SAFE-T GROUP LTD.

(Formerly – Companies Merging Purpose Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

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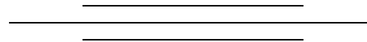

REPORT OF INDEPENDENT AUDITORS

To the shareholders of

SAFE-T GROUP LTD.

(Formerly – Companies Merging Purpose Ltd.)

We have audited the accompanying consolidated statements of financial position of Sate-T Group Ltd. (formerly – Companies Merging Purpose Ltd.) and its subsidiaries (hereafter – "the Company") as of December 31, 2016 and 2015 and the consolidated statements of profit or loss, changes in equity (capital deficiency) and cash flows for the years ended on December 31, 2016, 2015 and 2014. 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 audit.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 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 Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2016 and 2015 and the results of operations, changes in equity (capital deficiency) and cash flows for the years ended December 31, 2016, 2015 and 2014 in accordance with International Financial Reporting Standards (hereafter – "IFRS") and the provisions of the Securities Regulations (Annual Financial Statements), 2010.

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

1. Note 1h to the 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 1i to the 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". Management's plan in connection with this issue is also described in this note. 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
March 29, 2017

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

SAFE-T GROUP LTD.

(Formerly – Companies Merging Purpose Ltd.)

CONOSLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2016	December 31 2015**
Assets:		U.S. dollars in thousands	
CURRENT ASSETS:			
Cash and cash equivalents	5	1,311	62
Restricted deposit		44	44
Accounts receivable:			
Trade	6	144	612
Other		107	21
		1,606	739
NON-CURRENT ASSETS:			
Property, plant and equipment, net		70	60
Restricted deposit		13	-
Goodwill	7	523	523
Intangible assets, net	7	1,015	1,266
		1,621	1,849
TOTAL ASSETS		3,227	2,588
CURRENT LIABILITIES:			
Short-term loans:			
Related party	22	63	62
Other		-	252
Accounts payable and accruals:			
Trade		44	90
Other	10	641	664
Deferred income		151	105
Chief Scientist liability		55	108
Financial assets at fair value through profit or loss		-	*
		954	1,281
NON-CURRENT LIABILITIES:			
Derivatives financial instruments – warrants	14,15	889	-
Deferred income		55	-
Liability in respect of anti-dilution mechanism	14	94	-
Chief Scientist liability		63	24
		1,101	24
COMMITMENTS AND CONTINGENT LIABILITIES:	11		
EQUITY:	14		
Ordinary share capital		-	6
Share premium		22,220	14,889
Receivables on account of shares		*	*
Other equity reserves		11,624	10,138
Less -treasury shares		*	*
Accumulated deficit		(32,672)	(23,750)
Total equity		1,172	1,283
Total equity and liabilities		3,227	2,588

* Represents an amount of less than $1 thousand.

** Retroactive application of the reverse acquisition method, see note 1h.

Amir Mizhar	**Shahar Daniel**	**Shai Avnit**
Chairman of the Board of Directors	**CEO**	**CFO**

Date of approval of financial statements by Company's Board of Directors: ______2017.

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

SAFE-T GROUP LTD.

(Formerly – Companies Merging Purpose Ltd.)

CONOSLIDATED STATEMENTS OF PROFIT OR LOSS

	Note	Year ended December 31		
		2016	**2015**	**2014**
		U.S. dollars in thousands		
REVENUES	16	843	715	531
COST OF REVENUES	16	512	453	503
GROSS PROFIT		331	262	28
OPERATING EXPENSES:				
RESEARCH AND DEVELOPMENT EXPENSES, NET	17	1,085	795	742
SELLING AND MARKETING EXPENSES	18	2,892	2,295	1,460
GENERAL AND ADMINISTRATIVE EXPENSES	19	2,123	2,252	685
LISTING FOR TRADE EXPENSES	1h	1,579	-	-
SHARE-BASED PAYMENT EXPENSES FOR ISSUANCE PURPOSES	15	-	14,012	-
TOTAL OPERATING EXPENSES		7,679	19,354	2,887
OPERATING LOSS		(7,348)	(19,092)	(2,859)
FINANCE EXPENSES		(1,854)	(312)	(981)
FINANCE INCOME		282	1,206	148
FINANCIAL INCOME (EXPENSES), net	20	(1,572)	894	(833)
LOSS BEFORE TAXES ON INCOME		(8,920)	(18,198)	(3,692)
TAXES ON INCOME	9	2	-	-
LOSS FOR THE PERIOD		(8,922)	(18,198)	(3,692)
LOSS IS ATTRIBUTABLE TO:				
COMPANY'S OWNERS		(8,922)	(18,196)	(3,630)
NON-CONTROLLING INTERESTS		-	(2)	(62)
TOTAL		(8,922)	(18,198)	(3,692)
BASIC AND DILUTED LOSS PER SHARE (IN DOLLARS)	21	(0.77)	(4.43)	(0.88)

* Retroactive application of the reverse acquisition method, see note 1h.

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

SAFE-T GROUP LTD.
(Formerly – Companies Merging Purpose Ltd.)
CONOSLIDATED STATEMENT OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)

	Ordinary Shares	**Preferred shares**	**Cost of treasury shares**	**Share premium**	**Receivables on account of shares**	**Accumulated deficit**	**Other equity reserves**	**Total**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands									
BALANCE AT JANUARY 1, 2013**	*	*	-	3,639	(*)	(1,924)	50	1,765	72	1,837
CHANGES IN THE YEAR 2014:										
Premium on preferred shares				1,834				1,834		1,834
Liability component in distribution of dividend to holders of ordinary shares				(522)				(522)		(522)
Share-based payment							301	301		301
Acquisition of treasury shares	(*)		(*)					-		-
Changes in ownership interests in subsidiaries that do not result in loss of control							*	*	(*)	*
Loss for the period						(3,630)		(3,630)	(62)	(3,692)
BALANCE AT DECEMBER 31, 2014**	*	*	*	**4,951**	*	**(5,554)**	**351**	**(252)**	**10**	**(242)**
CHANGES IN THE YEAR 2015:										
Share-based payment				53			2,330	2,383		2,383
Share-based payment for issuance purposes				-			14,012	14,012		14,012
Conversion of preferred shares into ordinary shares and extinguishment of financial liability for dividend distribution	*	(*)		3,328			-	3,328		3,328
Changes in ownership interests in subsidiaries that do not result in loss of control	-			6,563			(6,555)	8	(8)	-
Distribution of bonus shares	6		*	(6)						-
Loss for the period	-					(18,196)		(18,196)	(2)	(18,198)
BALANCE AT DECEMBER 31, 2015**	**6**	-	*	**14,889**	*	**(23,750)**	**10,138**	**1,283**	-	**1,283**
CHANGES IN THE YEAR 2016:										
Reverse acquisition	(6)			1,868				1,862		1,862
Proceeds from issuance of shares net of issuance expenses of $ 101 thousand				4,058				4,058		4,058
Share-based payment							1,818	1,818		1,818
Private allocation net of issuance expenses				1,071				1,071		1,071
Exercise and expiry of options				334			(332)	2		2
Cancellation of treasury shares			(*)					(*)		(*)
Los for the period						(8,922)		(8,922)		(8,922)
BALANCE AT DECEMBER 31, 2016	-	-	-	**22,220**	*	**(32,672)**	**11,624**	**1,172**	-	**1,172**

* Represents an amount of less than $1 thousand.
** Retroactive application of the reverse acquisition method, see note 1h.

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

SAFE-T GROUP LTD.
(Formerly – Companies Merging Purpose Ltd.)
CONOSLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31		
	2016	**2015***	**2014***
	U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss for the period	(8,922)	(18,198)	(3,692)
Adjustments required to reflect the cash flows from operating activities:			
Exchange differences on cash and cash equivalents balances	(25)	-	-
Change in financial liability for dividend distribution	-	(145)	955
Gain from cancellation of options to group of investors	(193)	-	-
Finance expenses in respect of financial liability to group of investors	193	-	-
Recognition of initial deferred loss	1,056	-	-
Listing expenses	1,545		
Finance expenses in respect of settlement of financial liability for distribution of dividend	-	298	-
Amortization of intangible assets	251	251	251
Depreciation	29	33	36
Change in financial liability at fair value through profit or loss	513	(1,056)	(115)
Interest in respect of related parties	-	(5)	(30)
Share-based payment for issuance purposes	-	14,012	-
Share-based payment	1,818	2,383	301
	5,187	15,771	1,398
Changes in operating asset and liability items:			
Decrease (increase) in trade receivables	468	(438)	(86)
Decrease (increase) in other receivables	(83)	72	55
Decrease in trade payablesבם	(46)	(4)	(26)
Increase (decrease) in other payables	(22)	341	91
Increase in deferred income	101	22	73
	418	(7)	107
Net cash used in operating activities	(3,317)	(2,434)	(2,187)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Restricted deposits	(13)	-	14
Sales of property, plant and equipment	-	17	-
Acquisition of property, plant and equipment	(39)	(3)	(23)
Net cash provided by (used in) investing activities	(52)	14	(9)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash and cash equivalents from reverse acquisition	317	-	
Issuance of shares and warrants net of issuance expenses	4,072	-	
Proceeds on account of investment in preferred shares	-	750	2,500
Grants from Chief Scientist (repayment to Chief Scientist, net)	(17)	132	-
Receipt (repayment) of loan	-	309	(15)
Receipt (repayment) of financial liability at fair value through profit or loss	(1,056)	1,056	-
Payment of cash issuance expenses	-	(75)	-
Private allocation net of issuance costs	1,527	-	-
Proceeds in respect of exercise of options	2	-	-
Repayment of financial liabilities at amortized cost	(1,122)	-	-
Receipt of financial liabilities and options to group of investors	870	-	-
Net cash provided by financing activities	4,593	2,172	2,485

* Retroactive application of the reverse acquisition method, see note 1h.

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

SAFE-T GROUP LTD.
(Formerly – Companies Merging Purpose Ltd.)
CONOSLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31		
	2016	**2015***	**2014***
	U.S. dollars in thousands		
INCREAESE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,224	(248)	289
EXCHANGE RATE DIFFERENCES IN RESPECT OF CASH AND CASH EQUIVALENTS	25	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	62	310	21
CASH AND CASH EQUIVALENTS AT END OF PERIOD:	1,311	62	310
SUPPLEMENTARY DATA ON ACTIVITIES NOT INVOLVING CASH FLOWS:			
Changes in ownership interests in subsidiaries that do not result in loss of control	-	6,555	-
Conversion of preferred shares into ordinary shares	-	3,328	-
Receivables in respect of preferred shares	-	-	2,466
Dividend distribution liability	-	-	1,045
Derivative financial instrument	-	-	109

* Retroactive application of the reverse acquisition method, see note 1h.

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

NOTE 1 - GENERAL:

a. Safe-T-Data Group Ltd. (formerly – "Companies Merging Purpose Ltd.", hereafter - the "Company") was incorporated in Israel on October 22, 1989 as a private company, which is engaged in development of information systems for organizations. In 2001, the Company became a public company and listed its shares on the Tel Aviv Stock Exchange. In 2010, the Company's operations, which later changed its name to Companies Merging Purpose Ltd., were sold. Since then and up until June 2016, the Company has been operating as a "shelf company" having no significant business activity other than management of the Company's administrative functions. On June 23, 2016, the Company's name was changed from Companies Merging Purpose Ltd. to Safe-T Group Ltd.

b. On December 24, 2015, the Tel-Aviv-Jaffa District Court issued a ruling in Liquidation Case no. 31184-03-15, approving a composition with creditors in accordance with Section 350 to the Companies Law, between the Company and its shareholders on the one hand, and the Company's creditors on the other hand (hereafter – the "Composition with Creditors"). The Composition with Creditors approved Mr. Kfir Zilberman's proposal (hereafter – the "Investor") to acquire the control in the Company as a "shelf company" with no business activity and no assets and liabilities, in consideration for a cash payment to the Composition with Creditors' account and the allocation of shares to the Investor and/or anyone acting on his behalf.

On April 5, 2016, the Company announced that it complies with the definition of a "shell company" as defined in the amendment to the Rules and Regulations of the Tel Aviv Stock Exchange (as published on March 28, 2016) and in accordance with the guidelines of the Israel Securities Authority (Legal Position No. 104-17: Mandatory Reporting and Updating of Compliance with the Definition of "Shell Company"). On April 10, 2016, in view of the finalization of the Composition with Creditors, the Company asked the Israel Securities Authority to resume trading and on April 13, 2013, trading of Company's shares was resumed and they were traded in the maintenance list of the Tel Aviv Stock Exchange Ltd. (hereafter – "TASE"). On June 21, 2016, the Company's shares were reinstated into the TASE's primary list.

c. On May 9, 2016, the Company filed a supplementary prospectus by way of public offering and a rights issuance prospectus. On June 7, 2016, the Company completed the issuance of rights at the total amount of 1.4 million ILS (approximately $0.38 million). On June 8, the Company raised approximately 16.2 million ILS (approximately $4.2 million) from the public, before issuance costs.

The merger transaction was completed on June 15, 2016, such that all conditions precedent set in the merger agreement were met. As a result, the Company and Safe-T Data A.R. Ltd. were merged such that the Company holds all share capital and voting rights of Safe-T Data A.R. Ltd., a fully-owned subsidiary (hereafter – "Safe-T") and is essentially a holding company, which is engaged, as of that date, through 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

NOTE 1 – GENERAL (continued):

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.

d. The following was carried out as part of the finalization of the merger transaction between Safe-T and the Company (hereafter – the "Merger Transaction"):

1) The Company allocated 8,626,761 ordinary Company shares to all shareholders of Safe-T against 22,915,980 Safe-T shares, which were previously held by the aforementioned Safe-T shareholders (constituting 100% of the issued share capital of Safe-T). The Company has also allocated – as part of an options plan - 1,496,725 options to all holders of Safe-T's options, which were listed as offerees in the prospectus. Those options were allocated in lieu of 3,975,875 options held by these option holders immediately before the merger was concluded. Subsequent to the allocation of Company options in lieu of those options, Safe-T Data has no remaining options. The shares and options allocated to Safe T's shareholders and option holders constitute approximately 67% of the Company's share capital, excluding the warrant series issued to the public, as set out in the merger agreement (including the exchange ratio adjustment mechanism), which is described in detail in note 15b.

2) The Company repaid the financial liabilities at amortized cost and its financial liabilities at fair value through profit or loss, amounting to $2,178 thousands, see note 15c for further details.

e. The second amendment to the Fidelity agreement (hereafter - the "Second Amendment") regarding the merger of Safe-T with the shelf company was signed on January 7, 2016. The third amendment to the Fidelity agreement (hereafter -the "Third Amendment") was signed on February 4, 2016. This amendment changed terms that were set out in the Second Amendment. The merger agreement for the merger of Safe-T with the shelf company was signed on March 31, 2016. For further details, see note 15.

f. On November 22, 2015, Safe-T filed a public offering prospectus with the TASE. Orders were placed with the Company, but TASE's listing conditions were not satisfied and therefore the issuance did not take place and the orders, which had been placed, were not fulfilled.

g. In June, 2015, a statutory merger was effected between the Safe-T and RSAccess by way of shares exchange, such that the Company's interest in RSAccess increased to 100%. Furthermore, the investment agreement with Sasa and the Company's articles of association were amended to reflect the conversion of preferred shares held by Sasa and the rights attached thereto into ordinary Safe-T shares. Further to the amendment of the investment agreement, the balance of the financial liability in respect of dividend distribution was cancelled and is presented within the Safe-T's equity.

NOTE 1 – GENERAL (continued):

h. 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.

Accordingly, the assets and liabilities of the Company (the accounting acquiree) were stated in the consolidated financial statements according to their carrying amounts immediately before the transaction. The consideration for this acquisition, amounting to $ 1,862 thousands, was determined based on the value of the Company's (the accounting acquiree) equity instruments on the day on which the transaction was finalized. The excess of the consideration over the carrying amounts of the Company's assets and liabilities, amounting to $1,545 thousands, was recorded as "listing expenses" in the statement of profit or loss. In addition to the excess of the consideration referred to above, additional transaction costs of approximately $34 thousands were charged to the "listing expenses" item.

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.

i. 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. In the meantime, on March 27, 2017, the Company's Board of Directors approved an agreement for a private allocation of shares (see note 24a). 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.

j. 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.

NOTE 1 – GENERAL (continued):

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.

k. Definitions:

In these financial statements:

The Company	-	Safe-T Group Ltd.
Safe-T	-	Safe-T Data A.R. 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 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of presentation of financial statements

1) The financial statements of the Group as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 are in compliance with International Financial Reporting Standards (IFRS), which are standards and interpretations issued by the International Financial Reporting Interpretations Committee (IASB) (hereafter – "IFRS") and include the additional disclosure required under the Securities Regulations (Annual Financial Statements), 2010.

In connection with the presentation of these financial statements, the following should be noted:

1) Unless otherwise stated, the significant accounting policies described below have been applied on a consistent basis in relation to all the years presented.

2) The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial liabilities (including derivatives) at fair value through profit or loss, which are presented at fair value.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

3) The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3. Actual results could differ significantly from those estimates and assumptions.

4) The period of the Group's operating cycle is 12 months.

5) The Group analyzes the expenses recognized in the statement of profit or loss using the classification method based on the functional category to which the expense belongs.

b. Consolidated financial statements

1) Subsidiaries and business combinations

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Group accounts for business combinations using the acquisition method. The consideration transferred in an acquisition of a subsidiary (hereafter - the "acquiree") is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination (except for certain exceptions specified in IFRS 3R – "Business Combinations" (as amended) (hereafter – "IFRS 3R") are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree that constitutes present ownership interest and entitles its holders to a proportionate share of the entity's net assets in the event of liquidation on an acquisition-by-acquisition basis, either at fair value or at the proportionate share of instruments that represent present ownership interests in the recognized amounts of acquiree's identifiable net assets. Non-controlling interests in the subsidiary were measured on the date of the business combination at the proportionate share of present ownership instruments in the recognized identifiable net assets of the subsidiary.

Intercompany balances and transactions, including income and expenses on transactions between Group companies are eliminated.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The accounting policy applied by the subsidiaries is consistent with the accounting policy adopted by the Group.

2) Transactions with non-controlling interests that do not result with loss of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as transactions with owners. The difference between the fair value of any consideration paid or received and the amount of the adjustment to non-controlling interests to reflect their relative interests in the subsidiary is recognized directly within equity attributable to owners of the Company.

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker in the Group, who is responsible for allocating resources and assessing performance of the operating segments. The Group has one operating segment. Entity level information is provided in note 23.

d. Translation of foreign currency balances and transactions:

1) Functional and presentation currency.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (hereafter the "Functional Currency"). The consolidated financial statements of the Company are presented in U.S. dollars, which is the Company's Functional Currency.

2) Transactions and balances

Transactions made in a currency which is different from the functional currency (hereafter - "Foreign Currency") are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or the dates on which the items were revalued where the items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end-of-year exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

e. Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, short-term bank deposits and other short-term highly liquid investments with original maturities of three months or less, which are subject to insignificant risk of changes in value.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

f. Restricted deposits

Restricted deposits include cash in deposits, which are pledged against a bank guarantee relating to lease agreements. The classification of the restricted deposits as current or non-current assets depends on the date on which the deposit is released.

g. Trade receivables

The trade receivable balance represents the amounts due from Group customers for merchandise sold or services performed in the ordinary course of business. If collection is expected within one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for doubtful accounts (hereafter – "Provision for Impairment" or "Provision for Doubtful Accounts"), see note 6.

h. Goodwill

Goodwill arising from a business combination represents the excess of the overall amount of the consideration transferred, the amount of any non-controlling interests in the acquired company over the net amount as of acquisition date of the identifiable assets acquired and the liabilities assumed.

Impairment reviews of the cash-generating-unit (CGU) to which goodwill was allocated are undertaken annually and whenever there is any indication of impairment of a CGU (or a group of CGUs). The carrying amount of the Company's assets (which constitutes a single CGU), including goodwill, is compared to its recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment loss is allocated to reduce the carrying amount of the Company's assets at the following order: first to reduce the carrying amount of any goodwill allocated to a CGU and subsequently to the remaining assets of the Company, which fall within the scope of IAS 36, on a proportionate basis based on the carrying amount of each Company asset.

Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed. As of December 31, 2016, and 2015 the Group did not record impairment of goodwill. For further details see note 7.

i. Intangible assets

1) Research and development
Through December 31, 2016, Group companies have not met the criteria for capitalizing research and development expenses as intangible assets, and accordingly, no asset has so far been recognized in the financial statements in respect of capitalized research and development expenses. Consequently, the research and development expenses of Group companies are fully recognized as incurred.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Contractual customer relations

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization. Amortization is classified to selling and marketing expenses and is calculated using the straight-line method over the expected useful life of the customer relationships (6 years).

3) Technology

The technology acquired as part of the business combination is an innovative data security product, which is a supplementary product to various other products such as Firewall, applications, Sharepoint, etc. The technology has a finite useful life and it is presented at cost net of accumulated amortization. The amortization is classified to cost of revenues and is calculated using the straight-line method over the technology's useful life (8 years).

j. Impairment of non-monetary assets

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels of identifiable cash flows (cash-generating units). As mentioned above, the Company constitutes a single cash generating unit. Non-monetary assets, other than goodwill, that were impaired are reviewed annually for possible reversal of the impairment recognized at each statement of financial position date.
Other intangible assets, whose useful life is indefinite, are tested annually for impairment.

k. Government grants

During the first quarter of 2015, the Chief Scientist Office approved Company's participation in a grants scheme of the Chief Scientist Office in the Ministry of Industry, Commerce and Labor (hereinafter - the "Chief Scientist") as participation in R&D performed by Safe-T (hereafter – "Chief Scientist Grants"), which fall into the scope of "forgivable loans" as defined in IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance" (hereafter – "IAS 20").

Chief Scientist Grants are recognized in accordance with IAS 39 – "Financial Instruments: Recognition and Measurement" (hereafter – "IAS 39"). If on the date on which the right for the Chief Scientist Grant is established (hereafter – "Entitlement Date") the Group's management concludes that there is no reasonable assurance that the Chief Scientist Grant to which entitlement has been established (hereafter – "the Received Grant"), will not be repaid, the Group recognizes a financial liability on that date, which is accounted for under the provisions of IAS 39 regarding financial liabilities measured at amortized cost. The difference between the Received Grant and the fair value of the said financial liability at date of initial recognition is treated as a government grant, which is recognized in profit or loss as a reduction of research and development expenses.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

In a case where on entitlement date, Group's management reaches the conclusion that there is reasonable assurance that the Received Grant will not be repaid, the grant is carried, at that date, to profit or loss as a reduction of R&D expenses. Should in subsequent periods Group's management reaches for the first time to the conclusion that there is no reasonable assurance that the Received Grant will not be repaid, the Group recognizes a financial liability on that date against profit or loss, which is accounted for under the provisions of IAS 39 regarding financial liabilities measured at amortized cost.

l. Financial assets

1) Classification

The Group classifies its financial assets as loans and receivables. The classification is determined, among other things, in accordance with the purpose for which the financial assets were acquired. Group management determines the classification of the financial assets upon initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities longer than 12 months after the statement of financial position date. These are classified as non-current assets. The Group's loans and receivables are presented among "accounts receivable," "restricted deposits" and "cash and cash equivalents" in the statement of financial position (see also sections e, f and g above).

2) Recognition and measurement

Financial assets, which are initially measured at fair value plus transaction costs are measured in subsequent periods at amortized cost using the effective interest method. Financial assets, which are measured at fair value through profit or loss are initially measured at fair value and the transaction expenses are carried to the statement of profit or loss. For information on the method used to measure the fair value of the Group's financial instruments, see note 4.

3) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an immediate legal right (which is not contingent on a future event) to offset the recognized amounts, where the right is legally enforceable in all of the following circumstances: the normal course of business, an event of default and an event of insolvency or bankruptcy of the entity or any of the counterparties and there is an intention to settle on a net basis or realize the financial asset and settle the financial liability simultaneously.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

4) Impairment of financial assets - financial assets measured at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (hereafter - a "Loss Event") and that Loss Event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment of a financial asset or group of financial assets may include observable information that came to the attention of the Group in connection with Loss Events such as: significant financial difficulty of the issuer or obligor; breach of contract, such as a default or delinquency in interest or principal payments; it becomes probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties, or, observable data is available indicating that there is a measurable decrease in the estimated future cash flows; and other indicators.

Where objective evidence for impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed for the asset upon initial recognition). The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of profit or loss.

If the amount of impairment loss in a subsequent period decreases, and this decrease may be attributed to an objective event that took place after the impairment was recognized (like improved credit rating of the borrower), reversal of the previously recognized impairment loss is recorded in profit or loss.
The Company does not test impairment of groups of customers due to immateriality.

m. Derivatives and embedded derivatives

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Changes in the fair value of derivatives that do not qualify for hedge accounting are carried to profit or loss.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Derivatives, which are embedded in financial instruments (see also section o below) or in any other host contract, are bifurcated from the host contract if and only if (a) their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract (2) a separate instrument with the same terms as the embedded derivative would meet the definition of derivative, and (c) the hybrid instrument in its entirety (including the embedded derivative) is not measured at fair value through profit or loss.

Changes in the fair value of embedded derivatives that were bifurcated as above are carried to profit or loss.

n. Trade payables

Trade payables are Group obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair.

o. Compound financial instruments

The Company has recorded a financial liability in respect of its obligation to pay dividends to holders of ordinary shares (for further details see section l above and note 14) and in respect of Company's obligation to allocate further shares under the anti-dilution protection granted to investors as part of the Company's private offering of November 2016.

The liability components were initially recognized at fair value. The equity component was recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Investments, which are conditional upon meeting targets and dividend liabilities payable in respect of such investments, were recognized upon meeting the said targets. As described in note 1g, further to the amendment of the Sasa investment agreement, the balance of the dividend distribution financial liability was cancelled and is presented within the Company's equity.

Subsequent to initial recognition, the liability component of the dividend is measured at amortized cost using the effective interest method.

Subsequent to initial recognition the anti-dilution mechanism is accounted for as a financial liability measured at fair value through profit or loss and carried to finance expenses (income), net.

The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

p. Ordinary share capital and preferred share capital

As mentioned above, before the preferred shares were converted, Safe-T's preferred shares constituted compound financial instruments due to Safe-T's financial liability to distribute dividends to owners of those instruments (see section o above). Consequently, the Group also recognized a financial liability in respect of the Company's obligation to pay dividends to owners of the preferred shares. As descried in note 1g, on June 10, 2015, Safe-T's preferred shares were converted into ordinary shares. For further details see note 14).

Where any Group company purchases Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in the Company's equity.

q. Current and deferred income taxes

The tax expenses for the reported years comprise current and deferred taxes. Taxes are recognized in the statement of profit or loss, except to the extent that they relate to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Group's management periodically evaluates the tax aspects applicable to it taxable income based on the relevant tax laws and makes provisions in accordance with the amounts payable to the Income Tax Authorities.

Deferred income tax is provided using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred income tax is not accounted for if it arises from initial recognition of goodwill. Also, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The Group does not provide deferred income tax on temporary differences arising on investments in subsidiaries, since the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

r. Employee benefits

The Group operates various post-employment benefit schemes. The schemes include defined contribution plans.

1) Severance pay and pension obligations

A defined contribution plan is a post-employment benefits scheme under which Group companies pay fixed contributions into a separate and independent entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds.
Under their terms, the said pension plans meet the criteria for defined contribution plan as above.

Group companies' obligation to employees who participate in a defined contribution plan is to pay fixed contributions into a separate and independent entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2) Vacation and recreation pay

Every employee is legally entitled to vacation and recreation benefits, which are computed on an annual basis. This entitlement is based on the term of employment. The Group charges a liability and expense due to vacation and recreation pay, based on the benefits that have been accumulated for each employee.

Since the Group expects that the benefit arising from vacation pay will be fully settled within 12 months of the end of the reporting period in which the employees provide the relating services, the liability in respect of this benefit is measured in accordance with the additional amount, which the Group expects to pay for unutilized vacation benefits accrued at the end of the reporting period.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

3) Severance Pay

Severance pay is paid when an employee is terminated by the Group before the normal retirement date, or when an employee had agreed to accept voluntary redundancy in exchange for these benefits. The Group recognizes severance pay liabilities at the earlier of:

- when the entity can no longer withdraw the offer of those benefits; and
- when the entity recognizes costs for a restructuring in the scope of IFRS 37 that includes the payment of severance benefits.

s. Share based payment

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of Group companies. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expenses is determined by reference to the fair value of the options granted:

1) including any market performance conditions;

2) excluding the impact of any service and non-market performance vesting conditions, and

3) including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

At the date of each statement of financial position, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

For plans that include conditions that are not vesting conditions, any relating expenses are immediately recognized in the statement of profit or loss. When the Company revises the conditions of an equity-settled grant, the Company recognizes an additional expense, in excess of the original expense calculated for every such revision that increases the overall fair value of the granted benefit or benefits the other service provider, based on the fair value at the time of revision.

t. Revenue recognition

The Group's revenues are measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales between subsidiaries of the Group.

1) Revenue from sale and lease of software

The Group recognizes revenue from the sale of perpetual software licenses when all of the following conditions are met: the license was delivered to the client; the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Company; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

On the other hand, the Group recognizes revenue from lease of software license for a limited period on a straight-line basis over the lease period.

2) Revenue from provision of maintenance and/or support services

Revenue from provision of maintenance and support services is recognized on a straight-line basis over the service provision period. Any consideration received prior to the provision of the service is deferred at the time of receipt thereof and recognized in the statement of profit or loss on a straight-line basis over the service provision period.

Revenues from transactions that include professional services rendered to the Company’s customers is recognized only when the development was delivered to the customer or the provision of service had been completed, the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Company; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3) Multiple-element transactions

Revenue from multiple-element sale agreements, which include a number of components such as a license and support services and which do not include a general right of return, is allocated into separate accounting units and recognized separately for each accounting unit. An element constitutes a separate accounting unit if and only if it has a standalone value for the customer. In addition, there should be reliable and objective evidence of the fair value of those elements of the transaction that have not yet been delivered.

Elements, which were not considered to be separate accounting units since they do not meet the conditions specified above, are grouped into a single accounting unit. Revenue from the various accounting units is recognized when the revenue recognition criteria are met with respect to all the elements of the accounting unit based on their specific type and only up to the amount of the consideration that is not contingent on completion or performance of the other elements in the contract.

Where a discount was given as part of the transaction, the Company allocates the whole discount amount to the license element.

4) Gross verses net revenue reporting

The Group reports its revenue on a gross basis since it acts as the principal supplier and is the primary obligor in transactions with Group customer. Also, the Group is free to set the price of its transactions and it bears the risks and benefits arising from a transaction, including the credit risk. Where the Group acts as an agent or a broker without bearing the risks and benefits arising from the transaction, it presents its revenue on a net basis.

u. Loss per share

The computation of basic loss per share is based, as a general rule, on the loss attributable to holders of ordinary Company shares divided by the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

When calculating the diluted loss per share, the Group adjusts the loss attributable to holders of ordinary shares and the weighted average number of shares in issue, to reflect the effect of all ordinary shares that have a potentially dilutive effect, as follows:

The Group adds to the weighted average number of shares in issue that was used to calculate the basic loss per share also the weighted average of the number of shares to be issued assuming the all shares that have a potentially dilutive effect would be converted into shares.

The potential shares, as above, are only taken into account in cases where their effect is dilutive (reducing the earnings per share or increasing the loss per share).

When the number of ordinary shares in issue or the number of ordinary potential shares in issue increases as a result of distribution of bonus shares or decreases as a result of shares consolidation, the calculation of the basic and diluted loss per share will be adjusted with retroactive effect for all reported periods.

When calculating the loss per share the Group used the weighted average of Safe-T's shares up until the date of completion of the merger transaction, multiplied by the exchange ratio set for the transaction, as described in note 1d.

The number of shares used to calculate the loss per share as from the date of the transaction and thereafter is the weighted average number of Company shares. As to the agreement between the Company and Safe-T shareholders of June 2016, see note 15.

v. New international financial reporting standards, amendments and interpretations to existing standards:

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

1) IFRS 9 – "Financial Instruments" (hereafter – "IFRS 9" or "the Standard"):

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling.

The standard presents a new for impairment of financial assets. The new model is based on expected credit losses and it replaces the incurred loss impairment model used in IAS 39.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

2) In May 2014, the IAS issued IFRS 15 "Revenue from Contracts with Customers" (hereafter – "IFRS 15").

Upon first time application, IFRS 15 shall replace other IFRS provisions relating to revenue recognition. The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

IFRS 15 sets out a single revenue recognition model, according to which the entity shall recognize revenue in accordance with the said core principle by implementing a five-step process:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when the entity satisfies a performance obligation.

IFRS 15 provides guidance about various issues related to the application of the said model, including: recognition of revenue from variable consideration set in the contract, adjustment of the price of transaction set in the contract in order to reflect the effect of the time value of money and costs to obtain or fulfill a contract.

IFRS 15 extends the disclosure requirements regarding revenue and requires, among other things, that entities disclose qualitative and quantitative information about significant judgments made by management in determining the amount of the revenue recognized.

In July 2015, the IASB decided to defer the effective date of the standard by one year, such that the standard will be applied for annual periods beginning on or after January 1, 2018 (early adoption is permitted).

The Company has set up a team to assess the expected effect of the application of IFRS 15 on its financial statements. As of the date of issuance of these financial statements, the Company is assessing its current accounting policies and practices in order to identify potential issues that may arise as a result of the implementation of the provisions of IFRS 15 with regard to contracts with customers.

The Company intends to implement IFRS 15 as from the date on which the application thereof becomes mandatory, commencing in the first quarter of 2018.

As part of the abovementioned process, which is still ongoing, the Company identifies several areas that may be affected by the application of IFRS 15:

1. The application of IFRS 15 may lead to change the number of identified separate performance obligations and thereby affect the timing of revenue recognition.

2. Due to the fact that an entity may only use the residual method in limited circumstances to determine the stand-alone selling price of the different performance obligations, the application of IFRS 15 may change the consideration that is allocated to certain performance obligations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

3. As to performance obligations, for which revenue is recognized over time, the Company will be required to estimate the timing of transfer of control of goods or services relating to those performance obligations. The timing of transfer of control to the customer will affect the timing of revenue recognition.

In addition to the above, the Company currently undergoes a process of identifying changes and adjustments that it will need to make under IFRS 15 to its business processes, its systems and controls, which support revenue recognition, as well as its disclosures relating to revenue from contracts with customers.

The Group also considers the possibility of early adoption of IFRS 15.

3) IFRS 16 – “Leases” (hereafter – “IFRS 16”)

IFRS 16 will replace upon first-time implementation the existing guidance in IAS 17 "Leases"(hereafter "IAS 17"). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and is expected to have material impact mainly on the accounting treatment applied by the lessee in a lease transaction.

IFRS 16 changes the existing guidance in IAS 17 and requires lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts (except for the following), with no distinction between financing and capital leases. IFRS 16 exempts lessees in short-term leases or the when underlying asset has a low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 also changes the definition of a "lease" and the manner of assessing whether a contract contains a lease.

IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, taking into account the reliefs specified in the transitional provisions of IFRS 16. Under the provisions of IFRS 16, early adoption is permitted only if IFRS 15 has also been applied. The Company is assessing the expected impact of IFRS 16 on the financial statements.

4) Amendment to IAS 7 – “Statement of Cash Flows” (hereafter – “the Amendment to IAS 7”)

The Amendment to IAS 7 requires that entities disclose changes in liabilities, the cash flow in respect of which are classified as financing activities in the statement of cash flows. This includes changes arising from cash flows (such as decrease in liability balance due to repayment of loan) and non-cash changes (such as non-cash acquisitions and accretion of interest). Changes in financial assets must be included in this disclosure if

the cash flows were, or will be, included in cash flows from financing activities. Entities may include changes in other items as part of this disclosure. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.

An entity is not required to provide comparative figures upon the first-time application of the Amendment to IAS 7.

The said amendment will be applied to annual reporting period starting on January 1, 2017 or thereafter. Early adoption is permitted.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Critical accounting estimates and assumptions

1) Revenue recognition

The Group recognizes revenue from multiple-element sale transactions as described in note 2t3) and assesses the fair value of the elements on the basis of standalone sale transactions or on the basis of the Company's price lists, including the effect of the average discounts given as part of the transactions.

Were the proportion of services performed to total services to be performed to differ by 10% from management's estimates, the amount of revenue recognized in the period would be increased or decreased by an immaterial amount.

2) Determining the fair value of share based payment transactions

The fair value of share-based payment transactions is determined by using an option pricing model. The model's underlying assumptions include the price of an ordinary share, the exercise price, expected volatility, expected option term, expected dividend yield, and risk-free interest rate.

3) Useful life of intangible assets

The intangible assets are amortized on a straight-line basis over their estimated useful life as estimated by management. The said estimate may change in accordance with changing circumstances and is reviewed annually.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued):

b. Critical judgements in applying the entity's accounting policies (continued):

Reviewing the classification of preferred shares

The Group applies the provisions of IAS 32 to determine the accounting treatment applicable to Sasa's investment, including the component of dividend distribution to Sasa, and the corresponding distribution of dividend to holders of ordinary shares. This requires exercising a critical accounting judgement. The review includes, among other things: considering whether the investment in preferred shares and the shareholders' loan constitute a single financial instrument, considering whether the Company is required or may be required to report a variable number of equity instruments, and whether the Company can avoid dividend distribution. As stated above, in June 2015, the Company's preferred shares were converted into ordinary shares, and the liability for dividend distribution was cancelled. See also note 14.

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

a. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's finance department in accordance with a policy approved by the Board of Directors. The Group's finance department identifies, evaluates and hedges the financial risks. The Board of Directors provides written principles for the overall management of the risks.

1) Credit risks

Most of the Group's credit risks arise from short-term deposits, trade receivables and financial assets at amortized cost in respect of receivable in connection with the issuance of preferred shares (related party). The Company mitigates the risk by ensuring it has sufficient funds to meet its needs and by selling to customers of high credit quality.

No credit limits were exceeded in 2016, and management does not expect any losses from non-performance by these counterparties beyond those that have already been recognized.

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

2) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities denominated in foreign currency and net investments in foreign operations.
The Company hedges and minimizes the foreign exchange risk by ensuring that the amounts of net current assets at a specific point in time correspond to the amount of current liabilities at that point in time.

3) Liquidity risk

Prudent liquidity risk management requires maintaining sufficient cash and cash equivalents. The Group works to maintain sufficient cash and cash equivalents, taking into account forecasts as to the cash flows required to fund its activities, in order to minimize the liquidity risk to which it is exposed.
Cash flow forecasting is performed by the Company's finance department on a consolidated basis. The Company monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Surplus cash held by the operating entities of the Group over and above the balance required for working capital management are invested in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.

The table below analyzes non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at statement of financial position date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows, except for derivatives held for trade, which are stated at fair value.

	Less than one year	**Between one to two year**
	U.S. dollar in thousands	
Balance as of December 31, 2016:		
Chief Scientist liability	55	63
Trade payables and other payables	685	-
Loan from related party	63	-
	803	63
Balance as of December 31, 2015:		
Financial liabilities at fair value through profit or loss	1,056	-
Chief Scientist liability	118	27
Trade payables and other payables	754	-
Loan from related party	63	
Short-term loans	251	
	2,242	27

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

b. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other interested parties and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may take different measures, such as issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt. As of December 31, 2016, the Company does not have net debt.

c. Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Financial instruments in level 1:

The Group has a financial liability in respect of derivative financial instruments – warrants – which is measured at fair value through profit or loss. The amount of the liability is $ 889 thousands. As of December 31, 2016, this liability meets the level 1 criteria.

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial instruments in level 3:
The Group has several financial liabilities measured at fair value through profit or loss, which meet the level 3 criteria as of December 31, 2016 and 2015.

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

The following table presents the changes in level 3 instruments for the years 2016, 2015 and 2014:

	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)	(12)	-	**800	**256	1,044
Settlement/cancelation	-	(1,398)	(800)	(256)	(2,454)
Balance as of December 31, 2016	94	-	-	-	94
Total unrealized gains for the period included in profit or loss for liabilities held at the end of the reporting period	12	-	(800)	(256)	(1,044)

	Anti-dilution mechanism	Bridging loan	Financing of issuance expenses	Total
	U.S. dollar in thousands			
Balance as of January 1, 2015:	*	-	-	*
Inception	-	800	256	1,056
Finance income	*	(800)	(256)	(1,056)
Balance as of December 31, 2015	-	*	*	*
Total unrealized gains for the period included in profit or loss for liabilities held at the end of the reporting period	*	800	256	1,056

* 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 details see note 15.

	Company shareholding adjustment	Anti-dilution mechanism	Total
	U.S. dollar in thousands		
Balance as of January 1, 2014:	-	6	6
Inception	109	-	109
Finance income	(109)	(6)	(115)
Balance as of December 31, 2014	-	*	-
Total unrealized gains for the period included in profit or loss for liabilities held at the end of the reporting period	109	6	115

* Represents an amount of less than $ 1 thousand.

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

c. Financial instruments

The accounting policy applicable to financial instruments was implemented for the following items:

December 31, 2016	Loans and receivables
	U.S. dollar in thousands
Assets:	
Cash and cash equivalents	1,311
Trade receivable and other receivables (excluding prepaid expenses)	215
Restricted deposits	44
	1,570

	Liabilities at fair value through profit or loss	Other financial liabilities at amortized cost	Total
	U.S. dollar in thousands		
Liabilities:			
Trade payables and other payables	-	685	685
Chief Scientist liability	-	118	118
Related party	-	63	63
Liability in respect of anti-dilution	94	-	94
Derivative financial instruments - warrants	889	-	889
	983	866	1,849

December 31, 2015	Loans and receivables
	U.S. dollar in thousands
Assets:	
Cash and cash equivalents	62
Trade receivable and other receivables (excluding prepaid expenses)	624
Restricted deposits	44
	730

	Liabilities at fair value through profit or loss	Other financial liabilities at amortized cost	Total
	U.S. dollar in thousands		
Liabilities:			
Trade payables and other payables	-	754	754
Chief Scientist liability	-	132	132
Short-term loans	-	314	314
Financial liabilities at fair value through profit or loss	*	-	-
	*	1,200	1,200

* Represents and amount of less than $1 thousand.

NOTE 4 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

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.

e. Valuation processes of the Group

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

Set forth below are details regarding the valuation processes of the Group:

a. Financial liabilities at fair value through profit or loss – see note 14 and 15.

b. Options to group of investors of January 7, 2016 – in order to value the fair value of the options, the valuation team used the Black-Shcoles model, using the following principal assumptions: expected volatility or 59.22%, risk-free interest of 1.65%, expected term of 3.28 years. For details, see note 15.

c. The anti-dilution mechanism that was put in place on November 24, 2016 - in order the value the fair value of the mechanism, the valuation team used the binomial share price model for a period of 12 months, using the following principal assumptions: expected volatility of 59.22%, risk-free interest of 0.17%, expected term of one year and an 80% probability of capital raise during that year.

d. Options to employees and advisors – for details see note 13.

NOTE 5 – CASH AND CASH EQUIVAELNTS:

As of December 31, 2016, and 2015, the balance of cash and cash equivalents comprises cash at bank.

NOTE 6 – ACCOUNTS RECEIVABLE – TRADE:

As of December 31, 2016, and 2015, the accounts receivable-trade balance comprises open accounts. Also, as of December 31, 2016 and 2015, the Company did not record a provision for doubtful accounts. The Company has no customers that exceed their credit terms.

SAFE-T GROUP LTD.
(Formerly – Companies Merging Purpose Ltd.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 – INTANGIBLE ASSETS:

Composition of intangible assets is as follows:

	Cost				Accumulated amortization				Amortized balance
2016:	Balance at Beginning of year	Additions During the year	Retirements during the year	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Balance at end of year	December 31 2016
	U.S. dollar in thousands								
Technology	1,955	-	-	1,955	709	245	-	954	1,001
Contractual customer relations	38	-	-	38	18	6	-	24	14
Goodwill	523	-	-	523	-	-	-	-	523
	2,516	-	-	2,516	727	251	-	978	1,538

	Cost				Accumulated amortization				Amortized balance
2015:	Balance at Beginning of year	Additions During the year	Retirements during the year	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Balance at end of year	December 31 2015
	U.S. dollar in thousands								
Technology	1,955	-	-	1,955	464	245	-	709	1,246
Contractual customer relations	38	-	-	38	12	6	-	18	20
Goodwill	523	-	-	523	-	-	-	-	523
	2,516	-	-	2,516	476	251	-	727	1,789

SAFE-T GROUP LTD.
(Formerly – Companies Merging Purpose Ltd.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 – INTANGIBLE ASSETS (continued):

2014:	Cost				Accumulated amortization				Amortized balance
	Balance at Beginning of year	Additions during the year	Retirements during the year	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Balance at end of year	December 31 2014
	U.S. dollar in thousands								
Technology	1,955	-	-	1,955	219	245	-	464	1,491
Contractual customer relations	38	-	-	38	6	6	-	12	26
Goodwill	523	-	-	523	-	-	-	-	523
	2,516	-	-	2,516	225	251	-	476	2,040

a. In the years 2016, 2015 and 2014, the amortization of technology was carried to the cost of revenues and amounted to $245 thousands for each of the said years.

b. In the years 2016, 2015 and 2014, the amortization of customer relations was carried to the selling and marketing expenses and amounted to $6 thousands for each of the said years.

c. Testing of goodwill impairment
As of December 31, 2016, the recoverable amount of the Company, which constitutes a single cash generating unit, is calculated on the basis of its fair value less cost to sell of Company's share. As of December 31, 2016, the recoverable amount exceeded the Company's equity.

NOTE 8 -INTERESTS IN OTHER ENTITIES:

Subsidiaries:

Set forth below are details regarding the Group's subsidiaries as of December 31, 2016 and 2015:

Name of company	Principal place of business	Nature of business activities	Rate of shares held directly by the Company	Rate of shares held by the Group
			%	
Safe-T Data A.R.	Israel	Development of data security software	100	100
RSAccess	Israel	Development of data security software	-	100
Safe-T USA Inc.*	USA	Business development and sales in the USA	-	100

RSAccess was included in the consolidated financial statements. The country of incorporation or registration of the subsidiary is also the principal place of its business. The rate of the subsidiary's voting rights held directly by the Company increased to 100% in June 2015, see note 14.

On February 2, 2-17 the Company's general meeting approved a proposal for the merger of RSAccess into the subsidiary Safe-T Data (see note 24b).

NOTE 9 – TAXES ON INCOME:

a. Corporate taxation in Israel

The income of the Company and its Israeli subsidiary is taxed at the regular corporate tax rate.

The Law for Change of National Priorities (Legislative Amendments for the Achievement of Budgetary Goals for 2013 and 2014), 2013, which was published in the official gazette on August 5, 2013, stipulated, among other things, that the corporate tax rate will be 26.5% in 2014 and thereafter.

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216) was published, enacting a reduction of corporate tax rate beginning in tax years 2016 and thereafter, from 26.5% to 25%.

In December 2016, the Economic Efficiency Law (Legislative Amendments for the Achievement of Budgetary Goals for the 2017 and 2018 Budget Years), 2016 was published, introducing a further reduction in corporate tax rate from 25% to 23%. However, the law also included a temporary order setting the corporate tax rate in 2017 at 24%. As a result, the corporate tax rate will be 24% in 2017 and 23% in 2018 and thereafter.

NOTE 9 – TAXES ON INCOME (continued):

b. Tax assessments

On November 19, 2015, the Knesset passed the second and third readings of the proposed Economic Efficiency Bill (Legislative Amendments for the Achievement of Budgetary Goals for the 2015 and 2016 Budget Years), 2015. The bill included an amendment to the Income Tax Ordinance, which extends the limitation period of self-assessments, which are filed by assessees in respect of the 2013 tax year and thereafter. The bill suggests that the limitation period be extended to 4 years from the end of the tax year in which the assessment was filed. Through the date of approval of the said amendment, the limitation period of self-assessments was 3 years from the end of the tax year in which the assessment was filed.

The Company has not been assessed for tax purposes since incorporation.

c. Carryforward tax losses

Deferred tax assets in respect of carryforward tax losses are recognized in case that it is expected that the relating tax benefit would be realized against a future taxable income.

The Company’s losses for tax purposes through merger date were written-off in accordance with the Tax Authority’s tax ruling, which approved the merger between the Company and Safe-T Data.

Carryforward tax losses amount to $9,622 thousands and $ 6,766 thousands as of December 31, 2016 and 2015, respectively. The Company did not create deferred taxes for these losses since their utilization is not expected in the foreseeable future.

d. Theoretical tax reconciliation

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (see a above) and the actual tax expense:

	Year ended December 31 2016		Year ended December 31 2015		Year ended December 31 2014	
	%	Thousands of dollars	%	Thousands of dollars	%	Thousands of dollars
Loss before taxes on income, as reported in the statements of profit or loss	100	8,920	100	18,198	100	3,692
Theoretical tax saving on this profit or loss	(25)	(2,230)	(26.5)	(4,822)	(26.5)	(978)
Increase in taxes resulting from permanent differences - non-deductible expenses	14.14	1,261	22.6	4,105	7.9	*291
Increase in taxes resulting from tax losses in the reported year for which deferred taxes were not created	10.88	971	3.9	717	18.6	*687
Tax expenses	0.02	2	-	-	-	-

* Reclassified.

NOTE 9 – TAXES ON INCOME (continued):

e. The effect of adopting IFRS on tax liability

The Company prepares its financial statements in accordance with IFRS commencing on January 1, 2008.

IFRS differ from Israeli GAAP and, accordingly, financial statements drawn up in accordance with IFRS may reflect financial position, operating results and cash flows that are significantly different from those presented in accordance with Israeli GAAP.

In accordance with the provisions of amendments to the Income Tax Ordinance published in 2010, 2012 and 2014 (hereafter – the "temporary orders"), Accounting Standard No. 29 issued by the Israel Accounting Standard Board would not apply upon determining the taxable income for tax purposes in respect of tax years 2007-2013; this would be the case even if the said accounting standard was applied for the said tax years in the financial statements. The meaning of the temporary orders is that IFRS shall not apply in actual fact at the time of calculation of the taxable income for tax purposes of the said tax years.

In 2014, the Government of Israel published a law memorandum in connection with the amendment to the Income Tax Ordinance (hereafter – the "law memorandum") resulting from application of IFRS in the financial statements. Generally, the law memorandum adopts IFRS. Nevertheless, the law memorandum suggests making several amendments to the Income Tax Ordinance, which will serve to clarify and determine the manner of computation of taxable income for tax purposes in cases where the manner of computation is not clear and IFRS do not comply with the principles of the tax method applied in Israel. The legislation procedures relating to the law memorandum have not yet been completed and it is doubtful whether they shall be completed in the near future.

Since the legislation procedures relating to the law memorandum have not yet been completed, the Company estimates that the term of the temporary order which applies to the years 2007 to 2013 shall be extended eventually through 2016. Therefore, Company's management expects that at this stage the new legislation shall not apply to tax years preceding 2017. Taking into consideration the temporary order, which applies to tax years 2007 to 2013, the Company computed its taxable income for the said tax years based on Israeli accounting standards applicable immediately before the adoption of IFRS in Israel, subject to certain adjustments.

Since the temporary order has not yet been extended to include 2014, 2015 and 2016, the Company computed its taxable income for these tax years based on IFRS.

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUALS:

a. Accounts payable - other:

	December 31	
	2016	2015
	U.S dollars in thousands	
Employees and related institutions	280	142
Issuance expenses payable	-	103
Accrued expenses	361	360
Government institutions	-	54
Loan in respect of vehicles	-	5
	641	664

b. The carrying amount of accounts payables, which are financial liabilities, is a reasonable approximation of their fair value since the effect of discounting is immaterial.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES:

a. Lease agreements

In 2013, Safe-T entered into a lease agreement, which expired on June 30, 2015. The agreement included an option to extend the lease with a lease fee increase of 6%. In 2015, Safe-T extended the lease agreement. The lease agreement will expire on December 31, 2017. Also, the second-tier subsidiary – Safe-T Inc. has entered into a lease agreement, which will expire on November 30, 2017.

In the year ended December 31, 2016, the Company's lease fees (including management fees relating to the building in which the offices are situated) amounted to $95 thousands. The minimal future lease fees (including the management fees), which are payable under the said lease agreements are as follows:

For the year ended December 31:	U.S dollars in thousands
2017	122
	122

b. On December 15, 2014, Safe-T reached a compromise agreement with a former agent, who demanded the enforcement of the contract that was signed between the parties in connection with recruitment of customers. Under the compromise agreement, Safe-T shall pay the agent a total of $12 thousands as well as commissions, subject to Safe-T's closing transactions with customers, who were specified in the compromise agreement. Safe-T shall also issue 200,000 options exercisable into Safe-T shares subject to achievement of net revenue targets of Safe-T in the years 2014, 2015 and 2016, such that a third of the said number of options will be allocated in each of the said years, subject to achievement of the relevant target. The net revenue targets were not achieved in the abovementioned years. Therefore, the options were not granted and expired. For further details see note 13c.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

c. **Royalties payable to the Chief Scientist**

On February 24, 2015, the Research Committee of the Ministry of Economy approved the Chief Scientist plan, which was filed by Safe-T. Total research and development expenses, which were approved for the period from November 1, 2014 through October 31, 2015, amount to $490 thousands (1,892 thousand ILS). 50% out of the said amount will be provided as a grant, i.e., a total of up to $245 thousands (946 thousand ILS). Under the terms of the plan, the Company is committed to pay royalties to the Chief Scientist on proceeds from sales of products in the research and development of which the Chief Scientist participated by way of grants. Royalties are payable at the rate of 3% to 5% of the proceeds from such sales.

Safe-T completed the performance of the plan on October 31, 2015 and filed a final report to the Chief Scientist, who approved the report. In the two-year period ended December 31, 2016, Safe-T received a total of $147 thousands in grants, paid royalties at the total amount of $29 thousands and its liability to the Chief Scientist as of the end of this period amounts to $118 thousands.

NOTE 12 - RETIREMENT BENEFITS OBLIGATION:

a. **Liability for employee rights upon retirement**

Labor laws and agreements require the Group to pay severance pay and/ or pensions to employees dismissed or retiring from their employ in certain other circumstances. The amounts of benefits those employees are entitled to upon retirement are based on the number of years of service and the last monthly salary.

Also, under labor laws and labor agreements in effect, including the Expansion Order (Combined Version) for Obligatory Pension under the Collective Agreements Law of 1957 (hereafter – the "Expansion Order"), Group companies are liable to make deposits with provident funds, pension funds or other such funds (hereafter – the "Funds") so as to cover their employees' pension insurance as well as some of their severance pay liabilities.

Under the terms of the Expansion Order, Group companies' deposits for severance pay as required under the Expansion Order as well as other deposits made by those companies "in lieu of severance pay" and which were announced as such as required under the Expansion Order, replace all payment of severance pay under Section 14 of the Severance Pay Law with respect to the wages, components, periods and rates for which the deposit alone was made (hereafter – "Deposits under Section 14").

NOTE 12 - RETIREMENT BENEFITS OBLIGATION (continued):

b. Defined contribution plans

Group severance pay liability to Israeli employees for which the said liability is covered under section 14 of the Severance Pay Law is covered by regular deposits with defined contribution plans. The amounts funded as above are not reflected in the consolidated statements of financial position.

The amount recognized as an expense in respect of defined contribution plans in the years 2016, 2015 and 2015 is $95 thousands, $56 thousands and $76 thousands, respectively.

NOTE 13 – SHARE BASED PAYMENT

The data provided in this note are presented after adjustments arising from the adjustment of the exchange ratio between the Company and Safe-T and the distribution of bonus shares (as described in note 14) and after adjustment/exchange carried out further to the reverse acquisition (as described in note 15), such that the number of options and the exercise prices were adjusted as part of the presentation thereof in this note.

a. Options plan, restricted (non-tradable) shares to employees, office holders and advisors

1) On January 22, 2014, the Board of Directors of Safe-T approved an options plan, where under the Board of Directors of Safe-T may allocate options and/or restricted shares to employees, office holders and advisors of Safe-T or related entities (hereafter – the “offerees” and the “options plan”).

Further to the abovementioned resolution, on December 31, 2014 and April 20, 2015, the Board of Directors resolved that it may allocate, under the plan, restricted shares of 0.01 ILS par value each and non-tradable options, which will be exercisable into up to 4,000,000 million ordinary Safe-T shares of 0.01 ILS par value each.

In May 2014, June 2014 and December 2014, Safe-T granted to employees 646,000, 80,000 and 440,000 options out of the said total number of options. The options shall be exercisable at the end of the vesting periods, as follows: 25% of the options shall vest at the end on one year from date of commencement of vesting and the remining 75% shall vest in 12 equal quarterly batches.

The fair value - at date of grant - of the options, which were awarded in 2014 – computed according to the binomial model – is $687 thousands. This value is based on the following assumptions: non-tradability premium of 50.2% to 51.2%, expected volatility of 100.31%, risk free interest of 3% to 3.38%, 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 American software companies for periods matching the expected term of the option until exercise.

NOTE 13 – SHARE BASED PAYMENT (continued):

2) In April 2014, Safe-T granted 854,000 options to employees, office holders and advisors. The options shall be exercisable at the end of the vesting periods, as follows: 25% of the options shall vest at the end on one year from date of commencement of vesting and the remining 75% shall vest in 12 equal quarterly batches. 554,000 out of the said options were granted through a trustee under the capital gains track in accordance with the provisions of Section 102 to the Income Tax Ordinance (New Version) and 300,000 further options were granted in accordance with the provisions of Section 3(i) to the Income Tax Ordinance.

   In June Safe-T granted 100,000 options to an advisor in accordance with Section 3(i) to the Income Tax Ordinance. The options shall be exercisable at the end of the vesting periods in five monthly equal batches, commencing in June 2015.

   As a general rule, the options are exercisable within 10 years from date of grant. Any options not exercised by this date shall expire. The exercise price of the options is $0.15 per share (unlinked). Under the terms of the plan, upon the occurrence of merger or initial public offer (hereafter – "Liquidation Event"), the vesting period for some of the offerees will be accelerated such that all unvested options as of the date of the Liquidation Event will vest immediately.

   In June 2015, Safe-T granted 200,000 to the CEO of Safe-T in accordance with the provisions of Section 102 to the Income Tax Ordinance (New Version). The options will be exercisable at the end of the vesting periods, as follows: 50% of the options shall vest immediately and the remining 50% shall vest in 8 equal quarterly batches. The options are exercisable within 10 years from date of grant. Any options not exercised by this date shall expire. The exercise price of 25% of the options is fixed and the exercise prices of the remaining 75% of the options shall be derived from the share price set as part of the IPO. Under the terms of the plan, if the CEO is dismissed within one year from the date of the Liquidation Event, the vesting period of those options will be accelerated such that all unvested options as of the date of the Liquidation Event will vest immediately.

   The fair value - at date of grant - of the options, which were awarded in 2015, is computed according to the binomial model or the Monte Carlo model (for Safe-T's CEO). This value is based on the following assumptions: non-tradability premium of 29.7% to 49.7%, expected volatility of 61.85%, risk free interest of 2.68% to 3.04%, 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 American software companies for periods matching the expected term of the option until exercise.

NOTE 13 – SHARE BASED PAYMENT (continued):

3) On January 18, 2016, the exercise price of 150,000 options, which were granted to the Safe-T's CEO in June 2015, was fixed to $0.15. The said 150,000 options constitute three quarters of the number of options that were granted to the CEO, the exercise price of which was to be derived from the share price that was to be set as part of the IPO, which did not take place. Safe-T has accounted the fixing of the exercise price as change of terms as defined in IFRS 2. As a result, the Company recorded additional expenses in respect of the incremental fair value as reflected in the valuation of the options.

   The incremental fair value at date of grant, which was computed according to the binomial model, amounted to $29 thousands. This value is based on the following assumptions: expected volatility of 59.22%, risk free interest of 2.9%, expected term until exercise of 9.4 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.

4) On January 18, 2016, Safe-T's Board of Directors approved the award of 1,178,000 options to employees at an exercise price of $0.15. The options will be exercisable at the end of the vesting period in accordance with the terms of the award agreements; (further to the merger, the said options were exchanged with 443,460 Company options at an exercise price of $0.3985.

   The fair value of the options at date of grant, which was computed according to the binomial model, amounted to $1,002 thousands. This value is based on the following assumptions: expected volatility of 59.22%, risk free interest of 3.08%, 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.

5) On August 28, 2016, the Company's Compensation Committee and Board of Directors approved the grant of 779,296 options to Company employees and advisors, at an exercise price, which constitutes an average of the closing price of the Company's share over the course of the 30 trading days that preceded the resolutions. 649,920 options were granted through a trustee under the capital gains track in accordance with the provisions of Section 102 to the Income Tax Ordinance (New Version) and the remaining options were granted under other taxation tracks.
   The fair value of the options at date of grant, which was computed according to the binomial model, amounted to $607 thousands. This value is based on the following assumptions: expected volatility of 59.22%, risk free interest of 1.62%, 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.

NOTE 13 – SHARE BASED PAYMENT (continued):

The Company's Board of Directors has also approved the award of 50,000 options to an advisor at an exercise price of 6.50 ILS per share. The amount of the benefit granted as part of this award amounted to $26 thousands. The benefit was estimated in accordance with the cost of services provided to the Company.

6) On September 15, 2016, the Company's Compensation Committee and Board of Directors approved the grant of 171,408 options to Company's CEO, to a member of the Company's Board of Directors and to an employee, who is a relative of the Chairman of the Board of Directors. The options were granted at an exercise price, which constitutes an average of the closing price of the Company's share over the course of the 30 trading days that preceded the resolutions. 160,080 options were granted through a trustee under the capital gains track in accordance with the provisions of Section 102 to the Income Tax Ordinance (New Version) and the remaining options were granted under other taxation tracks. The said grants were approved by the general meeting of the Company's shareholders on November 3, 2016.

   The fair value of the options at date of grant, which was computed according to the binomial model, amounted to $102 thousands. This value is based on the following assumptions: expected volatility of 59.22%, risk free interest of 1.99%, 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.

7) In 2016, an employee exercised 4,325 options into Company shares.

b. Options to advisors, who provide services similar to those provided by employees

In December 2014, the Board of Directors approved the allocation of 1,000,000 options to advisors, who provide services similar to those provided by employees. The number of the options and the vesting periods were determined as part of this allocation. However, the exercise price of the options was not determined. For each period, the Company recognized expenses in respect of services, which are similar to those provided by employees, based on the fair value of the instruments, which was measured in the reported period.

The exercise price of some of the abovementioned options was set in June 2015, thereby fixing the fair value of the options granted to those advisors. Subsequent to the merger, the exercise price is $0.61.

The expenses, which were recognized in the Company's statements of profit or loss for the years 2016, 2015 and 2014 in respect of grant of options to advisors, who provide service similar to those provided by employees, amounted to $279 thousands, $725 thousands and $97 thousands, respectively.

NOTE 13 – SHARE BASED PAYMENT (continued):

c. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015		2014	
	Number of options	Average exercise price	Number of options	Average exercise price	Number of options	Average exercise price
		$		$		$
Outstanding at beginning of year:						
Granted	1,099,240	0.49	438,943	0.40	-	-
Exercised	1,444,164	1.07	810,878	0.50	450,237	0.40
Forfeited	(4,235)	0.40	-	-	-	-
Expired	(78,734)	0.51	(120,465)	0.24	(11,294)	0.40
Outstanding at end of year	(75,526)	0.46	(30,116)	0.40	-	-
Exercisable at end of year	2,384,909	0.84	1,099,240	0.49	438,943	0.40
	1,061,645	0.55	432,685	0.43	88,372	0.40

d. The following table summarizes information about exercise price and the remaining contractual life of options outstanding at the end of the years:

	2016		2015		2014	
Exercise prices	Number outstanding at end of year	Weighted average remaining contractual Life	Number outstanding at end of year	Weighted average remaining contractual life	Number outstanding at end of year	Weighted average remaining contractual life
$		Years		Years		Years
0.40	1,141,779	8.20	813,136	8.76	438,943	9.13
0.61	248,458	8.01	286,104	9.01	-	-
1.28	171,408	9.71	-	-	-	-
1.37	773,264	9.66	-	-	-	-
1.73	50,000	2.66	-	-	-	-
	2,384,909		1,099,240		438,943	

e. Allocation of unlisted options as part of a compromise agreement

Under a compromise agreement, which was signed on December 15, 2015 between Safe-T and a third party, which is not related to the Company, Safe-T has undertaken to issue to that third-party options exercisable into up to 200,000 Safe-T ordinary shares in accordance with Safe-T's options plan (hereafter- the "Compromise Agreement"). The allocation of options and the number of options to be allocated under the Compromise Agreement shall be subject to achievement of net revenue targets by Safe-T in the years 2014, 2015 and 2016, such that a third of the said number of options will be allocated in each of the said years, subject to achievement of the relevant target. As of the date of these financial statements, the net revenue targets were not achieved for the abovementioned years. Therefore, the options were not granted and expired.

NOTE 13 – SHARE BASED PAYMENT (continued):

When the fair value of the options was determined, Safe-T has taken into account the probability that the net revenue targets will be achieved, and subject to the above it recognized share based payment expenses of approximately $85 thousands in 2014. The probability of achievement of each of the sales milestones by Safe-T was calculated using the Black-Shcoles model. The underlying asset used in the calculation was Safe-T's projected sales for each of the relevant years, whereas the exercise price was the sales target for that year as determined in the compromise agreement. The fair value was calculated by multiplying the fair value of the options by the probability that Safe-T shall achieve each of the sales milestones.

f. Options to investors

The Fidelity agreement provides that in case of a successful share issuance, Safe-T shall allocate to the group of investors options to purchase Safe-T shares, immediately after the IPO. The IPO has not taken place and the options were not allocated. Accordingly, as of December 31, 2016, the Company does not have a liability to grant any options to the group of investors in respect of this agreement. For further details see note 15.

g. Expenses recognized in the financial statements

The cost, which was recognized in the Company's financial statements in respect of services received from its employees is presented in the table below:

	Year ended December 31		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
Share-based payment plans	1,818	2,383	301

The plans are intended to be governed under rules set for that purpose in the Company's options plan. The exercise prices of the options that are exercisable into shares as of December 31, 2016 range between $0.4 to $1.73. For further details, see note 16, 17, 18, and 19.

NOTE 14 – SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY):

a. Share capital:

As of December 31, 2016 and 2015, the Company's ordinary share capital (hereafter – "ordinary shares") is composed as follows:

	Number of shares			
	Authorized		Issued and paid	
	December 31		December 31	
	2016	**2015**	**2016**	**2015**
Ordinary shares of no par value	1,000,000,000	1,000,000,000	15,162,033	28,947,022

b. Issuance of share capital

On August 20, 2015, the Board of Directors of Safe-T approved the allocation and award of bonus shares to all Safe-T shareholders, such that for each ordinary share held by a Safe-T shareholder, this shareholder will be entitled to receive 19 ordinary Safe-T shares without consideration (hereafter – the "Split"). The said allocation was carried out on August 20, 2015.

NOTE 14 – SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY (continued):

In accordance with the provisions of the Company's options plan and further to the issuance of the bonus shares, Safe-T's Board of Directors has resolved to increase the quantity of options, which Safe-T may award, by the same rate applied when issuing the bonus shares. The Board of Directors has also decided to apply the same adjustment to the number of options, which Safe-T has allocated by that date, as well as to the number of options it has undertaken to allocate. The exercise prices were adjusted by dividing the original exercise prices by using a 1:20 ratio.

On March 1, 2016, the Company consolidated its issued and paid share capital such that every 800 ordinary Company shares of no par value were consolidated into one ordinary share of no par value.

On November 21, 2016, the Company's Board of Directors approved an agreement for a private allocation of shares. Under the agreement, the Company shall allocate 1,414,434 packages comprising 1 share and 1 warrant in consideration for 4.25 ILS per package, such that the total consideration to be received by the Company will amount to approximately 6.01 million ILS.

Under the agreement, if the Company carries out further capital raising rounds at a price, which is lower than the price of the package, the shares that will be allocated as part of the private allocation shall benefit from anti-dilution protection for a period of one year from the date of closing the investment up until December 14, 2017. The protection shall be effected by a further allocation of shares in accordance with the calculation of the number of shares that the investors would have been entitled to receive had the allocation been carried out at the price of the diluting allocation, but in no case, shall the price per share be lower than 3 ILS. As part of the transaction, the Company paid capital raising commissions.

The agreement also provides that the exercise price of warrants that will be granted to the investors will be 7.5 ILS per share. The warrants will expire on November 9, 2017.

On November 23, 2016, the Company's Board of Directors approved an addition to the private share issuance. The addition comprises 78,236 packages in consideration for approximately 332 thousand ILS.

The allocation was completed on December 14, 2016 – 1,492,670 packages comprising 1 share and 1 warrant, in consideration for a total of approximately 6.34 million ILS.

The Company recognized financial liabilities in respect of the Series 2 warrants and in respect of the anti-dilution component (see above). The Series 2 warrants are measured at fair value (level 1) in accordance with their quoted price. Changes are carried to profit or loss or a periodic basis. The anti-dilution component is measured at fair value (level 3) as reflected in a valuation carried out as of the date of the transaction. Changes are carried to profit or loss on a periodic basis. The equity component was recognized for the first time by subtracting the fair value of the financial liabilities from the fair value of the compound financial instrument as a whole. The equity component of a compound instrument is not remeasured in subsequent periods, except on conversion or expiry. Issuance expenses were allocated on a pro-rata basis to the three components mentioned above.

NOTE 14 – SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY (continued):

c. Treasury shares

On March 22, 2016, Safe-T's Board of Directors decided to cancel 300,000 ordinary shares that were held by Safe-T (treasury shares). The cancellation of the treasury shares had no effect on Safe-T's authorized share capital.

d. Merger between Safe-T and RSAccess

In accordance with a tax ruling, which was issued by the Israel Tax Authority on June 4, 2015 (hereafter – the "Tax Ruling" and the "Tax Authority", respectively), on June 10, 2015 Safe-T and RSAccess were merged by way of shares exchange (hereafter – the "Merger"), in accordance with Section 103t to the Income Tax Ordinance (New Version), 1961 (hereafter – the "Ordinance").

As part of the merger, RSAccess shareholders, other than Safe-T, transferred all their holdings in RSAccess (48% of the shares in total) in consideration for the allocation of Safe-T shares. As a result of the merger, RSAccess became a fully-owned subsidiary of Safe-T. It should be noted that the Tax Ruling is subject to the restrictions set out in Part E2 to the Ordinance, as applicable to all shareholders of the companies, which participate in the merger.

As a result of the Tax Ruling, on June 10, 2015, Safe-T, RSAccess and the remaining shareholders of RSAccess, entered into agreement, whereby Safe-T shall acquire the other shareholders' holdings in RSAccess in consideration for the allocation of 173,299 ordinary Safe-T shares. Allocation of Safe-T shares to the said shareholders will be made in accordance with each shareholder's proportionate interest in RSAccess.

The difference between the fair value of the issued shares and the carrying amount of the non-controlling interests as of the date of the merger – amounting to approximately $6.5 million - was carried to other equity reserves.

As to the merger transaction and the actions that were carried out as part thereof, see note 15.

e. Rights conferred by shares

- **Ordinary shares**

  The ordinary shares confer upon their holders voting rights, the right to receive dividends, the right to a share in excess assets upon liquidation of the Company and other rights as set out in the Company's articles of association (hereafter- the "Articles of Association").

As to the merger transaction and the actions that were carried out as part thereof, see note 1d and note 15.

NOTE 14 – SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY (continued):

- **Preferred shares**

In February 2013, close to the date of the establishment of Safe-T, the Company and Sasa (hereafter - the "Investor") entered into an investment agreement comprising the following terms:

1) A $ 2.5 million investment for 350,000 preferred shares, constituting 35% of the share capital of Safe-T on a fully diluted basis, such that $ 1.5 million (hereafter – the "Initial Investment") will be received by the end of 2013 and the remaining amount of investment - $ 1 million – (hereafter – the "Remaining Investment" or the "Second Investment") shall be received if Safe-T meets sales targets (hereafter – the "Investment Targets"). All preferred shares were issued to the Investor at the time of signing the agreement.

2) Set forth below are the principal rights attached to the preferred shares under the investment agreement and Safe-T's Articles of Association (as amended subsequent to the investment agreement):

   a) In addition to the rights conferred upon the holders of ordinary shares by law and the rights set out in the Articles of Association, the preferred shares shall confer upon their holders the following rights:

      (1) Priority in liquidation: in case of liquidation, the holders of preferred shares shall be entitled to receive, prior and in preference to any other Company shareholders, amounts equal to the amount they have invested up to the date of liquidation, net of dividends received or shareholders' loan (see section c below) repaid through that date, plus annual interest of 5% payable in respect of the whole investment amount. On the other hand, holders of preferred shares do not have the right to demand the liquidation of Safe-T.

      (2) Protection from dilution: if Safe-T allocates shares to investors (hereafter – the "Future Transaction") at a price per share, which is lower than $7.14 per share (or 28.56 ILS per share), the holders of the preferred shares shall be entitled to receive additional shares in excess of the shares they received under the allocation agreement. The number of such shares shall be calculated by dividing the consideration the holders of preferred shares have actually paid by the price per share to be set in the Future Transaction, less the number of shares to be allocated to holders of preferred shares at the time of completion of the transaction (hereafter – the "anti-dilution mechanism").

NOTE 14 – SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY (continued):

(3) Appointment of executives: the holders of preferred shares shall have the right to appoint two out of the five Safe-T directors as described below.

(4) Priority in dividend distribution in accordance with Safe-T's Articles of Association (as described below).

(5) If a Liquidation Event occurs, the Investor has priority in liquidation under rights conferred to the preferred shares in the shareholders' agreement and in the Articles of Association. This means that in case of liquidation, the holders of preferred shares shall be entitled to receive, prior and in preference to any other Company shareholders, amounts equal to the amount they have invested up to the date of liquidation, net of dividends received or shareholders' loan repaid through that date, plus the interest as defined.

b) Each holder of preferred share shall be entitled to one vote for each share held by it, which is equal to the number of votes conferred by ordinary shares. All shareholders will vote in the general meeting together, except for cases where the law requires that holders of each type of shares shall vote separately.

c) Safe-T's Articles of Association further define certain veto rights to holders of Safe-T's preferred shares, such that no resolution will be passed by Safe-T's Board of Directors or General Meeting of its shareholders, unless the holders of preferred shares or the directors appointed by those shareholders have supported the resolution. This also includes the mechanism for distribution of Safe-T's profits (as described below) as well as the any change in the structure of the Articles of Association, which also includes a resolution to change the structure of the Board of Directors.

3) Investment Targets – as per the agreement, the investors will pay to the Company the remaining amount of investment 12 months after the date of the Initial Investment, provided that Safe-T's accrued sales in the period from April 1, 2013 through March 31, 2014 shall amount to $900 thousands at the very least. Moreover, the agreement sets a settlement account in case of non-compliance with the targets (hereafter – "Non-Compliance Mechanism"), whereby if Safe-T does not meet the Investment Target, it will be given up to further 3 months to meet the target and 20% of the remaining balance of the investment will be deducted. However, it after this 3-month period Safe-T still fails to meet the Investment Targets, then the investor will not have to pay the remaining amount of the investment.

4) The shareholders will extend shareholders' loans (hereafter – a "Third Investment") at the total amount of up to $2.5 million in accordance with accumulating target sales and EBITDA targets, which were defined in the agreement with the Investors (hereafter the "Targets of the Shareholders' Loans). Set forth below are the principal terms of the shareholders' loans:

NOTE 14 – SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY (continued):

a) The shareholders' loans shall bear the minimum interest as set out in the Ordinance.

b) The shareholders' loans shall be repaid as follows:

1) Through Safe-T's profit distribution mechanism, as defined in its Articles of Association (see below).

2) In accordance with the resolution of Safe-T's Board of Directors, provided that the Investor's representatives in the Board of Directors support this resolution.

c) The agreement with the Investor further provides that if the shareholders' loans will not be extended to the Company, the number of preferred shares held by the Investor shall be reduced to a number equal to the product of: (a) the number of allocated shares multiplied by (b) the ratio between the total amount of payments, which the external Investor was supposed to pay the Company (i.e., $5 million) and the amount that the Investor has actually invested in the Company through that date. The balance of preferred shares held by the Investor shall become deferred shares; (under the agreements, one may interpret the definition of "deferred shares" as treasury shares for accounting treatment purposes).

Targets of shareholders' loans – as provided in the agreement, the Investors shall extend the shareholders loans to the Company in three installments, subject to the following conditions (and subject to the Non-Compliance Mechanism as described above).

(1) The first payment – a total of $1 million - will be paid 180 after the payment of the remaining amount of investment as above, provided that Safe-T's accrued sales in the period from April 1, 2014 through October 31, 2014 shall amount to $800 thousands at the very least and that the Company's expenses shall not constitute more than 10% of the EBITDA set in the business plan to be approved by the Board of Directors for that period.

(2) The second payment – a total of $750 thousands – shall be made 180 days after the first payment is made, provided that Safe-T's accrued sales in the period from November 1, 2014 through March 31, 2015 shall amount to $1.75 at the very least and that the Company's expenses shall not constitute more than 10% of the EBITDA set in the business plan to be approved by the Board of Directors for that period.

(3) The third payment – a total of $750 thousands – shall be made 180 days after the second payment is made, provided that Safe-T's accrued sales in the period from April 1, 2015 through October 31, 2015 shall amount to $1.98 million at the very least and that the Company's expenses shall not constitute more than 10% of the EBITDA set in the business plan to be approved by the Board of Directors for that period.

NOTE 14 – SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY (continued):

5) Description of Safe-T's profit distribution mechanism as set out in the Company's Articles of Association:

a) Safe-T shall use its profits in its operations and shall not distribute dividends until the earliest of the following events: (1) issuance of the audited financial statements for the 2016 financial year, or (2) until after Safe-T has distributable profits, the amount of which exceeds the amounts invested by its preferred shareholders, whether this investment was made by investment in equity or by way of shareholders' loans.

b) Until full repayment of the amounts injected to the Company by its preferred shareholders, whether this investment was made by investment in equity or by way of shareholders' loans, any distribution of Safe-T's distributable profits shall be made such that holders of preferred shares shall receive 50% of the total distributed profits and the remaining 50% shall be distributed to the holders of ordinary shares in accordance with their proportionate interest in the Company. Once all of the amounts referred to in this section are fully repaid, Safe-T's profits shall be distributed to its shareholders in accordance with their interest in Safe-T's shares at that time (hereafter – "Safe-T's Profits Distribution Mechanism" or the "Dividend Distribution Mechanism").
The directors that will be appointed by holders of preferred shares may, at their sole discretion, determine that where Safe-T decides to distribute dividend to its shareholders, such dividend will only be distributed to holders of ordinary shares and that portion that should have been paid to holders of preferred shares shall be paid to those shareholders as repayment of the shareholders' loan they extended to Safe-T. In such a case, the holders of the Preferred shares shall not be eligible to receive a dividend as part of that dividend distribution.

c) After the issuance of its 2016 audited financial statements, Safe-T shall distribute every year at least one third of its distributable profits, unless its shareholders decide to distribute less than one third of the distributable profits at a majority of 75% of the votes cast. In that regard, the term distributable profits shall have the meaning assigned to it in the Companies Law.

Amendments to the investment agreement:

a) On October 31, 2013, Safe-T and the Investor reached an agreement where under the Investor will pay the remaining amount of the investment in accordance with the payment terms agreed upon between the parties with regard to the period from November 1, 2013 through March 1, 2014 on account of the investment, which the Investor made under the investment agreement. As of December 31, 2013, Safe-T received a total of $250 thousands and in 2014 Safe-T received further amounts totaling $ 750 thousands.

NOTE 14 – SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY (continued):

b) On February 4, 2014, Safe-T and the Investor amended the investment agreement (hereafter – the "Amendment"). In accordance with the Amendment, the Investor shall extend the $2.5 million shareholders' loans to the Company and the targets of the shareholders' loans as set out in the original agreement shall be cancelled. The Amendment to the investment agreement changed the payment schedule, such that Safe-T shall be entitled to receive the investment amounts in the period from February 2014 to May 2015. In practice, the Company received a total of $1,750 thousands and $750 thousands on account of the shareholders' loans in the years 2014 and 2015, respectively.

The Amendment to the investment agreement sets a fundamental term, whereby if the investor meets all its undertakings under the investment agreement and under the Amendment, including the payment schedule, but Safe-T fails to meet the sales target, then the preferred share capital held by the Investor shall be adjusted as follows (hereafter – the "Mechanism for Adjustment of the Company's Shareholdings") (the criteria for recognizing a transaction as a "sale" are the date of issuance of invoice to the customer in respect of the transaction and the amount specified in that invoice):

(1) If sales exceed $1 million – no adjustment shall be made.

(2) If sales range between $900 thousands and $ 1 million – the price per share shall be adjusted such that the Investor will hold 38% of Safe-T's share capital on a fully diluted basis.

(3) If sales are lower than $900 thousands – the price per share shall be adjusted such that the Investor will hold 40% of Safe-T's share capital on a fully diluted basis.

Based on the terms described above, Safe-T was not required to issue further share capital to the Investor.

In order to determine the accounting treatment to be applied to the investment agreement, Safe-T first considered whether the investment in the preferred shares and the shareholders' loan constitute a single financial instrument. Considering the fact that the two agreements were signed in February 2013, with a view of both agreements as a whole, where a proportionate share out of the 35% of Safe-T's share capital, which was conferred upon the Investor in respect of the investment in preferred share capital, is actually contingent on further injection of shareholders' loans by the Investor, and considering the fact that both agreements were signed between the external investor and the same counterparty (Safe-T), Safe-T has determined that the investment in preferred share capital and the shareholders' loan constitute a single financial instrument (hereafter – "Investment in Preferred Shares").

NOTE 14 – SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY (continued):

The Investment in Preferred Shares constitutes a non-derivative instrument. In order to determine the classification of the host contract as an equity instrument or as a financial liability in accordance with IAS 32, Safe-T examined whether it is committed or may be committed to deliver a variable number of its equity instruments. Since all preferred shares were issued on the date of signing the investment agreement and taking into account the share-forfeiture mechanism as described above, which depends on the achievement or non-achievement of the abovementioned milestones and whereby the number of preferred shares that will be issued to the Investor for each $1 of its investments, is known and predetermined, the investment in the preferred shares meets the definition of equity instrument.

Safe-T has also examined whether the Dividend Distribution Mechanism described above constitutes a financial liability of Safe-T, taking into account, among other things, the following factors:

(1) The rate of dividend payable to the Investor out of the total amount of each dividend distribution (50% of the dividend amount although its actual stake in the Company is lower than 50%) until its investment is repaid, as described above.

(2) By setting the majority required to pass in the general meeting a decision to the effect that the Company cannot distribute a dividend, Safe-T provided that until the full amount of investment in preferred shares is fully repaid to the Investor, the Company is unable to decide that it will not distribute dividends. Accordingly, this component constitutes a financial liability in accordance with IAS 32, which is measured at the present value of the future dividend payments in respect of investments that were received, or investments the receipt of which is contingent.

In accordance with the Dividend Distribution Mechanism, which is set out in Safe-T's Articles of Association, upon distribution of dividends to holders of preferred shares, the holders of ordinary shares shall also receive 50% of the total distributed amount, beginning with the first dividend distribution. In view of this provision, Safe-T is unable to decide that it will not distribute dividends to holders of ordinary shares. Accordingly, this component, which is attributed to holders of ordinary shares, constitutes a financial liability in accordance with IAS 32.

In February 2013, when the investment was made, Safe-T recorded financial liabilities in respect of its liabilities to the Investor and to the holders of ordinary shares. Those liabilities in respect of the whole group of shareholders amounted to $391 thousands. These liabilities were measured upon initial recognition at fair value, which was calculated as the present value of the future dividend payments, using a discount rate of 21%. Subsequent to initial recognition, these liabilities are measured at amortized cost, using the original discount rate.

NOTE 14 – SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY (continued):

c) In June 2015, Safe-T's Articles of Association were amended and a further amendment was made to the investment agreement with Sasa, whereby all preferred shares shall be converted into ordinary shares and the shareholders' loans shall be converted into share premium. After the second amendment was signed, the preferred shares were converted into 437,500 ordinary shares (8,750,000 shares after the distribution of the bonus shares). Subject to the amendment, the preference rights were cancelled and Safe-T's Profits Distribution Mechanism was modified. As a result, the balance of the financial liability to distribute dividends and the anti-dilution mechanism were cancelled and are presented within Safe-T's equity.
For accounting treatment purposes, Safe-T accounted for the transaction as an extinguishment of a compound financial instrument. A total of approximately $1.8 million out of the total transaction consideration was attributed to the extinguishment of the financial liability to distribute dividend to holders of preferred shares and the difference of approximately $1.5 million between the fair value of the liability and its carrying amount was carried to finance expenses. The remaining amount of the consideration was attributed to the extinguishment of the investment in preferred shares, with the difference of approximately $11 million constituting excess return for the holders of preferred shares. For details, see note 21.
Since the original terms of the preferred shares did not include conversion rights, Safe-T accounts for the change as an extinguishment of a financial liability, such that the difference between the fair value of the liability at the time of the extinguishment and the carrying amount is carried to profit or loss. Also, further to the abovementioned amendments, the balance of the financial liability to distribute dividend to holders of ordinary shares was carried to share premium.

The following table describes the changes in the financial liability to distribute dividend:

	U.S dollars in thousands
Balance as of December 31, 2013	(1,174)
Update- third investment	(1,045)
Finance expenses	(955)
Balance as of December 31, 2014	(3,174)
Finance income	145
Balance as of June 10, 2015	(3,029)
Extinguishment of financial liability	3,029
Balance as of June 10, 2015	-

The Anti-Dilution Mechanism and the Mechanism for Adjustment of the Company's Shareholdings constitute financial derivatives, which are measured every reporting period at fair value against finance income or expenses. For further details, see note 4.

NOTE 15 – THE MERGER TRANSACTION:

a. **Background**

The Second Amendment to the Fidelity agreement was signed on January 7, 2016, The Second Amendment fully cancels the First Amendment, which was signed in November 2015. The Second Amendment also essentially cancels the Fidelity Agreement, which included the grant of options of shares to the group of investors (as defined in note 15a to Safe-T's financial statements as of December 31, 2015), in the event of an IPO.

Under the Second Amendment, Safe-T and the group of investors will work to complete a merger with a shelf company (hereafter – the "Merged Company"). Furthermore, until the said merger, the group of investors will provide further funding to Safe-T at the total amount of $500 thousands at the very least. Under the Second Amendment, this amount, along with the $252 thousands loan, which was extended by a potential investor in December 2015, shall be named hereafter "Additional Loans" or "Financial Liabilities from Group of Investors". Under the Second Amendment, it was resolved that the Additional Loans and the loans extended to fund the issuance expenses and the bridging loans amounting to approximately $1,056 thousands (hereafter – the "Issuance-Funding Loans" or "Financial Liabilities at Fair Value Through Profit or Loss") shall have the same terms. If the merger process is successful, all of the said amounts will be repaid to the investors in cash and will not be converted into Company's share capital.

Under the agreement, upon completion of the merger transaction the merged company shall have a cash balance of approximately $4 million (16.06 million ILS) at the very least. The cash amounts comprising this balance shall be transferred to Safe-T by the group of investors and/or by anyone acting on its behalf until the date of completion of the merger. In consideration for those cash amounts, the group of investors and the public shall be issued shares, which constitute approximately 35% of the Merged Company's share capital on a fully diluted basis.

It was also determined that the group of investors shall receive options (hereafter – "Options to the Group of Investors"), which constitute approximately 8.8% of the issued and paid share capital of the Merged Company on a fully diluted basis. These options will be exercisable over a period of 36 months. The exercise price of the options is determined by dividing the value of the Merged Company ($13 million) by the number of shares comprising the share capital (on a fully diluted basis) after the completion of the merger transaction through a cash-less exercise mechanism. As of the date of the Second Amendment, the value of the Options to the Group of Investors was estimated at $1,398 thousands (see also note 4).

NOTE 15 – THE MERGER TRANSACTION (continued):

The Second Amendment to the agreement stipulates that the existing shareholders of Safe-T shall receive additional shares of the Merged Company (hereafter – the "Milestones Shares"), without consideration. Those shares constitute approximately 5.8% and approximately 6.6% of the share capital of the Merged Company on a fully diluted basis. This is conditional upon the achievement of sales targets in the 12 and 18-month periods from date of completion of the merger, respectively. If Safe-T does not achieve its sales targets in the course of the said periods, but does meet them within the subsequent 12-month period, Safe-T's existing shareholders shall receive further shares of the Merged Company, which constitute approximately 5.12% of the share capital of the Merged Company, on a fully diluted basis.

Safe-T has agreed that after the merger is finalized, the Merged Company shall not publish a prospectus for the issuance of securities to the public for a period of three and a half years. Rather, the Merged Company will raise capital solely through private offerings, unless the group of investors gives its consent in advance to a public offering, or if certain terms relating to the Merged Company's cash balance or to its share price on the TASE, are met.

The Second Amendment also stipulates that beginning on the date on which the merger is finalized, the group of investors will provide ongoing support and advisory services to the Company on how to conduct itself in the capital market, and how to operate a public company, in exchange for the terms specified in the Second Amendment.

On January 11, 2016, the group of investors extended additional loans at the total amount of approximately $250 thousands under the provisions of the Second Amendment (hereafter: "Additional Loan I" which is part of the "Additional Loans").

On February 4, 2016, the Third Amendment to the Fidelity Agreement was signed (hereafter: "the Third Amendment"). According to the Third Amendment, upon completion of the merger, the Merged Company will have a cash balance of about $4 million (16.06 million ILS). The group of investors has also agreed that if the merger transaction is not completed by March 31, 2016, it will extend further loans of approximately $250 thousands.

It has been further agreed that immediately after the merger transaction is completed, the holdings of the group of investors and anyone acting on its behalf, along with public holdings in the Merged Company, shall constitute approximately 33% of the fully diluted share capital, as compared to the 35% stake set in the Second Amendment. Furthermore, the Third Amendment stipulates that the options and Milestone Shares of the group of investors, which were granted as part of the Second Amendment, shall be cancelled be void.

On February 24, 2016, further loans of approximately $250 thousands were extended by the group of investors (hereafter: "Additional Loan II" which is part of the "Additional Loans").

NOTE 15 – THE MERGER TRANSACTION (continued):

b. Signing the merger agreement

On March 31, 2016, a merger agreement was signed between Safe-T, Companies Merging Purpose Ltd. (hereafter - "the Company"), and Safe-T's shareholders (hereafter jointly referred to as the "Parties"). Under this agreement, Safe-T's shareholders will sell to the Company all of their holdings by way of share exchange, such that once the transaction is completed, the Company will hold 100% of Safe-T's share capital on a fully diluted basis, which, together, will meet the definition of the Merged Company. The Merged Company shall allocate ordinary Merged Company shares to Safe-T's shareholders, which will constitute 67% of the Merged Company's share capital on a fully diluted basis prior to the change in share capital caused by the exercise of the warrants relating to capital raising, see below.

Under the agreement, in order to complete the transaction, the Company will raise at least 17 million ILS net of the amounts agreed upon between the Parties, which, cumulatively, shall not exceed approximately 100 thousand ILS (hereafter: "the Threshold"). If the funds raised exceed or short fall of the Threshold, the rate of Merged Company shares to be allocated will be adjusted, such that for every 1 million ILS raised in excess of the Threshold or below the Threshold, the rate of shares allocated to Safe-T's shareholders shall decrease or increase by 1.3% of the Merged Company's share capital on a fully diluted basis (hereafter – the "Exchange Ratio Adjustment Mechanism"). If the amount raised will be lower than 13 million ILS, the Board of Directors of Companies Merging Purpose Ltd. has the power to cancel the agreement.

The agreement also stipulates that at the time of completion of the merger agreement, any options, which were allocated by Safe-T and which have not expired or exercised through that date, shall be converted into non-tradable options of the Merged Company; those options can be exercised into ordinary shares of the Merged Company, such that each option will be exercisable into one ordinary Merged Company share.

Set forth below are the conversion terms that will be applicable to holders of Safe-T's options upon completion of the merger agreement:

1) Number of options – each holder of Safe-T's options shall receive a number of Merged Company options equal to the product of (a) the number of Safe-T options it held immediately before the completion of the transaction; and (b) the ratio between (1) the product of (i) the number of shares included in Safe-T's issued and paid share capital on a fully diluted basis (excluding the number of shares that will arise from the exercise of the warrants relating to capital raising, see below) immediately before the completion of the transaction, and (ii) the ratio between the number of shares included in the Merged Company's issued and paid share capital on a fully diluted basis immediately after the completion of the transaction that will be held by Safe-T's shareholders (excluding the number of shares that will arise from the exercise of the warrants relating to capital raising, see below) and the number of shares included in the Merged Company's issued and paid share capital on a fully diluted basis that will not be held by Safe-T's shareholders (excluding the

NOTE 15 – THE MERGER TRANSACTION (continued):

number of shares that will arise from the exercise of the warrants relating to capital raising, see below) as the numerator and (2) the number of Safe-T's shares immediately before the completion of the transaction on a fully diluted basis – as the denominator.

2) The exercise price of the options – holders of Safe-T's options shall receive an amount equal to the product of (a) the exercise price of Safe-T's options granted to the relevant holder as of the date on which this agreement is signed and (b) the ratio between the number of Safe-T options, which were granted to the relevant holder and which at the time of completion of the transaction have not yet expired or exercised (as the numerator) and the number of Merged Company options to be allocated to the relevant holder as part of the transaction (as the denominator).

3) The options' exercise period for those holding Safe-T options shall be similar to the exercise period of Safe-T options they previously held (in accordance with the grant terms agreed upon with each and every option holder).

Capital will be raised through two offerings:

a) Offer of rights: issuance of up to 1,447,360 ordinary Merged Company shares, which will be offered to the Company's existing shareholders for a minimum price of 100 agorot (1 ILS) per share, and

b) Public Offering–a total of up to 31,797 units will be offered to the public. These units include (cumulatively): (a) 3,179,700 ordinary Merged Company shares, at a minimum price of 500 agorot (5 ILS) per share, (b) 1,271,880 warrants (series 1) which are exercisable into 1,271,880 ordinary Merged Company shares, and (c) tradable Merged Company warrants (series 2), which are exercisable into 1,271,880 ordinary Merged Company shares (such that each unit will include 100 ordinary Merged Company shares, 40 (series 1) warrants, and 40 (series 2) warrants).
Set forth below are the exercise terms of the warrants:

   a) Series 1 warrants: 1,271,880 options which are exercisable into 1,271,880 ordinary Merged Company shares, in consideration for an exercise price of 625 agorot. The exercise period of this series shall begin when the public offering is made, and will end eight (8) months after the public offering date. As to the extension of the exercise period, see note 24.

   b) Series 2 warrants: 1,271,880 options which are exercisable into 1,271,880 ordinary Merged Company shares, in consideration for an exercise price of 750 agorot. The exercise period of this series shall begin when the public offering is made, and shall end eighteen (18) months after the public offering date.

NOTE 15 – THE MERGER TRANSACTION (continued):

Over the period from date of signing the merger agreement through the date on which the merger is finalized (hereafter - the "Interim Period"), the group of investors shall extend loans to the Company at the total amount of up to 400 thousand ILS (hereafter – the "Interim Loans"). These loans do not bear interest or linkage differences. The loans will be repaid close to the date of finalization of the merger, based on the amount actually received. The Parties have also agreed that the Company shall bear all issuance costs and shall pay those costs out of the funds of the Interim Loans by the time the transaction is finalized. The amount of loans that were actually extended was approximately 248 thousand ILS. Those loans were used to fund the merger costs. The loan funds were repaid after the issuance of rights.

During April to June 2016, the group of investors extended further loans of approximately $370 thousands in accordance with the provisions of the Third Amendment (hereafter – "Additional Loan III").

Close to the date of completion of the merger transaction, Safe-T shall repay all loans to the group of investors, as follows:

1) A total of approximately $1,056 thousands – in respect of the loans used to fund the offering.

2) A total of approximately $752 thousands – in respect of the Additional Loans.

3) A total of approximately $370 thousands – in respect of Additional Loan III.

c. Issuance and finalization of merger

Prior to the finalization of the merger, the Company raised capital as follows:

1) On June 7, 2016, the Company completed the issuance of rights by allocating 1,445,827 shares at 1 ILS per share in consideration for $ 379 thousands. This issuance was not dependent on the funds the Company was planning to raise from the public and did not constitute a condition precedent for the finalization of the merger transaction.

2) On June 8, the Company made a public offering by way of issuing packages of securities. As part of the issuance, offers were received to purchase 32,307 units of 3,230,700 shares, 1,292,280 Series A warrants and 1,292,280 Series B warrants, in consideration for $4,173 thousands. The issuance expenses relating to this public offering amounted to $ 101 thousands. This issuance was a condition precedent for the completion of the merger transaction.

3) The terms of the warrants, which were issued are as follows: each Series A warrant is exercisable into one share in consideration for 6.25 ILS until January 9, 2017. Each Series B warrant is exercisable into one share in consideration for 7.50 ILS until November 9, 2017.

NOTE 15 – THE MERGER TRANSACTION (continued):

All the conditions attached to the merger transaction were met on June 15, 2015 and the transaction was finalized as described in note 1c. Close to that date, the Company repaid all the loans listed above amounting to a total of approximately $2,178 thousands.

d. Accounting treatment applied to the merger transaction

The Company has assessed whether the merger transaction meets the criteria of reverse acquisition in accordance with paragraph b15 of IFRS 3R, and concluded that 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.

Since the transaction discussed here is a transaction for the acquisition of a shelf company, the consideration received in the merger transaction was accounted for in accordance with IFRS 2, such that the difference between the fair value of the shelf company as of the date of finalization of the merger transaction and the net acquired assets, constitutes a service provided to the accounting acquirer in exchange for its listing on the stock exchange. Therefore, the said difference was recognized as an expense in the Company's financial statements at the time of the finalization of the merger. For further details, see note 1h.

As described in note 15c, the public offering included the issuance of a package of securities comprising 32,307 units of 100 shares and two series of warrants. The exercise price of the warrants (host contract) is denominated in New Israeli Shekels. Since the functional currency of the Company is the dollar, the warrants were accounted for as a derivative financial instrument. At of the date of issuance to the public, the warrants were accounted for as a financial liability in accordance with IAS 39 and were measured at fair value. Out of the total proceeds arising from the public offering, the derivative was allocated its fair value upon initial recognition and the remaining proceeds were allocated to equity. Subsequent to initial recognition, the liability in respect of the warrants is measured at fair value through profit or loss and changes in the liability are carried to finance expenses (income), net.

e. **Accounting treatment applied to loans used to fund the offering and the additional loans**

1) Loans used to fund the offering and options to the group of investors in connection with the offering -

   a) Before the Merger Transaction was finalized, loans used to fund the offering were accounted for as financial liabilities in accordance with IAS 39 and were allocated to fair value through profit or loss at initial recognition. Even after the amendments to the loan agreements described above, made as part of the Second and Third Amendments, the total deferred initial loss in respect of loans used to fund the offering - amounting to $ 2,259 thousands – exceeds the value of the financial liabilities, and accordingly, the net carrying amount of those loans did not change in the course of the period.

NOTE 15 – THE MERGER TRANSACTION (continued):

b) As of the date of completion of the merger transaction, the Group had observable market data available and accordingly a deferred initial loss of approximately $ 1,056 thousands was recognized among finance expenses (income), net. The amount of the said loss is equal to the amount of the cash payment that was expected to be paid to the lenders close to that date. Those loans were fully repaid after the finalization of the merger transaction.

2) Additional Loan I and options to the group of investors in connection with the offering -

Further to the Second Amendment, the Additional Loan included a financial liability component in respect of the repayment of the loan and a component of options to the group of investors.

The liability component relating to Safe-T's obligation to repay the Additional Loan was accounted for as a financial liability in accordance with IAS 39 and was recognized for the first time by subtracting the fair value of the liability in respect of the options to the group of investors - $ 193 thousands (which constitutes the proportionate share of the value of the options for the investment group as specified above) from the cash amount received. Subsequent to initial recognition, the liability in respect of the loan was measured at amortized cost using the effective interest method. The liability was classified as a current liability since the Group expected to settle the liability within less than 12 months after the end of the reporting period.

Upon the cancelation of the options to investors as a result of the Third Amendment, Safe-T recognized finance income of approximately $ 193 thousands. After the finalization of the merger transaction, this loan was fully repaid as part of the repayment of all loans as described in note 15c.

3) Additional Loans II and III

Prior to the finalization of the merger transaction and as described above, the loans were accounted for as a financial liability in accordance with IAS 39. The loans had been classified as a current liability, since the Group expected to settle the liability within less than 12 months after the end of the reporting period. These loans were fully repaid after the finalization of the merger transaction, as described above.

4) Loan from potential investor -

Prior to the finalization of the merger transaction and as described above, the change in the terms of the loan, which was extended by the potential investor, did not have any effect on the statement of profit or loss for the first quarter of 2016. Accordingly, the loan was accounted for as a financial liability in accordance with IAS 39. This liability was classified as a current liability since the Group expected to settle the liability within less than 12 months after the end of the reporting period. This loan was fully repaid after the finalization of the merger transaction, as described above.

NOTE 15 – THE MERGER TRANSACTION (continued):

f. The accounting treatment applied to options granted to Safe-T's employees and to warrants issued further to the public and private offering

1) Options granted to Safe-T's employees -

Upon the finalization of the merger, options granted to Safe-T's employees were exchanged, as described above. The Adjustment Mechanism, which was set in the merger transaction, does not meet the criteria of a change in terms as defined in IFRS 2, and consequently no additional expenses were recorded in respect of the incremental fair value.

2) Series A warrants and the Series B warrants (hereafter – the "Warrants") -

The Warrants constitute a derivative financial instrument. On the date of the public offering, the Warrants were accounted for as a financial liability in accordance with IAS 39 and measured at fair value as of offering date – at $14 thousands. On the date of the private offering, the Warrants were recognized at fair value of $350 thousands. Upon initial recognition, this amount was subtracted from the proceeds arising from the public offering and the allocation. Subsequent to initial recognition, the liability in respect of the Warrants is measured at fair value through profit or loss and is carried to net finance expenses (income), net.

NOTE 16- REVENUES AND COST OF REVENUES:

	Year ended December 31		
	2016	**2015**	**2014**
a. Revenues:	U.S dollars in thousands		
Revenues from licenses	453	504	420
Revenues from provision of maintenance and support services	341	179	78
Revenue from provision of other services	49	32	33
Total revenues	843	715	531
b. Cost of revenues:			
Payroll, related expenses and share-based payment	216	105	95
Expenses relating to amortization of intangible assets	245	245	245
Cost of joint sales	10	69	119
Other	41	34	44
Total cost of revenues	512	453	503

NOTE 17- RESEARCH AND DEVELOPMENT EXPENSES:

	Year ended December 31		
	2016	2015	2014
	U.S dollars in thousands		
Payroll, related expenses and share-based payment	715	635	587
Subcontractors	249	69	39
Other	121	105	116
Less – grants	-	(14)	-
	1,085	795	742

NOTE 18- SELLING AND MARKETING EXPENSES:

	Year ended December 31		
	2016	2015	2014
	U.S. dollars in thousands		
Payroll, related expenses and share-based payment	1,466	1,326	678
Professional fees	741	645	302
Marketing	353	156	157
Other	332	168	323
	2,892	2,295	1,460

NOTE 19 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31		
	2016	2015	2014
	U.S. dollars in thousands		
Payroll, related expenses and share-based payment	1,284	1,450	389
Professional fees	731	697	225
Depreciation	29	35	36
Other	79	70	35
	2,123	2,252	685

NOTE 20- FINANCE EXPENSES, NET:

	Year ended December 31		
	2016	2015	2014
	U.S. dollars in thousands		
Finance expenses:			
Credit from banks	(12)	(11)	(11)
Exchange differences	-	(3)	(15)
Loss from change in fair value of derivative financial instruments	-	-	*
Update of financial liabilities at fair value through profit or loss	(1,842)	-	-
Extinguishment of financial liability for dividend distribution	-	(298)	(955)
Total finance expenses	(1,854)	(312)	(981)

NOTE 20- FINANCE EXPENSES, NET:

Financing income:

	Year ended December 31		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
Gain from change in the fair value of derivative financial instruments	-	*	115
Update of financial liability in respect of dividend distribution	-	145	-
Update of financial liabilities at fair value through profit or loss	205	1,056	-
Finance income in respect of a related party	-	5	33
Interest received from institutions	2	-	-
Exchange differences	75	-	-
Total financing income	282	1,206	148
Financing income (expenses) - net	(1,572)	894	(833)

* Represents an amount lower than $1 thousand.

NOTE 21 – 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, excluding Company shares which were purchased by the Company and are held as treasury shares.

b. Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has several categories of dilutive potential ordinary shares: funding of issuance expenses and bridging loans (which were cancelled in 2016), options to employees, anti-dilution mechanism and warrants. The assumption made in calculating the loss per share is that all of the above components shall be converted into ordinary shares and the net loss is adjusted to eliminate the effect of finance income/expenses less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) using the exercise price of the options in accordance with the terms of the unexercised options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

When calculating the loss per share for the reported years, the Company did not take into account the issuance expenses, the bridging loans and the share options, since their effect – on a fully diluted basis – is anti-dilutive.

NOTE 21- LOSS PER SHARE (continued):

	Year ended December 31		
	2016	**2015**	**2014**
	U.S. dollars in thousands		
Loss attributable to Company's owners	8,922	18,198	3,630
Excess return to holders of preferred shares as a result of conversion into ordinary shares	-	11,045	-
	8,922	29,243	3,630
The weighted average of the number of ordinary shares in issue	11,527	6,605	4,122
Basic and diluted loss per share (dollar)	0.77	4.43	0.88

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 section 1d.

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.

NOTE 22 – RELATED-PARTIES AND INTERETED PARTIES - TRANSACTIONS AND BALANCES:

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

"Related Parties" – As defined in IAS 24.

Key management personnel – included together with other entities in the said definition of "related parties" in IAS 24, include the members of the Board of Directors and senior executives.

a. Transactions with interested parties and related parties:

1) Compensation to interested parties:

	Year ended December 31		
	2016	**2015**	**2014**
	U.S dollars in thousands		
Payroll and related expenses to interested parties employed by the Company/the Group	176	572	180
Number of persons to whom the benefit relates	1	2	2
Management fees and commissions to interested parties employed by the Company/the Group	166	148	164
Number of persons to whom the benefit relates	1	1	1
Compensation to directors who are not employed by the Company/the Group	36	24	-
Number of persons to whom the benefit relates	4	1	-

NOTE 22 – RELATED-PARTIES AND INTERETED PARTIES - TRANSACTIONS AND BALANCES (continued):

2) Compensation to key management personnel:
The compensation paid to key management personnel for work services they provide to the Group is as follows:

	Year ended December 31		
	2016	2015	2014
	U.S. dollars in thousands		
Payroll and other short-term benefits	680	336	425
Advisory fees	246	193	42
Management fees	166	148	164
Share-based payments	1,291	1,431	172
	2,383	2,108	803

b. Other transactions with interested parties and related parties:

1) Safe-T and a subsidiary of Sasa have reached understandings as to the sale of software products of that Company, which are supplementary products for Safe-T's products. The parties agreed that for each transaction for the sale of the joint products, the companies will reach agreements as to the amounts payable by the customer for the other company's products. The companies will also agree the calculation of the profits and the distribution of the revenues between the parties. In 2016, no such purchases have taken place and in the years ended December 31, 2015 and 2014 Company's purchases from Sasa's subsidiary amounted to $69 thousands and $119 thousands, respectively. All acquisitions were made under market conditions. Safe-T recognizes its income from those transactions on a gross basis.

   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. As of December 31, 2016, this balance reflected a $ 15 thousands balance payable to the controlling shareholder.

2) In the years 2016, 2015 and 2014, the Company employed related parties of its shareholders. In the years 2016, 2015 and 2014, the total amounts relating to those commitments amounted to $ 166 thousands, $171 thousands and $360 thousands, respectively. As of December 31, 2016, 2015 and 2014 the payable balances amounted to $15 thousands, $14 thousands and $14 thousands, respectively.

3) On February 4, 2015, the Company's controlling shareholder and Chairman of the Board of Directors transferred to RSAccess an amount of approximately $62 thousands (242 thousand ILS), which was to be used to partly repay its debt to the subsidiary Safe-T Data. 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 December 31, 2016, 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 24b).

NOTE 22 – RELATED-PARTIES AND INTERETED PARTIES - TRANSACTIONS AND BALANCES (continued):

4) On June 20, 2016, the Company repaid all of Safe-T's loans amounting to $ 2,178 thousands (as described in note 1d2)). 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 shall 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, 2018, 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). In the period from June 22, 2016 through December 31, 2016, Safe-T has withdrawn further amounts totaling approximately $ 2,748 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 $4,931 thousands as of December 31, 2016 (including exchange differences).

NOTE 23 – ENTITY LEVEL DISCLOSURES

Management has determined the operating segment based on the information reviewed by the chief operating decision maker for the purposes of allocating resources and assessing performance. Accordingly, for management purposes, the Group has one operating segment, which is based on its revenues from products and services of its principal units.

As of the date of these financial statements, the Group's activities are mainly focused on data security services and development and marketing of data security solutions. Most of the Group's customers are commercial Israeli and American companies. The remaining Group customers are European companies. Set forth below is a breakdown of the Group's revenues by geographic regions:

	Israel	**USA**	**Europe**	**Total**
	U.S. dollars in thousands			
Group's revenues:				
For the year 2016	590	243	10	843
For the year 2015	641	43	31	715
For the year 2014	197	314	20	531

NOTE 23 – ENTITY LEVEL DISCLOSURES (continued)

Group revenues by types of products:

	Year ended December 31					
	2016		2015		2014	
	U.S dollars in thousands	%	U.S dollars in thousands	%	U.S dollars in thousands	%
Safe-T Box	716	85.0	528	73.8	358	67.4
RSAccess	127	15.0	187	26.2	173	32.6
	843	100	715	100	531	100

Principal customers:

	Year ended December 31		
	2016	2015	2014
	U.S dollars in thousands		
Turnover with principal clients	632	489	382
	Percentage of total sales		
Customer A	23%	34%	-
Customer B	8%	34%	-
Customer C	5%	6%	59%
Customer D	3%	5%	13%
Customer E	23%	-	-
Customer F	14%	-	-

NOTE 25 - SUBSEQUENT EVENTS:

a. 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 1,994,084 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 12.0 million ILS.

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 target date for completion of the investment was set to May 31, 2017. However, the Company may postpone this date up until June 30, 2017 if it does not obtain all regulatory approvals required to finalize the transaction by the target date. Through the date of issuance of these financial statements, the Company received a total of approximately 1,622 thousand ILS (approximately $ 447 thousands).

b. Deferral of exercise of Series 1 Warrants and reduction of exercise price

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.

NOTE 25 - SUBSEQUENT EVENTS (continued):

As of the date of issuance of these financial statements, 8,750 warrants were exercised before the reduction of the exercise price, for a total consideration of approximately 55 thousand ILS (approximately $14 thousands), and 233,323 warrants were exercised after the reduction of the exercise price, for a total consideration of approximately 1,283 thousand ILS (approximately $340 thousands).

c. Grant of options to employees and advisors

On March 29, 2017, the Company's Board of Directors approved the grant of 747,896 options to Company employees and advisors at an exercise price of 6.371 ILS per share. 572,896 of all options were granted through a trustee under the capital gains track in accordance with the provisions of Section 102 to the Income Tax Ordinance (New Version).

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

On February 2, 2017, the Company's general meeting approved the merger of RSAccess into Safe-T Data. The approval is subject to approval by the Registrar of Companies and to the Tax Authority's approval to the effect that this merger is a tax-exempt merger.
In accordance with the resolution, all assets and liabilities of RSAccess, including a debt of approximately 242 thousand ILS (approximately $65 thousands) shall be transferred to Safe-T data and RSAccess will enter into voluntary liquidation.

e. Credit facility agreement between the Company and Safe-T

On March 29, 2017, the Company and Safe-T signed another credit facility agreement, where under the Company will provide a credit facility of up to approximately 10 million ILS (approximately $2.7 million) for the purpose of withdrawing the abovementioned loans and further loans to be used in Safe-T's operating activities. The loans shall 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.