

SAFE-T GROUP LTD.
INTERIM FINANCIAL INFORMATION
(Unaudited)
JUNE 30, 2017

SAFE-T GROUP LTD.

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(Unaudited)

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Auditor's review report to shareholders of Safe-T Group Ltd.

Introduction

We have reviewed the attached financial information of Safe-T Group Ltd. and its subsidiaries (hereafter - "the Company"), which includes the condensed consolidated statement of financial position as of June 30, 2017, and the condensed consolidated statements of profit or loss, changes in equity and cash flows for the six and three-month periods ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, 'Interim Financial Reporting', and they are also responsible for the preparation of the financial information for this interim period in accordance Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

Scope of review

Our review was conducted in accordance with the provisions of Review Standard No. 1 of the Institute of Certified Public Accountants in Israel, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity.' A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements were not prepared in all material respects in accordance with IAS 34.

In addition to what was stated in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the above financial information does not comply, in all material respects, with the disclosure provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Without qualifying our opinion, we draw attention to the following:

1. Note 1c to the condensed consolidated financial statements regarding the Company's financial position, whereby the comparative figures presented in these financial statements are based on the financial data of the accounting acquirer in order to reflect the accounting treatment applied to reverse acquisition.
2. Note 1d to the condensed consolidated financial statements regarding the Company's financial position. The Company has accrued losses and most of its activities are funded by its shareholders. Therefore, the continuation of the Company's activities is conditional upon its obtaining additional funding until it achieves profitability. This raises significant doubts as to the Company's ability to continue as a "going concern". The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and the amounts and classification of liabilities that might be necessary should the Company be unable to continue in its present form.

Tel-Aviv, Israel
August 29, 2017

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

SAFE-T GROUP LTD.
CONDESED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	June 30		December 31
	2017	2016	2016
	(Unaudited)		(Audited)
U.S. dollars in thousands			
CURRENT ASSETS:			
Cash and cash equivalents	6,913	1,751	1,311
Restricted deposit	49	44	44
Accounts receivable:			
Trade	56	165	144
Other	150	164	107
	<u>7,168</u>	<u>2,124</u>	<u>1,606</u>
NON-CURRENT ASSETS:			
Property, plant and equipment, net	91	52	70
Restricted deposit	14	13	13
Goodwill	523	523	523
Intangible assets, net	891	1,141	1,015
	<u>1,519</u>	<u>1,729</u>	<u>1,621</u>
TOTAL ASSETS	<u>8,687</u>	<u>3,853</u>	<u>3,227</u>
CURRENT LIABILITIES:			
Short-term loan from related party	69	62	63
Accounts payable and accruals:			
Trade	27	55	44
Other	632	409	641
Deferred income	309	217	151
Chief Scientist liability	105	129	-
	<u>1,142</u>	<u>872</u>	<u>954</u>
NON-CURRENT LIABILITIES:			
Derivatives financial instruments – warrants	2,334	13	889
Deferred income	82	-	55
Liability in respect of anti-dilution mechanisms	167	-	94
Chief Scientist liability	-	-	63
	<u>2,583</u>	<u>13</u>	<u>1,101</u>
COMMITMENTS AND CONTINGENT LIABILITIES:			
EQUITY:			
Share premium	27,981	20,915	22,220
Receivables on account of shares	*	(*)	*
Other equity reserves	12,331	11,212	11,624
Accumulated deficit	<u>(35,350)</u>	<u>(29,159)</u>	<u>(32,672)</u>
Total equity	<u>4,962</u>	<u>2,968</u>	<u>1,172</u>
Total equity and liabilities	<u>8,687</u>	<u>3,853</u>	<u>3,227</u>

* Represents an amount of less than \$1 thousand.

Amir Mizhar
Chairman of the Board of
Directors

Shahar Daniel
CEO

Shai Avnit
CFO

Date of approval of financial statements by Company's Board of Directors: August 29, 2017.

The accompanying notes are an integral part of these condensed financial statements.

SAFE-T GROUP LTD.
CONDESED STATEMENT OF PROFIT OR LOSS

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
REVENUES	400	401	205	297	843
COST OF REVENUES	283	240	144	123	512
GROSS PROFIT	117	161	61	174	331
OPERATING EXPENSES:					
RESEARCH AND DEVELOPMENT EXPENSES, NET	647	448	342	233	1,085
SELLING AND MARKETING EXPENSES	1,492	1,374	834	678	2,892
GENERAL AND ADMINISTRATIVE EXPENSES	1,074	1,118	599	401	2,123
LISTING FOR TRADE EXPENSES	-	1,579	-	1,579	1,579
TOTAL OPERATING EXPENSES	3,213	4,519	1,775	2,891	7,679
OPERATING LOSS	(3,096)	(4,358)	(1,714)	(2,717)	(7,348)
FINANCE EXPENSES	(703)	(1,283)	(362)	(1,184)	(1,854)
FINANCE INCOME	1,121	232	998	30	282
FINANCE INCOME (EXPENSES), net	418	(1,051)	636	(1,154)	(1,572)
LOSS BEFORE TAXES ON INCOME	(2,678)	(5,409)	(1,078)	(3,871)	(8,920)
TAXES ON INCOME	-	-	-	-	2
LOSS FOR THE PERIOD	(2,678)	(5,409)	(1,078)	(3,871)	(8,922)
BASIC LOSS PER SHARE (IN DOLLARS)	(0.16)	(0.6)	(0.06)	(0.41)	(0.77)
DILUTED LOSS PER SHARE (IN DOLLARS)	(0.19)	(0.6)	(0.09)	(0.41)	(0.77)

The accompanying notes are an integral part of these condensed financial statements.

SAFE-T GROUP LTD.

CONDESED STATEMENT OF CHANGES IN EQUITY

	<u>Ordinary shares</u>	<u>Cost of treasury shares</u>	<u>Share premium</u>	<u>Receivables on account of shares</u>	<u>Accumulated deficit</u>	<u>Other equity reserves</u>	<u>Total</u>
	U.S. dollars in thousands						
BALANCE AT DECEMBER 31, 2016 (audited)	-	-	22,220	*	(32,672)	11,624	1,172
CHANGES IN THE SIX MONTHS ENDED							
JUNE 30, 2017 (unaudited)							
Exercise of warrants	-	-	2,286	-	-	-	2,286
Exercise of options	-	-	42	-	-	(29)	13
Share-based payment	-	-	(133)	-	-	753	620
Private allocation, net of issuance expenses of \$422 thousand	-	-	3,549	-	-	-	3,549
Expiry of options	-	-	17	-	-	(17)	-
Loss for the period	-	-	-	-	(2,678)	-	(2,678)
BALANCE AT JUNE 30, 2017 (unaudited)	<u>-</u>	<u>-</u>	<u>27,981</u>	<u>*</u>	<u>(35,350)</u>	<u>12,331</u>	<u>4,962</u>
BALANCE AT DECEMBER 31, 2015 (audited)	6	*	14,889	(*)	(23,750)	10,138	1,283
CHANGES IN THE SIX MONTHS ENDED							
JUNE 30, 2016 (unaudited)							
Share-based payment	-	-	-	-	-	1,174	1,174
Expiry of options	-	-	100	-	-	(100)	-
Cancellation of treasury shares	*	(*)	-	-	-	-	-
Reverse acquisition	(6)	-	1,868	-	-	-	1,862
Proceeds from issuance of shares net of issuance expenses of \$ 101 thousand	-	-	4,058	-	-	-	4,058
Loss for the period	-	-	-	-	(5,409)	-	(5,409)
BALANCE AT JUNE 30, 2016 (unaudited)**	<u>-</u>	<u>-</u>	<u>20,915</u>	<u>(*)</u>	<u>(29,159)</u>	<u>11,212</u>	<u>2,968</u>
BALANCE AT APRIL 1, 2017 (unaudited)	-	-	22,706	*	(34,272)	11,837	271
CHANGES IN THE THREE MONTHS ENDED							
JUNE 30, 2017 (unaudited)							
Exercise of warrants	-	-	1,817	-	-	-	1,817
Exercise of options	-	-	42	-	-	(29)	13
Share-based payment	-	-	(133)	-	-	523	390
Private allocation, net of issuance expenses of \$422 thousand	-	-	3,549	-	-	-	3,549
Loss for the period	-	-	-	-	(1,078)	-	(1,078)
BALANCE AT JUNE 30, 2017 (unaudited)	<u>-</u>	<u>-</u>	<u>27,981</u>	<u>*</u>	<u>(35,350)</u>	<u>12,331</u>	<u>4,962</u>

* Represents an amount of less than \$1 thousand.

SAFE-T GROUP LTD.

CONDESED STATEMENT OF CHANGES IN EQUITY

	<u>Ordinary shares</u>	<u>Cost of treasury shares</u>	<u>Share premium</u>	<u>Receivables on account of shares</u>	<u>Accumulated deficit</u>	<u>Other equity reserves</u>	<u>Total</u>
	U.S. dollars in thousands						
BALANCE AT APRIL 1, 2016 (unaudited)	6	*	14,889	*	(25,288)	10,966	573
CHANGES IN THE THREE MONTHS ENDED JUNE 30, 2016 (unaudited)							
Share-based payment	-	-	-	-	-	346	346
Expiry of options	-	-	100	-	-	(100)	-
Reverse acquisition	(6)	-	1,868	-	-	-	1,862
Proceeds from issuance of shares net of issuance expenses of \$ 101 thousand	-	-	4,058	-	-	-	4,058
Loss for the period	-	-	-	-	(3,871)	-	(3,871)
BALANCE AT JUNE 30, 2016 (unaudited)	<u>-</u>	<u>-</u>	<u>20,915</u>	<u>(*)</u>	<u>(29,159)</u>	<u>11,212</u>	<u>2,968</u>
 BALANCE AT DECEMBER 31, 2015 (audited)	6	*	14,889	*	(23,750)	10,138	1,283
CHANGES IN THE YEAR 2016 (audited):							
Reverse acquisition	(6)	-	1,868	-	-	-	1,862
Proceeds from issuance of shares net of issuance expenses of \$ 101 thousand	-	-	4,058	-	-	-	4,058
Share-based payment	-	-	-	-	-	1,818	1,818
Private allocation net of issuance expenses	-	-	1,071	-	-	-	1,071
Exercise and expiry of options	-	-	334	-	-	(332)	2
Cancellation of treasury shares	-	(*)	-	-	-	-	(*)
Loss for the period	-	-	-	-	(8,922)	-	(8,922)
BALANCE AT DECEMBER 31, 2016 (audited)	<u>-</u>	<u>-</u>	<u>22,220</u>	<u>*</u>	<u>(32,672)</u>	<u>11,624</u>	<u>1,172</u>

* Represents an amount of less than \$1 thousand.

The accompanying notes are an integral part of these condensed financial statements.

SAFE-T GROUP LTD.

CONDESED STATEMENT OF CASH FLOWS

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
U.S dollars in thousands					
CASH FLOWS FROM OPERATING ACTIVITIES:					
Loss for the period	(2,678)	(5,409)	(1,078)	(3,871)	(8,922)
Adjustments required to reflect the cash flows from operating activities:					
Exchange differences on cash and cash equivalents balances	(241)	(33)	(172)	(33)	(25)
Change in financial liabilities at fair value through profit or loss	(407)	(1)	(703)	(1)	513
Issuance expenses	242	-	242	-	
Loss (gain) from cancellation of options to group of investors	-	(193)	-	-	(193)
Finance expenses in respect of financial liability to group of investors	-	193	-	97	193
Recognition of initial deferred loss	-	1,056	-	1,056	1,056
Amortization of intangible assets	124	124	62	63	251
Depreciation	11	18	5	9	29
Capital gain	(5)	-	(5)	-	
Listing expenses	-	1,545	-	1,545	
Share-based payment	620	1,174	390	346	1,818
	<u>344</u>	<u>3,883</u>	<u>(181)</u>	<u>3,082</u>	<u>5,187</u>
Changes in operating asset and liability items:					
Decrease (increase) in trade receivables	88	447	(12)	(100)	468
Increase in other receivables	(43)	(141)	(33)	(125)	(83)
Increase (decrease) in trade payables	(17)	(35)	(17)	34	(46)
Increase (decrease) in other payables	(9)	(255)	(169)	(141)	(22)
Increase (decrease) in deferred income	185	112	18	(11)	101
	<u>204</u>	<u>128</u>	<u>(213)</u>	<u>(343)</u>	<u>418</u>
Net cash used in operating activities	<u>(2,130)</u>	<u>(1,398)</u>	<u>(1,472)</u>	<u>(1,132)</u>	<u>(3,317)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of property, plant and equipment	15	-	15	-	-
Restricted deposits	-	(13)	-	(12)	(13)
Acquisition of property, plant and equipment	(42)	(9)	(41)	(4)	(39)
Net cash used in investing activities	<u>(27)</u>	<u>(22)</u>	<u>(26)</u>	<u>(16)</u>	<u>(52)</u>

The accompanying notes are an integral part of these condensed financial statements.

SAFE-T GROUP LTD.

CONDENSED STATEMENT OF CASH FLOWS

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
U.S dollars in thousands					
CASH FLOWS FROM FINANCING ACTIVITIES:					
Cash and cash equivalents from reverse acquisition	-	317	-	317	317
Proceeds from issuance of shares and warrants, net of issuance expenses paid in cash	-	4,072	-	4,072	4,072
Repayment of grants to Chief Scientist	(13)	(5)	(13)	(18)	(17)
Repayment of financial liability at fair value through profit or loss	-	(1,056)	-	(1,056)	(1,056)
Proceeds from private allocation, net of issuance expenses paid in cash	5,580	-	4,967	-	
Proceeds in respect of exercise of options and warrants	1,951	-	1,593	-	
Repayment of financial liabilities at amortized cost	-	(1,122)	-	(1,122)	
Receipt of financial liabilities and options to group of investors	-	870	-	370	870
Net cash provided by financing activities	7,518	3,076	6,547	2,563	4,593
INCREASE IN CASH AND CASH EQUIVALENTS	5,361	1,656	5,049	1,415	1,224
EXCHANGE RATE DIFFERENCES IN RESPECT OF CASH AND CASH EQUIVALENTS	241	33	172	33	25
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,311	62	1,692	303	62
CASH AND CASH EQUIVALENTS AT END OF PERIOD:	6,913	1,751	6,913	1,751	1,311
SUPPLEMENTARY DATA ON ACTIVITIES NOT INVOLVING CASH FLOWS:					
Exercise and expiry of warrants	348	-	237	-	-
Issuance of warrants to advisors	(133)	-	(133)	-	-

The accompanying notes are an integral part of these condensed financial statements.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL:

- a. Safe-T-Data Group Ltd. (hereafter - the “Company”) is a holding company, which is engaged, as of that date, through the subsidiary Safe-T Data (hereafter – “Safe-T”) and its subsidiaries (RSAccess Ltd. and Safe-T USA Inc.) (hereafter – “RSAccess”, “Safe-T Inc.” and together with the Company – the “Group”) in the development and marketing of solutions for secure and safe data transfer that allow organizations to benefit from improved productivity and effectivity, enhanced security and higher level of compliance with regulatory requirements relating to information security.
- b. A merger transaction between the Company and Safe-T was completed on June 15, 2016, such that the Company holds all the share capital and voting rights of Safe-T and Safe-T’s shareholders gained control in the Company. The Company is essentially a holding company, which operates, as of that date, through Safe-T, a fully owned subsidiary of the Company and its subsidiaries.
- c. The consolidated financial statements include the Company and Safe-T’s financial statements. Although legally the Company is the entity, which acquired the shares, since Safe-T’s shareholders gained control over the Company, Safe-T is the accounting acquirer and therefore the transaction was accounted for using the reverse acquisition method.

The comparative figures presented in those financial statements were restated in order to reflect the Group’s financial position and results of operations using the reverse acquisition method. In the calculation of the loss per share, the Company used the weighted average number of Safe-T shares until the date of the merger transaction, multiplied by the exchange ratio determined for the transaction. The number of shares used in the calculation as from the transaction date is the weighted average number of Company’s shares.

- d. The Company has accrued losses and most of its activities are funded by its shareholders. Therefore, the continuation of the Company’s activities is conditional upon its obtaining additional funding until it achieves profitability. The Company monitors its cash flow projections on a current basis and takes active measures to obtain the funding it requires to continue its operations. These cash flow projections are subject to various risks and uncertainties concerning their fulfilment. The above factors and the risk inherent in the Company’s operations raise significant doubts as to the Company’s ability to continue as a “going concern”. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and the amounts and classification of liabilities that might be necessary should the Company be unable to continue in its present form.

e. Non-inclusion of separate financial information

In accordance with Regulation 4 to the Periodic and Immediate Reports regulations, the Company has not attached separate financial information to its consolidated financial statements in accordance with Regulation 9C and Regulation 38D to the Securities Regulations (Periodic and Immediate Reports) - 1970.

The Company did not include separate financial information due to the negligible effect that the separate financial statements have on the consolidated financial statements. The parameters used by the Company in order to determine the said effect are: assets, revenues, loss and cash flow from operating activities.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 – GENERAL (continued):

f. Definitions:

In these financial statements:

The Company	- Safe-T Group Ltd.
The Group	- Safe-T Group and its subsidiaries
Interested parties and controlling shareholders	- as defined in the Securities Regulations (Annual Financial Statements), 2010.
Related parties	- As defined in International Accounting Standard No. 24 – “Related Party Disclosures” (hereafter – “IAS 24”)

NOTE 2 - BASIS OF PREPARATION OF CONDENSED FINANCIAL STATEMENTS:

- a. The interim condensed consolidated financial information of the Group as of June 30, 2017 and for the six and three-month periods ended on that date (hereafter - "the interim financial information") was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34") and includes the additional disclosure required in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

The interim financial information does not include all the information and disclosures required in annual financial statements. The interim financial information should be read in conjunction with the 2016 annual financial statements and the notes thereto, which are in accordance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereafter – IFRS) and include the additional disclosure required in accordance with the Securities Regulations (Annual Financial Statements) – 2010.

- b. Estimates

The preparation of interim financial statements requires the Group’s management to exercise its judgment and to use significant accounting estimates and assumptions that affect the application of the Group's accounting policy and the amounts of reported assets, liabilities, income and expenses. Actual results may materially differ from those estimates.

In preparation of these condensed consolidated interim financial statements, the significant judgments that were exercised by the management in applying the Group's accounting policy and the key sources of estimation uncertainty were similar to those applied in the Group’s annual financial statements for the year ended December 31, 2016.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:

- a. The accounting policies and computation methods used in preparation of the interim financial information are consistent with those used in preparation of the 2016 annual financial statements of the Group.
- b. Note 2 to the Group's 2016 annual financial statements discloses information regarding the Group's assessment of the expected effect of IFRS 15 "Revenue from Contracts with Customers" (hereafter – "IFRS 15") on the Group's financial statements.
- c. The Group has set up a team to assess the expected effect of the application of IFRS 15 on its financial statements. The Group intends to apply IFRS 15 commencing in the third quarter of 2017, in accordance with the transitional provision allowing the recognition of the cumulative effect of initially applying the standard in the opening balance of retained earnings as of January 1, 2017.

The Group elected to apply the following practical expedients in connection with the application of IFRS 15:

1. For contracts that were modified before the beginning of the earliest period presented, the Group will not retrospectively restate the contract for those contract modifications.
2. Where the asset that would be recognized as a result of capitalizing the cost of obtaining a contract would be amortized over one year or less, the Group shall expense those costs when incurred.
3. For contracts in which, at inception, the period between the performance of the obligations (transfer of goods or service to the customer) and the associated payment is expected to be one year or less, the Group does not account for the effect of a significant financing component.

Upon completion of this assessment, the Group reached the conclusion that the initial application of IFRS 15 is not expected to have a material effect on its financial statements. Accordingly, the application of the practical expedients is not expected to have a material effect on the Group's financial statements.

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

a. Fair value disclosure

As of June 30, 2017, the Company has financial liabilities, which are based on observable data (level 1) in respect of derivative financial instruments – warrants totaling \$ 813 thousands.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued):

b. Fair value measurements based on unobservable data (level 3)

The Company received a valuation of the fair value of the options and anti-dilution mechanisms that were issued to the private investors and to advisors in connection with capital raising rounds that have taken place over the course of the reported period (see note 7). The valuation was carried out by external independent valuers, who specialize in valuation of financial instruments of this type and who have the experience and knowledge required to carry out such valuations. The said valuation is attached to this report by way of reference.

The following table presents Group's financial liabilities, which are measured at fair value for the six-month period ended June 30, 2017 (unaudited):

	Anti-dilution mechanisms	Warrants
	U.S dollars in thousands	
Balance as of January 1, 2016	94	-
Inception	315	1,958
Finance income, net	(242)	(437)
Balance as of June 30, 2017	<u>167</u>	<u>1,521</u>
Total unrealized gains for the period included in profit or loss for liabilities held at the end of the reporting period	<u>242</u>	<u>437</u>

The following table presents Group's financial liabilities which are measured at fair value for the six-month period ended June 30, 2016 (unaudited):

	Warrants	Options to group of investors	Bridging loan	Financing of issuance expenses	Total
	U.S dollars in thousands				
Balance as of January 1, 2016:	-	-	*	*	*
Inception	14	1,398	-	-	1,412
Finance expenses (income), net	(1)	-	**800	**256	1,055
Cancelation	-	(1,398)	(800)	(256)	(2,454)
Balance as of June 30, 2016	<u>13</u>	<u>-</u>	<u>*</u>	<u>*</u>	<u>13</u>
Total unrealized gains (losses) for the period included in profit or loss for liabilities held at the end of the reporting period	<u>1</u>	<u>-</u>	<u>(800)</u>	<u>(256)</u>	<u>(1,055)</u>

* Represents an amount of less than \$ 1 thousand.

** Recognition of deferred initial loss at an amount equal to the cash amount paid by the Company at the time of completion the merger transaction. For further details see note 15 to the Group's 2016 annual financial statements.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued):

The following table presents Group's financial liabilities, which are measured at fair value for the three-month period ended June 30, 2017 (unaudited):

	Anti-dilution mechanisms	Warrants
	U.S dollars in thousands	
Balance as of April 1, 2017	3	-
Inception	315	1,958
Finance income, net	(151)	(437)
Balance as of June 30, 2017	<u>167</u>	<u>1,521</u>
Total unrealized gains for the period included in profit or loss for liabilities held at the end of the reporting period	<u>151</u>	<u>437</u>

The following table presents Group's financial liabilities which are measured at fair value for the three-month period ended June 30, 2016 (unaudited):

	Warrants	Bridging loan	Financing of issuance expenses	Total
	U.S dollars in thousands			
Balance as of April 1, 2016	-	*	*	*
Inception	14	-	-	14
Finance expenses (income), net	(1)	**800	**256	1,055
Settlement/cancelation	-	(800)	(256)	(1,056)
Balance as of June 30, 2016	<u>13</u>	<u>-</u>	<u>-</u>	<u>13</u>
Total unrealized gains (losses) for the period included in profit or loss for liabilities held at the end of the reporting period	<u>1</u>	<u>(800)</u>	<u>(256)</u>	<u>(1,055)</u>

The following table presents Group's financial liabilities which are measured at fair value as of December 31, 2016 (audited):

	Anti- dilution mechanism	Options to group of investors	Bridging loan	Financing of issuance expenses	Total
	U.S. dollar in thousands				
Balance as of January 1, 2016:	-	-	*	*	*
Inception	106	1,398	-	-	1,504
Finance expenses (income), net	(12)	-	**800	**256	1,044
Settlement/cancelation	-	(1,398)	(800)	(256)	(2,454)
Balance as of December 31, 2016	<u>94</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94</u>
Total unrealized gains for the period included in profit or loss for liabilities held at the end of the reporting period	<u>12</u>	<u>-</u>	<u>(800)</u>	<u>(256)</u>	<u>(1,044)</u>

* Represents an amount of less than \$ 1 thousand.

** Recognition of deferred initial loss at an amount equal to the cash amount paid by the Company at the time of completion the merger transaction. For further details see note 15 to the Group's 2016 annual financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued):

c. Valuation processes used by the Group

The valuations required for financial reporting of level 3 items are carried out by external valuers together with the Group's finance department. The CFO and the valuation team discuss the valuation processes and their results in accordance with the Group's reporting dates.

The Company's valuations processes in the six-month period ended June 30, 2017 included a valuation of the anti-dilution mechanism, a valuation of non-tradable warrants and a valuation of options granted to employees and advisors; (for details see note 6).

d. Fair value of financial assets and financial liabilities measured at amortized cost

Assets and liabilities, which are not measured on a recurrent basis at fair value, are presented at their carrying amount, which approximates their fair value,

NOTE 5 – TRANSACTIONS WITH RELATED PARTIES

- a. On February 4, 2015, the Company's controlling shareholder and Chairman of the Board of Directors transferred to RSAccess an amount of approximately \$69 thousands (242 thousand ILS), which was to be used to partly repay its debt to Safe-T. The funds were transferred as a loan, which does not bear interest, with the aim that RSAccess will repay the loan as soon as possible out of revenue proceeds or out of investment proceeds it will receive from Safe-T. As of June 30, 2017, the debt has not yet been repaid. The balance of the loan will be transferred from RSAccess to Safe-T if the merger between the two will be approved (see note 7e).
- b. On June 20, 2016, the Company repaid all of Safe-T's loans amounting to \$ 2,178 thousands. On July 25, 2016, the Company and Safe-T signed a credit facility agreement, where under the Company will provide a credit facility of up to approximately 16.5 million ILS (approximately \$4.3 million) for the purpose of withdrawing the abovementioned loans and further loans to be used in Safe-T's operating activities. The loans bear interest in accordance with the rate set in the Income Tax Regulations and they are repayable in one installment or several installments within three years from the date of receipt of each such loan. The amount of Safe-T's loans repaid by the Company as described above was included in the maximal credit facility amount provided by the Company to Safe-T.

On November 28, 2016, the parties signed a further credit facility agreement under similar terms. The maximal amount of this credit facility is 6 million ILS (approximately \$ 1.6 million).

On March 29, 2017, the parties signed a further credit facility agreement under similar terms. The maximal amount of this credit facility is 10 million ILS (approximately \$ 2.7 million)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – TRANSACTIONS WITH RELATED PARTIES (continued):

In the period from June 22, 2016 through June 30, 2017, Safe-T has withdrawn further amounts totaling approximately \$ 4,827 thousands on account of the said credit facility, such that the total amount of the loans extended by the Company to Safe-T is approximately \$7,568 thousands as of June 30, 2017 (including exchange differences) (and the total amount of interest is \$ 247 thousands).

The balance of current intercompany debt as of June 30, 2017 is \$ 61 thousands.

- c. As part of the ongoing running of its business, the Company receives management services from the controlling shareholder and the Chairman of the Board of Directors in consideration for a monthly payment of \$ 15 thousands. In the six and three-month periods ended June 30, 2017, total payroll costs amounted to approximately \$ 91 thousand and \$ 46 thousand, respectively. As of June 30, 2017, this balance reflected a \$ 11 thousand balance payable to the controlling shareholder.
- d. The Company employs related parties of its shareholders. In the six and three-month periods ended June 30, 2017, the total payroll costs amounted to approximately \$ 95 thousand and \$ 46 thousand, respectively. As of June 30, 2017, the payable balance amounted to approximately \$6 thousand.

NOTE 6 – SHARE BASED PAYMENT

- a. On March 29, 2017, the Company's Board of Directors approved the award of 647,896 options to employees and advisors at an exercise price of 6.371 ILS per share. The options will be exercisable at the end of the vesting periods in accordance with the terms of the award agreements.

The fair value of the options at date of grant, which was computed according to the binomial model, amounted to \$655 thousand. This value is based on the following assumptions: expected volatility of 47.4%, risk free interest of 2.31%, expected term until exercise of 10 years and an early exercise multiple of 2.5 for each offeree. Volatility is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

- b. On April 24, 2017, the Company's Board of Directors approved the award of 100,000 options to the Company's CEO at an exercise price of 6.588 ILS per share. The options shall be exercisable at the end of the vesting periods in accordance with the terms set out in the award agreement. The award of the options is subject to approval of the general meeting of the Company's shareholders. For further details, see note 10, 'subsequent events'.

The fair value of the options at date of grant, which was computed according to the binomial model, amounted to \$95 thousand. This value is based on the following assumptions: expected volatility of 47.4%, risk free interest of 2.39%, expected term until exercise of 10 years and an early exercise multiple of 2.5. Volatility is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

- c. As to the award of warrants to advisors, see note 7b.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 – EQUITY**a. Composition of share capital**

	Number of shares			
	Authorized	Issued and paid	Authorized	Issued and paid
	June 30, 2017		December 31, 2016	
Ordinary shares of no par value	1,000,000,000	20,072,021	1,000,000,000	15,162,033

b. Approval of private allocation

On March 27, 2017, the Company's Board of Directors approved a private share allocation agreement. Under the agreement, the Company shall allocate 963,834 packages comprising 1 share and 1 warrant in consideration for 6.00 ILS per package, such that the total consideration to be received by the Company will amount to approximately 11.8 million ILS. (approximately \$3.24 million). In April 2017, the Stock Exchange issued an approval for finalization of the allocation.

The warrants that were awarded to the investors are non-tradable. The exercise price of the warrants that will be awarded to the investors will be 8.75 ILS per share. The warrants will expire on November 30, 2018. The investment of one of the Company's investors – amounting to 3.68 million ILS – was subject to listing the Company's shares for trading over the counter (OTC) in the USA. The investor has waived this demand and invested 3.68 million ILS (approximately \$ 1 million) in the Company. The Company allocated 605,000 shares to this investor against the said investment. Those shares are included in the number of packages approved by the Company's Board of Directors.

Furthermore, on April 24 and April 30 2017, the Company's Board of Directors approved the extension of the private allocation by approximately 2,649 thousand ILS (approximately \$727 thousands) under the same terms against the allocation of 441,483 shares. The prices of the shares and the terms of the options are similar to the terms of the private allocation.

In addition, on May 21, 2017, the Company's Board of Directors approved a further extension of the private allocation pursuant to an agreement where under two of the investors will make further investments in the Company. Under the agreement, the Company allocated 1,174,286 packages comprising 1 share and 1 warrant in consideration for 7.00 ILS per package, such that the additional consideration received by the Company totaled approximately 8.15 million ILS (approximately \$ 2.28 million). The exercise price of the warrants is 10.00 ILS per share and they shall expire on November 30, 2018.

NOTE 7 – EQUITY (continued):

In connection with the private allocation referred to in this note 7b, the Company used the services of advisers, who mediated between the investors and the Company. In consideration for the services rendered by those advisers, the Company awarded them warrants, as follows:

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

<u>Date of award</u>	<u>Number of warrants awarded</u>	<u>Exercise price (in ILS)</u>	<u>Exercise period (in years)</u>
April 6, 2017	11,383	6	5
April 6, 2017	56,558	6	3
May 11, 2017	22,074	6	3
May 22, 2017	45,375	6	3
June 13, 2017	84,500	10	3

The Company accounted for the said awards in accordance with the provisions of IFRS 2. The value of the services that were rendered by the advisors was allocated on a pro rata basis between the premium and general and administrative expenses in accordance with the proportion of equity instruments and liability instruments included in the private allocations.

Through June 30, 2017, the Company received a total of 22,634 thousand ILS (\$ 6,244 thousand) as a result of the private allocation (including the two extensions).

c. Series 1 warrants

On January 30, 2017, the Company's general meeting decided to defer the exercise date of the Series 1 warrants from February 9, 2017 to April 30, 2017 and to reduce the exercise price of the warrants from 6.25 ILS to 5.50 ILS. On February 5, 2017, the Court approved the said actions.

As of April 30, 2017, 8,750 warrants were exercised before the reduction of the exercise price, for a total consideration of approximately 55 thousand ILS (approximately \$14 thousand), and 281,529 warrants were exercised after the reduction of the exercise price, for a total consideration of approximately 7,048 thousand ILS (approximately \$1,930 thousand) (99.85% of all series 1 warrants were exercised in consideration for approximately 7,103 thousand ILS (approximately \$ 1,943 thousand)). The remaining warrants expired on April 30, 2017.

d. Series 2 warrants

7,020 warrants were exercised in May 2017 for a total consideration of approximately 53 thousand ILS.

e. The approval of a full merger of the subsidiary Safe-T with the second-tier company RSAccess

On February 2, 2017, the Company's general meeting approved the merger of RSAccess into Safe-T. The Tax Authority approved the merger as a tax-exempt merger, subject to certain conditions. The approval of the merger by the Company's general meeting is still subject to final approval by the Registrar of Companies. In accordance with the resolution, all assets and liabilities of RSAccess, including a debt of approximately 242 thousand ILS (approximately \$69 thousand) shall be transferred to Safe-T and RSAccess will enter into voluntary liquidation.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 – LOSS PER SHARE

a. Basic

Basic loss per share is calculated by dividing the loss attributable to Company's owners by the weighted average number of ordinary shares in issue.

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2017	2016	2017	2016	2016
U.S. dollars in thousands					
Loss attributable to Company's owners used in computation of basic loss per share	2,678	5,409	1,078	3,871	8,922
The weighted average of the number of ordinary shares in issue (in thousands of shares)	16,723	9,044	18,182	9,467	11,527
Basic loss per share (dollar)	0.16	0.6	0.06	0.41	0.77

In the calculation of the loss per share, the Company used the weighted average number of Safe-T shares until the date of finalization of the merger transaction, multiplied by the exchange ratio determined for the transaction, as described in note 1c.

The number of shares used in the calculation as from the transaction date is the weighted average number of Company's shares. As to the agreement signed between Safe-T's shareholders and the Company in June 2016, see note 15 to the Group's 2016 annual financial statements.

b. Diluted

The diluted loss per share is computed by adjusting the weighted average number of ordinary shares in issue by including all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: non-tradable warrants and anti-dilution mechanism. The underlying assumption in computing the diluted loss per share is that all warrants shall be converted into ordinary shares, the anti-dilution mechanism will be triggered and ordinary shares shall be issued. The net loss is adjusted to cancel the effect of finance expenses (income) in respect of those instruments.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 – LOSS PER SHARE (continued):

	Six-month period ended June 30		Three-month period ended June 30		Year ended December 31
	2017	2016	2017	2016	2016
U.S. dollars in thousands					
Loss attributable to Company's owners	2,678	5,409	1,078	3,871	8,922
Adjustment in respect of the finance income relating to non-tradable warrants and anti-dilution mechanism	704	-	704	-	-
	<u>3,382</u>	<u>5,409</u>	<u>1,782</u>	<u>3,871</u>	<u>8,922</u>
The weighted average of the number of ordinary shares in issue used in computation of basic loss per share (in thousands of shares)	16,723	9,044	18,182	9,467	11,527
Adjustment in respect of incremental shares assuming the conversion of non-tradable warrants and the anti-dilution mechanism	624	-	1,248	-	-
	<u>17,347</u>	<u>9,044</u>	<u>19,430</u>	<u>9,467</u>	<u>11,527</u>
Diluted loss per share (dollar)	<u>0.19</u>	<u>-</u>	<u>0.09</u>	<u>-</u>	<u>-</u>

NOTE 9 – EVENTS IN THE REPORTED PERIOD:

a. Document of understanding in the field of transport cyber security

On April 23, 2017, Safe-T signed a non-binding document of understanding with Foresight Autonomous Holdings Ltd., a public Company, which is listed on the Tel Aviv Stock Exchange (hereafter – “the Stock Exchange”), Rail Vision Ltd., a private Israeli company (one of the shareholders of which is Foresight) and Shrem Zilberman Group Ltd., where under they will found a joint company that will engage in cyber security in vehicles and trains.

As of the date of approval of these financial statements, the potential partners in this venture have not yet signed a binding agreement.

b. Commencement of trade of Company's shares as ADSs on the OTC in the USA

On June 26, 2017, the Company obtained all approvals required for listing the Company's shares as ADS (American Depositary Shares) that are tradable as part of the OTCQB Venture Market of the Over the Counter (OTC) market in the USA.

In accordance with the approvals, the Company may commence trade as part of the ADR Level 1 program as from June 27, 2017 under the symbol SFTTY; each ADS represents 4 ordinary Company shares.

SAFE-T GROUP LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 10 - SUBSEQUENT EVENTS

On July 24, 2017, the Company's Board of Directors approved the award of 641,744 options to employees and advisors of the Company at an exercise price of 6.976 ILS per share. The options will be exercisable at the end of the vesting periods in accordance with the terms of the award agreements.

On August 8, 2017, the Company's general meeting approved the award of options to the Company's CEO in accordance with the conditions set out in note 6 above.

On August 29, 2017, the Company's Board of Directors approved the award of 500,000 options to employees and advisors of the Company at an exercise price of 5.655 ILS per share. The options will be exercisable at the end of the vesting periods in accordance with the terms of the award agreements.