,186</u>

NOTE 25: -FINANCE EXPENSE (INCOME), NET

a. Finance expenses

	Year ended December 31,	
	2021	2020
	U.S dollars in thousands	
Interest in respect of leases	74	83
Exchange rate differences in respect of leases	86	222
Exchange rate differences	341	-
Advancement of interest on contingent liability	685	-
Expenses of hedging transactions	64	-
Bank fees and other finance expenses	64	3
	<u>1,314</u>	<u>308</u>

b. Finance income

	Year ended December 31,	
	2021	2020
	U.S dollars in thousands	
Exchange rate differences	-	273
Income from hedging transactions	-	176
Other interest income	196	400
	<u>196</u>	<u>849</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26: - LOSS PER SHARE

Details of number of shares used in calculating loss per share

	<u>2021</u>		<u>2020</u>	
	<u>Weighted number of shares In thousands</u>	<u>Net income attributable to equity holders of the Company US dollars in thousands</u>	<u>Weighted number of shares In thousands</u>	<u>Net income attributable to equity holders of the Company US dollars in thousands</u>
Amount of shares and loss	<u>7,513</u>	<u>33,034</u>	<u>1,997</u>	<u>13,935</u>

In calculating diluted loss per share for the reported years, the effect of convertible loan and shares arising from options issued to employees and service providers was not included because their effect, under the assumption of full dilution, is anti-diluting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27: - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

"Interested party" - as defined in the Securities Regulations (Annual Financial Statements), -2010.

"Related Party" - as defined in IAS 24.

The key management personnel of the company Key Management Personal who are included, together with other parties, in the definition of "related parties" referred to in IAS 24 (include the members of the board of directors and the members of senior management who report to the CEO).

1. Compensation to interested partiesa. Balances with related parties

	<u>December 31,</u>		<u>January 1,</u>
	<u>2021</u>	<u>2020</u>	<u>2020</u>
	<u>U.S. Dollars in thousands</u>		
Short term employee benefit	466	408	343
	<u>466</u>	<u>408</u>	<u>343</u>

b. Transactions with related parties

	<u>Year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S dollars in thousands</u>	
Salaries and related expenses to interested parties employed by the Group	1,323	747
Share based payment to interested parties of the Group	<u>2,361</u>	<u>174</u>
Total employment costs of interested parties employed by the Group	<u>3,684</u>	<u>921</u>
Number of persons to which the benefit relates	2	2

2. Compensation to key management personal (KEY MANAGEMENT PERSONAL)

The compensation to key management personnel for services they provide for the Group is as follows:

	<u>Year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>U.S dollars in thousands</u>	
Salaries and other benefits	4,601	3,190
Share based payment	<u>6,259</u>	<u>469</u>
Total employment costs	<u>10,860</u>	<u>3,659</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28: - PROFORMA

The following is a summary of the proforma statements of profit or loss and comprehensive income, which were prepared to reflect the results of operations of the Company and its subsidiaries, under the assumption that the acquisition transaction of the acquired company (see Note 5) was already made on January 1, 2019 (pro forma commencement date).

The proforma statements of profit or loss and other comprehensive income have been prepared in accordance with the rules and assumptions set forth below and include the following adjustments:

- 1) The proforma statements of profit or loss and comprehensive income are based on a combination of the Company's financial statements with the companies' financial statements for periods prior to the actual acquisition date.
- 2) The depreciation and amortization data of assets in the statements have been adjusted and recalculated to take into account the amortization of intangible assets identified in the transaction, and the excess cost attributable to existing assets, based on the estimated life determined in the acquisition assuming that these, with the necessary adjustments, were recognized in the pro forma commencement date.
- 3) Income tax expenses included in the pro forma profit or loss statement, for periods prior to the actual acquisition date, have been recalculated based on the pro forma data, and taking into account the adjustments made to them.
- 4) Transaction expenses in the company, which were recorded in 2020 in the amount of \$ 1.1 million, were readjusted, assuming that the required adjustments were recognized at the beginning of the pro forma.
- 5) The Group's financing expenses were adjusted to retroactively account for financing expenses in respect of deferred consideration and contingent consideration in accordance with the purchase agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28: - PROFORMA (Cont.)

Proforma data:

	Year ended December 31,		
	2020		
	Actual data	Proforma adjustments	Proforma Data
	US dollar in thousands		
Revenues	22,122	8,755	30,877
Cost of revenues	<u>6,790</u>	<u>3,688</u>	<u>10,478</u>
Gross profit	15,332	5,067	20,399
Research and development	9,313	1,558	10,871
Sales and marketing	15,324	3,819	19,143
General and administrative	<u>5,186</u>	<u>(623)</u>	<u>4,563</u>
Operating loss (income)	<u>14,491</u>	<u>(313)</u>	<u>14,178</u>
Finance expense	308	622	930
Finance income	<u>849</u>	<u>-</u>	<u>849</u>
Loss before taxes on income	13,950	309	14,259
Taxes on income	<u>(15)</u>	<u>(33)</u>	<u>(48)</u>
Loss (income)	13,935	276	14,211
Other comprehensive income (loss):			
Amounts that will be reclassified or reclassified to profit or loss subject to specific conditions:			
Translation adjustments of foreign operations	<u>828</u>	<u>(493)</u>	<u>335</u>
Total other comprehensive loss (income)	<u>828</u>	<u>(493)</u>	<u>335</u>
Total comprehensive loss for the year	<u>13,107</u>	<u>769</u>	<u>13,876</u>
Basic and diluted loss per share	<u>6.56</u>	<u>0.39</u>	<u>6.95</u>

NOTE 29: - SUBSEQUENT EVENTS

- a. See Note 17b regarding a lawsuit received after the balance sheet date.