IMAGESAT INTERNATIONAL (I.S.I) LTD

CONSOLIDATED FINANCIAL STATEMENTS*

AS OF DECEMBER 31, 2022

IN U.S. DOLLARS IN THOUSANDS

INDEX

* This Financial Statements is a translation of the Hebrew Financial Statements reported on March 14, 2023. In the event of any conflicts between the English and the Hebrew version, the Hebrew version shall supersede.

- - - - - - - - - - - - - - -

Building a better
working world

Kost Forer Gabbay & Kasierer
144 Menachem Begin Road, Building A,
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

AUDITORS' REPORT

To the Shareholders of

IMAGESAT INTERNATIONAL (I.S.I) LTD

We have audited the accompanying consolidated statements of financial position of Imagesat International (I.S.I) Ltd ("the Company") as of December 31, 2022 and 2021, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2022. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2022 and 2021, and the results of their operations, changes in their equity and cash flows for each of the three years in the period ended December 31, 2022, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 13, 2023

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2022	2021
	Note	U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	27,173	8,402
Restricted cash	6b	20,093	691
Short-term deposits	6a	22,250	44,750
Trade receivables	7	4,057	6,985
Other account receivables	8a	8,896	3,016
Inventories	2g	1,306	1,184
		83,775	65,028
NON-CURRENT ASSETS:			
Property and equipment, net	12	8,710	7,918
Fixed assets under construction	11	180,143	-
Advances on account of property and equipment	11	12,017	90,900
Right-of-use assets	9	7,738	6,014
Intangible assets	13	690	839
Deferred taxes	18f	560	524
Long-term receivables	8b	-	744
		209,858	106,939
		293,633	171,967

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2022	December 31, 2021
		U.S. dollars in thousands	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of lease liabilities	9	806	1,255
Current maturities of loan from related party	16	9,955	-
Trade payables		618	612
Deferred revenues		7,954	4,197
Income tax payable	18	664	2,024
Other account payables	14	29,275	4,426
		49,272	12,514
NON-CURRENT LIABILITIES:			
Lease liabilities	9	5,824	5,181
Other liabilities	15	33,166	165
Deferred revenues	15	13,623	19,704
Employee benefit liabilities	17	90	169
Loan from related party	24	29,863	38,092
		82,566	63,311
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	20		
Share capital		-	-
Share premium and capital reserves		205,905	144,485
Share-based payment transactions reserve	21	2,266	924
Accumulated deficit		(46,376)	(49,267)
		161,795	96,142
		293,633	171,967

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

March 13, 2023			
Date of approval of the Financial statements	Gillon Beck Chairman of the Board	Noam Segal CEO	Yuval Sipper CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended December 31, 2022	2021	2020
		U.S. dollars in thousands (except per share data)		
Revenues	22a	33,692	36,268	25,917
Operating costs	22b	15,190	10,881	8,036
Depreciation	12, 13	3,229	3,223	2,143
Gross profit		15,273	22,164	15,738
Selling and marketing	22c	3,869	2,568	2,280
General and administrative	22d	4,777	3,771	2,814
Research and development	22e	2,571	4,890	1,939
Operating income		4,056	10,935	8,705
Finance expenses, net	22f	356	1,898	878
Income before taxes on income		3,700	9,037	7,827
Taxes on income	18	881	1,604	693
Net income		2,819	7,433	7,134
Other comprehensive loss (net of taxes):				
Income (loss) from remeasurement of defined benefit plans		72	(83)	(3)
Total other comprehensive income (loss)		72	(83)	(3)
Total comprehensive income		2,891	7,350	7,131
Net earnings per share:				
Net earnings per share attributable to equity holders of the Company	23	0.05	0.15*	0.14*
Net earnings per share on a fully diluted basis		0.05	0.15*	0.14*

*Retroactively adjusted due to share split

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium and capital reserves	Share-based payment transactions reserve	Accumulated net income (deficit)	Total equtity
	U.S. dollars in thousands				
Balance as of January 31, 2020	-	114,782	233	(63,748)	51,267
Net income	-	-	-	7,134	7,134
Net proceeds from share issuance	-	29,703	-	-	29,703
Share-based compensation	-	-	263	-	263
Other comprehensive income (loss) for the year	-	-	-	(3)	(3)
Balance as of December 31, 2020	-	144,485	496	(56,617)	88,364
Net income	-	-	-	7,433	7,433
Share-based compensation	-	-	428	-	428
Other comprehensive income (loss) for the year	-	-	-	(83)	(83)
Balance as of December 31, 2021	-	144,485	924	(49,267)	96,142
Net income	-	-	-	2,819	2,819
Net proceeds from share issuance	-	61,263	-	-	61,263
exercise of options	-	157	(157)	-	-
Share-based compensation	-	-	1,499	-	1,499
Other comprehensive income (loss) for the year	-	-	-	72	72
Balance as of December 31, 2022	-	205,905	2,266	(46,376)	161,795

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income	2,819	7,433	7,134
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Depreciation of property and equipment	3,080	2,592	1,609
Depreciation of intangible asset	149	631	534
Amortization of right-of-use asset	519	644	518
Share-based compensation	1,499	428	263
Finance expenses, net	(158)	1,379	1,014
Taxes on income	881	1,604	693
Change in employee benefit liabilities, net	(7)	(4)	26
	5,963	7,274	4,657
Changes in asset and liability items:			
Decrease (increase) in trade receivables	2,928	(1,289)	97
Increase in other accounts receivables	(5,880)	(1,419)	(655)
Increase in inventories	(226)	(303)	(395)
Increase (decrease) in trade payables	193	146	(79)
Increase (decrease) in deferred revenues	(2,324)	21,007	(2,555)
Increase in other account payables	1,564	923	1,388
	(3,745)	19,065	(2,199)
Cash paid or received during the year for:			
Interest received	908	271	346
Taxes paid	(1,892)	(846)	(21)
	(984)	(575)	325
Net cash provided by operating activities	4,053	33,197	9,917

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Cash flows from investing activities:			
Purchase of property and equipment	(3,502)	(1,760)	(2,571)
Investment in intangible assets	-	(102)	(791)
Advances on account of fixed assets under construction	(39,888)	-	-
Advances on account of property and equipment	(4,794)	(21,854)	(18,327)
Change in bank deposits, net	2,500	(13,750)	(19,000)
Change in restricted bank deposits, net	599	2,509	(3,015)
Net cash used in investing activities	(45,085)	(34,957)	(43,704)
Cash flows from financing activities:			
Share capital investment, net	61,170	-	29,451
Repayment of lease liabilities	(1,367)	(657)	(564)
Grants received	-	85	85
Net cash provided by (used in) financing activities	59,803	(572)	28,972
Increase (decrease) in cash and cash equivalents	18,771	(2,332)	(4,815)
Cash and cash equivalents at the beginning of the year	8,402	10,734	15,549
Cash and cash equivalents at the end of the year	27,173	8,402	10,734
Significant non-cash transactions:			
Purchase of fixed assets under construction and vs. trade payables	56,086	-	-
Purchase of property and equipment vs. trade payables	-	339	80
Recognition of right-of-use assets vs. lease liability	2,243	5,620	-
Share capital investment related tax	-	-	252
Classification of advances on account of property and equipment to property and equipment	-	557	-

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

NOTE 1:- GENERAL

a. Imagesat International (I.S.I) Ltd (“Imagesat” or "the Company") and its subsidiaries ("the Group") specialize in providing space-based intelligence solutions, very-very high resolution satellite imagery and data analytics specifically tailored for homeland defense markets worldwide. The Company was incorporated in Israel on January 26, 1999 as a limited private company. On September 7, 2000, the Company changed its name to Imagesat Israel Ltd. (previously West Indian Space Israel Ltd.) and, on September 2, 2021, the Company changed its name to Imagesat International (I.S.I) Ltd.

The Company launched its first Earth Remote Observation Satellite ("EROS"), EROS A, on December 5, 2000 (ceased to operate effectively on May 2016) and its second satellite, EROS B, on April 25, 2006.

On December 28, 2017, the Company signed a contract for purchasing EROS C3, a very-very high-resolution multispectral satellite.
On December 30, 2022, the company launched the EROS C3 satellite. According to the original launch plan, the satellite entered into the proper orbit course around the Earth and began transmitting data . Also, a comprehensive and pre-planned series of tests has begun which are expected to last several months, to verify its integrity and level of performance until the satellite enters full commercial activity in the near future.

On November 14, 2017 the Company entered into the Runner satellite ("Runner") purchasing agreement. The contractual date for receiving the Runner is in the first half of 2023.

b. Company’s structure and Restructuring:

The Company was founded as a wholly-owned subsidiary of ImageSat International N.V. ("ImageSat NV"), a foreign company incorporated in Curacao and registered in the Israeli Registrar of Companies as a foreign company. ImageSat NV was co-founded in 1997 by Israel Aerospace Industries Ltd. ("IAI"), and other investors in order to commercialize the Israeli aerospace industry's technology and operational experience.

Prior to the Restructuring, ImageSat NV had two wholly-owned subsidiaries: the Company, through which most of ImageSat NV's operations were performed, and ImageSat Israel Securities Ltd., an SPV (Special Purpose Vehicle) which was founded for raising funds for purchasing the EROS B, which discontinued its operation at the end of 2014 and was voluntarily liquidated on January 5, 2020.

In 2017, ImageSat NV founded its U.S. subsidiary named ISI USA LLC, which as of the date of signing these financial statements has not yet begun operating.

Following the Restructuring, which applies retroactively as from January 1, 2021, as detailed in Note 18 below, the holding structure in the Company was inverted whereby the Company became the parent company of the entire Group companies and ImageSat NV became a wholly-owned subsidiary of the Company.

All comparative data referring to the year 2020 in these financial statements are proforma data and are included as if the restructuring had already been completed.

NOTE 1:- GENERAL (Cont.)

c. Special report in accordance with Regulation 9C:

The Company has not appended separate financial information to the financial statements in accordance with Regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 given that separate financial statements will be of no effect since they will not add material information for the reasonable investor that is not included in the consolidated financial statements of the Company. In light of this and given the negligible amount of additional information that will be given to the investor in separate financial statements over the information included in the consolidated financial statements of the Group, the Company has chosen not to present separate financial information in the statements for the period ended on December 31, 2022.

d. On February 11, 2022, the Company became a public company and its shares were listed on the Tel Aviv Stock Exchange.

Pursuant to the Prospectus, 11,228,070 ordinary shares with no par value of the Company (the “Ordinary Shares”) were offered by the Company by way of an initial public offering and 5,614,035 Ordinary Shares of the Company were offered by the Offerors (as defined in the Prospectus) by way of an offer for sale, amounting to 16,842,105 Ordinary Shares of the Company in total, at a price of NIS 19 per share by way of a non-uniform offer, as that term is defined under the Israel Securities Regulations (Manner of Offering Securities to the Public).

The gross proceeds for the sale of the shares offered pursuant to the Prospectus are divided between the Company and the Offerors (as set out in the Prospectus) in the amount of NIS 213 million and NIS 107 million, respectively, amounting to NIS 320 million in total. The total costs of the offering borne by the Company amount to USD 5 million.

e. Former investment agreements:

ImageSat NV was founded as a joint venture initiated by IAI, an Israeli State-owned company which, among others, develops space and satellite imagery technologies as well as high-resolution observation satellites. On November 2, 2017, the Company and IAI entered into an investment agreement with FIMI Opportunity 6 ("FIMI"), an Israeli investment fund. The investment agreement Closing took place on December 27, 2017, and consisted of the following: (1) in exchange for an investment of $ 40 million, the Company allocated to FIMI Preferred A shares, representing 53.6% of the issued and outstanding share capital of the Company, as a result of which FIMI became the controlling shareholder in the Company; (2) the Company and IAI signed an amended and restated loan agreement ("the Amended Loan Agreement") according to which on the Closing date, the Company repaid $ 35 million of the loan amount and all former Amended Loan Agreements and related rights with IAI became null and void (see also Notes 16b, 24e(2) and (4)) and; (3) The Company and IAI entered into the EROS C3 satellite purchase agreement (see also Notes 11 and 24e(4)).

NOTE 1:- GENERAL (Cont.)

On July 15, 2020, Discount Capital Bank Ltd ("DCM") purchased Preferred B shares of the Company, representing 17.17% of the Company's issued and outstanding share capital for a gross investment of $ 31,725 thousand (see also Note 20).

f. Strategic collaboration agreements:

During September 2019, the Company signed a contract with a Third Party according to which, inter alia, the Company shall have an exclusive right to commercialize an electro-optic satellite owned by the Third Party, which has similar capabilities to those of EROS C3. The commercial name of this satellite is EROS C2 under the terms defined in the contract.

During January 2021, the Company signed an additional contract with the Third Party according to which the Company will have an exclusive right to commercialize another electro-optic satellite owned by the Third Party, which has similar capabilities to those of EROS C3, The commercial name of this satellite is EROS C1 under the terms defined in the contract.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements have been prepared on a cost basis.

The Company has elected to present profit or loss items using the function of expense method.

b. The operating cycle:

The Group's operating cycle is one year.

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company has influence on an invested company, is exposed, or has rights, to variable returns as result of its involvement with the invested company and has the ability to affect those returns through its power over the invested company. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as a change in equity by adjusting the carrying amount of the non-controlling interests with a corresponding adjustment of the equity attributable to equity holders of the Company less / plus the consideration paid or received.

d. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the U.S. Dollar ("dollar").

The Group determines the functional currency of each Group entity. The functional currency of all the Group companies is the dollar.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or recorded in equity in hedges, are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement.

e. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Short-term deposits:

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

g. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly if needed.

Composition of inventories:

	December 31,	
	2022	2021
	U.S. dollars in thousands	
Purchased products based on specific costs	1,306	1,184
	1,306	1,184

h. Revenue recognition:

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

In determining the amount of revenue from contracts with customers, the Company evaluates whether it is a principal or an agent in the arrangement. The Company is a principal when the Company controls the promised goods or services before transferring them to the customer. In these circumstances, the Company recognizes revenue for the gross amount of the consideration.

Revenue from the sale of goods:

Revenue from sale of goods is recognized in profit or loss at the point in time when the control of the goods is transferred to the customer, generally upon delivery of the goods to the customer.

Revenue from rendering of services:

Revenue from rendering of services is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by the Company's performance. The Company charges its customers based on payment terms agreed upon in specific agreements. When payments are made before or after the service is performed, the Company recognizes the resulting contract asset or liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Costs of obtaining a contract:

In order to obtain certain contracts with customers, the Company incurs incremental costs in obtaining the contract (such as sales commissions which are contingent on making binding sales). Costs incurred in obtaining the contract with the customer which would not have been incurred if the contract had not been obtained and which the Company expects to recover are recognized as an asset and amortized on a systematic basis that is consistent with the provision of the services under the specific contract. An impairment loss in respect of capitalized costs of obtaining a contract is recognized in profit or loss when the carrying amount of the asset exceeds the remaining amount of consideration that the Company expects to receive for the goods or services to which the asset relates less the costs that relate directly to providing those goods or services and that have not been recognized as expenses.

The Company has elected to apply the practical expedient allowed by the Standard according to which incremental costs of obtaining a contract are recognized as an expense when incurred if the amortization period of the asset is one year or less.

Allocating the transaction price:

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

i. Government grants:

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions.

Government grants received from the Israel Innovation Authority (formerly: the Office of the Chief Scientist in Israel, "the IIA") are recognized upon receipt as a liability if future economic benefits are expected from the research project that will result in royalty-bearing sales.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A liability for grants received is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a Government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with IAS 37.

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

Amounts paid as royalties are recognized as settlement of the liability.

j. Taxes on income:

The tax results of current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

1. Current taxes:

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

2. Deferred taxes:

   Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

   Deferred tax balances are measured at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

   Deferred tax assets are reviewed at each reporting date based on the probability of their utilization. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that its utilization is probable.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

k. Leases:

On January 1, 2019, the Company first applied IFRS 16, "Leases" ("the Standard"). The Company elected to apply the provisions of the Standard using the modified retrospective method (without restatement of comparative data).

The accounting policy for leases applied effective from January 1, 2019, is as follows:

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

1. The Group as a lessee:

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term.

Leases which entitle employees to a company car as part of their employment terms are accounted for as employee benefits in accordance with the provisions of IAS 19 and not as subleases.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

The Company tests for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

2. <u>Lease payments that depend on an index</u>:

On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

<u>The Group as lessee:</u>

<u>Operating leases:</u>

Leases in which substantially all the risks and rewards of ownership of the leased asset are not transferred are classified as operating leases. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Property and equipment:

Items of property and equipment are measured at cost, including direct acquisition costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

A part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method.

The cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which the item is located.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
EROS B (*)	19
Ground stations	3 – 14
Other office equipment	3
Leasehold improvements	See below

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

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

(*) In 2019, a change of estimation was applied to the depreciation rate of this asset. See also Note 12b.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Intangible assets:

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

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

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

1. Research and development expenditures:

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

The asset is measured at cost less any accumulated amortization and any accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. The asset is amortized over its useful life. Testing of impairment is performed annually over the period of the development project.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Software:

The Group's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as fixed assets. In contrast, stand-alone software that adds functionality to the hardware is classified as an intangible asset.

The useful life of intangible assets is as follows:

	Software	**Development expenditures**
Useful life	As per the license period	3-10 years
Amortization method	Straight-line	Straight-line over the expected period of sales from the project
In-house development or purchase	Purchase	In-house development

n. Impairment of non-financial assets:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Financial instruments:

1. Impairment of financial assets:

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of loss allowances:

a) Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low - the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date (12-month ECLs); or

b) Debt instruments whose credit risk has increased significantly since initial recognition, and whose credit risk is not low - the loss allowance recognized is measured at an amount equal to the expected credit losses over the instrument's remaining term (lifetime ECLs).

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

2. Derecognition of financial assets:

A financial asset is derecognized only when:

a) The contractual rights to the cash flows from the financial asset has expired; or;

b) The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or;

c) The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Financial liabilities:

a) Financial liabilities measured at amortized cost:

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method, except for financial liabilities at fair value through profit or loss such as derivatives.

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

At initial recognition, the Company measures the financial liabilities that are not measured at amortized cost at fair value, whereas transaction costs are recognized in profit or loss. After initial recognition, changes in fair value are recognized in profit or loss.

4. Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

When there is a modification in the terms of an existing financial liability, the Company evaluates whether the modification is substantial, taking into account qualitative and quantitative information.

If the terms of an existing financial liability are substantially modified or a liability is exchanged for another liability from the same lender with substantially different terms, the modification or exchange is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss.

If the modification in the terms of an existing liability is not substantial, the Company recalculates the carrying amount of the liability by discounting the revised cash flows at the original effective interest rate and any resulting difference is recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

p. Fair value measurement:

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

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

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

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

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

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

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

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

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or Implied) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

Legal claims:

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

r. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

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

2. Post-employment benefits:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Israeli CPI with a term that is consistent with the estimated term of the severance pay obligation.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets. Actuarial gains and losses are carried to the statement of profit or loss and other comprehensive income as incurred.

s. Share-based payment transactions:

The Company's employees are entitled to remuneration in the form of equity-settled share-based payment transactions.

Equity-settled transactions:

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

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is canceled, it is accounted for as if it had vested on the cancelation date and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the canceled grant and is identified as a replacement grant on the grant date, the canceled and new grants are accounted for as a modification of the original grant, as described above.

t. Earnings per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

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

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments:

- Determining the fair value of share-based payment transactions:

  The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

- Determining whether a contractual arrangement meets the lease definition:

  On the lease engagement date, the Company assesses whether the contract is or includes a lease. A contract is or includes a lease if it transfers the right to control the use of an identifiable asset for a period of time for a consideration.

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

b. Estimates and assumptions:

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

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

- Deferred tax assets:

  Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits, its source and the tax planning strategy.

- Capitalized development costs:

  In testing impairment, management makes assumptions regarding the expected cash flows to be generated from the property being developed, discount rate to be applied to the cash flows and the expected period of benefits.

- Satellite useful life:

  See Note 12b.

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

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

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

The Amendment includes the following clarifications:

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

The Amendment is effective for annual periods beginning on or after January 1, 2023 and must be applied retrospectively.

The Company believes the Amendment is not expected to have an effect on the financial statements.

b. Amendment to IAS 37, "Provisions, Contingent Liabilities and Contingent Assets":

In May 2020, the IASB issued an amendment to IAS 37, regarding which costs a company should include when assessing whether a contract is onerous ("the Amendment"). According to the Amendment, costs of fulfilling a contract include both the incremental costs (for example, raw materials and direct labor) and an allocation of other costs that relate directly to fulfilling a contract (for example, depreciation of an item of property, plant and equipment used in fulfilling the contract).

The Amendment is effective for annual periods beginning on or after January 1, 2022 and applies to contracts for which all obligations in respect thereof have not yet been fulfilled as of January 1, 2022. Early application is permitted.

The Company estimates that the application of the Amendment is not expected to have a material impact on the financial statements.

c. Amendment to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”:

In February 2021, the IASB issued an amendment to IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors” (in this Section, “the Amendment”). The purpose of the Amendment is to present a new definition of the term “accounting estimates.”

NOTE 4: DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

Accounting estimates are defined as “monetary amounts in financial statements that are subject to measurement uncertainty.” The Amendment clarifies what constitutes a change to accounting estimates and how those differ from changes to accounting policies and the correction of errors.

The Amendment is effective prospectively for annual periods beginning on January 1, 2023 and applies to changes to accounting policies and accounting estimates that occur at the beginning of that period or thereafter. Early application is permitted.

The Company estimates that the application of the Amendment is not expected to have a material impact on the Company’s financial statements.

d. Amendment to IAS 12 “Income Taxes”:

In May 2021, the IASB issued an amendment to IAS 12, “Income Taxes” (“IAS 12” or “the Standard”) that narrows the application of the “initial recognition exemption” for deferred taxes that is provided in Sections 15 and 24 of IAS 12 (in this Section, “the Amendment”).

Under the guidelines regarding the recognition of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities in respect of certain temporary differences that arise from the initial recognition of the assets and liabilities under particular transactions. This exemption is called the “initial recognition exemption.” The Amendment narrows the application of the “initial recognition exemption” and clarifies that it does not apply to recognition of deferred tax assets and liabilities that arise from transactions not being combinations of transactions and in respect of which equal temporary differences arise in the debit and credit accounts even if they comply with the rest of the conditions of the exemption.

The Amendment is effective for annual periods beginning on or after January 1, 2023. Early application is permitted. For lease transactions and the recognition of liabilities on liquidation and rehabilitation, the Amendment will be effective from the beginning of the earliest reporting period that is presented in the financial statements in which the Amendment is first applied by applying the aggregate effect of the initial application to the opening balance of surpluses (or another element of capital, if relevant) as of that date.

The Company estimates that the application of the Amendment is not expected to have a material impact on the Company’s financial statements.

NOTE 5:- CASH AND CASH EQUIVALENTS

	December 31,	
	2022	2021
	U.S. dollars in thousands	
Cash in NIS	2,039	2,807
Cash in dollar	24,102	5,449
Cash in other currencies	1,032	146
	27,173	8,402

NOTE 6:- SHORT-TERM DEPOSITS AND RESTRICTED CASH

a. Short-term deposits:

	December 31,	
	2022	2021
	U.S. dollars in thousands	
Bank deposits (*)	22,250	44,750

(*) In 2022, the annual interest rates ranged between 0.53% and 5.41%.

b. Restricted cash:

As of December 31, 2022 and 2021, the Company has restricted deposits in the amount of $ 20,093 thousand and $ 691 thousand, respectively.

NOTE 7:- TRADE RECEIVABLES

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Billed	364	796
Unbilled	3,701	6,197
Allowance for doubtful accounts	(8)	(8)
Trade receivables, net	4,057	6,985

Generally, the Company grants its customers interest-free credit for periods of 30-90 days. An allowance for doubtful accounts receivable is maintained for potential credit losses based on management's assessment of the expected collectability of all accounts receivable.

Information about the credit risk exposure of the Company's trade receivables:

December 31, 2022:

	Not past due	Past due trade receivables < 30 days	31- 60 days	61 - 90 days	91 - 120 days	>120 days	Total
	U.S. dollars in thousands						
Gross carrying amount	349	-	-	-	-	15	364
Allowance for doubtful accounts	-	-	-	-	-	(8)	(8)

December 31, 2021:

	Not past due	Past due trade receivables < 30 days	31- 60 days	61 - 90 days	91 - 120 days	>120 days	Total
	U.S. dollars in thousands						
Gross carrying amount	7	171	525	83	2	8	796
Allowance for doubtful accounts	-	-	-	-	-	(8)	(8)

NOTE 8:- OTHER ACCOUNTS RECEIVABLE

a. Current receivables:

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Deferred expenses and advances to suppliers	3,891	1,920
Prepaid insurance expenses	387	262
Governmental institutions	3,545	232
Accrued interest	804	92
IPO related costs	-	320
Other	269	190
	8,896	3,016

b. Non-current receivables:

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Prepaid insurance for EROS C3	-	744

NOTE 9:- LEASES

The Company has entered into leases of buildings and motor vehicles (mainly of buildings) which are used for the Company's operations. Leases of buildings generally have lease terms of five years whereas leases of motor vehicles have lease terms of three years Some of the leases entered into by the Company include extension options that take into consideration in the accounting treatment.

a. Information on leases:

	Year ended December 31, 2022	Year ended December 31, 2021
	U.S. dollars in thousands	
Interest expense on lease liabilities	159	50
Exchange rates as result of balance translation	(838)	229
	(679)	279

NOTE 9:- LEASES (Cont.)

b. Disclosures in respect of right-of-use assets:

2022

	U.S. dollars in thousands
Cost:	
Balance as of January 1, 2022	7,661
Additions during the year:	2,243
Balance as of December 31, 2022	9,904
Accumulated depreciation:	
Balance as of January 1, 2022	1,647
Depreciation during the year:	519
Balance as of December 31, 2022	2,166
Depreciated cost as of December 31, 2022	7,738

2021

	U.S. dollars in thousands
Cost:	
Balance as of January 1, 2021	2,041
Additions during the year:	5,620
Balance as of December 31, 2021	7,661
Accumulated depreciation:	
Balance as of January 1, 2021	1,003
Depreciation during the year:	644
Balance as of December 31, 2021	1,647
Depreciated cost as of December 31, 2021	6,014

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- INVESTMENTS IN SUBSIDIARIES

	December 31,			
	2022		2021	
	Shares conferring voting rights	Shares conferring rights to profits	Shares conferring voting rights	Shares conferring rights to profits
ImageSat NV (*)	100%	100%	100%	100%
ISI USA LLC (***)	100%	100%	100%	100%

(*) The Company holds 99.996% of ImageSat NV. See also Note 18b.

(**) Inactive company.

NOTE 11:- ADVANCES ON ACCOUNT OF PROPERTY AND EQUIPMENT

Composition:

	December 31,	
	2022	2021
	U.S. dollars in thousands	
Fixed assets under construction	180,143	-
Advances on account on fixes assets:		
Satellites (*) (**)	11,932	90,560
Other	85	340
	12,017	90,900

(*) As of December 31, 2022 and 2021, salary expenses of $ 4,333 and $3,892 thousand respectively have been capitalized to advances on account of property and equipment.

(**) Advances on fixed assets for the year 2021 includes approximately 83 million dollars that were paid on the account of the EROS C3 satellite which were classified as fixed assets under construction in 2022 following the receipt of the satellite, the transfer of ownership to the company and its launch as described in note 1a.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- PROPERTY AND EQUIPMENT

a. Composition and movement:

2022

	EROS B	Ground stations	Office furniture and equipment	Computers and peripheral equipment	Leasehold improvements	Total
	U.S. dollars in thousands					
Cost:						
Balance at January 1, 2022	90,048	7,830	397	4,426	1,244	103,945
Additions during the year	-	790	215	628	2,239	3,872
Balance at December 31, 2022	90,048	8,620	612	5,054	3,483	107,817
Accumulated depreciation:						
Balance at January 1, 2022	87,585	3,489	167	3,889	897	96,027
Additions during the year	846	1,497	18	361	358	3,080
Balance at December 31, 2022	88,431	4,986	185	4,250	1,255	99,107
Depreciated cost at December 31, 2022	1,617	3,634	427	804	2,228	8,710

2021

	EROS B	Ground stations	Office furniture and equipment	Computers and peripheral equipment	Leasehold improvements	Total
	U.S. dollars in thousands					
Cost:						
Balance at January 1, 2021	90,048	5,672	319	4,120	1,130	101,289
Additions during the year	-	2,158	78	306	114	2,656
Balance at December 31, 2021	90,048	7,830	397	4,426	1,244	103,945
Accumulated depreciation:						
Balance at January 1, 2021	86,739	2,367	151	3,595	583	93,435
Additions during the year	846	1,122	16	294	314	2,592
Balance at December 31, 2021	87,585	3,489	167	3,889	897	96,027
Depreciated cost at December 31, 2021	2,463	4,341	230	537	347	7,918

NOTE 12:- PROPERTYAND EQUIPMENT (Cont.)

b. Change in accounting estimate:

Effective October 1, 2019, the Company changed the depreciation rate of the EROS B satellite from 7.14% to 5.26%. The change relied on an updated extended life report from the satellite's manufacturer, internal performance reports, observation of similar satellites currently operating and new contracts signed. Since the technical report of the satellite on the date of the change showed that the satellite was expected to operate for another 4.5 years and not until the end of the first quarter of 2021 as was determined when the satellite was launched in 2006, the Company extended the useful life of the satellite accordingly.

NOTE 13:- INTANGIBLE ASSETS

a. Description:

During 2016-2019, the Company developed an analytical maritime solution for satellite data ("the Kingfisher"). Starting from February 2019, the system is being amortized since it reached a development stage whereby it's available for sale. The capitalized $ 1,602 asset is amortized over its useful life that is estimated at three years.

In 2021 and 2021, the Company developed custom software ("Special Purpose Software") for operating the EROS C1 and EROS C2 satellites. The company capitalized costs of $ 892 thousand in respect of the Special Purpose Software.

b. Composition and movement:

2022:

	Kingfisher	Special Purpose Software	Total
	U.S. dollars in thousands		
Cost:			
Balance at January 1, 2022	1,602	892	2,494
Capitalization of development costs	-	-	-
Balance at December 31, 2022	1,602	892	2,494
Accumulated amortization:			
Balance at January 1, 2022	1,558	97	1,655
Amortization recognized in the year	44	105	149
Balance at December 31, 2022	1,602	202	1,804
Amortized cost at December 31, 2022	-	690	690

NOTE 13:- INTANGIBLE ASSETS (Cont.)

2021:

	Kingfisher	Special Purpose Software	Total
	U.S. dollars in thousands		
Cost:			
Balance at January 1, 2021	1,602	791	2,393
Capitalization of development costs	-	101	101
Purchases			
	1,602	892	2,494
Balance at December 31, 2021			
Accumulated amortization:			
Balance at January 1, 2021	1,024	-	1,024
Amortization recognized in the year	534	97	631
Balance at December 31, 2021	1,558	97	1,655
Amortized cost at December 31, 2021	44	795	839

NOTE 14:- OTHER ACCOUNT PAYABLES

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Current liability to interested party (note 24e(4))	20,000	-
Accrued expenses	7,649	3,295
Employees and payroll related accruals	1,032	478
Accrued vacation pay	588	639
Other	6	14
	29,275	3,338

NOTE 15:- OTHER LIABILITIES

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Other liabilities	166	165
Deferred revenues	13,623	19,704
Non-current liability to interested party (note 24e(4))	33,000	-
Non-current liabilities	46,789	19,869

NOTE 15:- OTHER LIABILITIES (Cont.)

1. Israeli Innovation Authority grant - during 2016, the Company joined an Israeli Innovation Authority incentive plan, according to which it received a grant for the support of the research and development efforts of the Kingfisher project.

   In exchange for the Israeli Innovation Authority participation in the Kingfisher project, the Company is required to pay royalties up to a rate of 3%-3.5% from future sales of the developed products, until repayment of 100% of the granted amount plus interest and linkage to the Israel consumer price index. As of December 31, 2022 and 2021 the Company has received grants in the revaluated total amount of $183 thousand, classified as part of its long term liabilities. As of 2022, the Company is expected to pay royalties of less than $1 thousand.

2. BIRD Foundation grant - during 2018-2021, the Company received a grant from BIRD Foundation for the support of the research and development efforts of the Close-Up project.

   The Company is required to pay royalties at a rate of 5% from future gross sales of developed product. The repayment amount might vary between 100%-150% of the grant as a result of the number of repayment years following the termination of the project, all as per to the Cooperation and Project Funding Agreement dated July 2018. As of December 31, 2021, the Company has received grants in the total amount of $425 and as December 31, 2022 no additional grants was received. As of December 31, 2022, the Company has not paid any royalties and the Company does not expect to pay any in the future.

3. In May 2021, the Company signed a new contract of approximately $ 110 million and a term of approximately five years under which the Company will supply Chile's national space program. The contract includes the sale of data from the satellites of the Company, the construction and launch of satellites for the customer and the creation of satellite and intelligence capabilities for the customer. In August 2021, an advance of $ 24,630 thousand was received from the customer, which was recorded under current liabilities and non-current liabilities and will be reduced in accordance with the rate of progress of the project. Conversely, the Company gave a guarantee as security for the advance, which will be reduced gradually over the next five years.

   In addition, the Company gave performance guarantees of $ 10,990 thousand to the client, which will be reduced as the project progresses. In order to give the guarantee, the Company was not required to pledge assets but gave a financial covenant according to which the ratio of equity to the total consolidated balance sheet will not be less than 35% at any time. As of the date of the report, the company complies with this condition.

NOTE 16:- FINANCIAL INSTRUMENTS

a. Financial assets:

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Trade receivables	4,057	6,985
Short-term deposits	22,250	44,750
	26,307	51,735

b. Financial liabilities:

	Effective interest rate	Maturity date	December 31, 2022	December 31, 2021
			U.S. dollars in thousands	
Current liabilities	4.53%	See below	9,955	-
Non-current liabilities			29,863	38,092
Loan from related party (*)			39,818	38,092

As per management's assessment, the carrying amount of financial instruments approximates their fair value.

(*) On November 2, 2017, the Company and IAI signed an Amended Loan Agreement according to which on the date of Closing the investment agreement with FIMI, the Company will repay $ 35 million on account of the loan. The remaining loan bears annual interest of 3.5% which may vary under certain conditions as detailed in the Amended Loan Agreement.

The remaining loan is repayable in four annual installments – the first at a rate of 25% of the remaining loan on the same date, the second at a rate of 33.33% on the same date, the third at a rate of 50% on the same date and the fourth at a rate of 100% on the same date. The first installment shall be payable on the later of: (i) one year from the date of launch of the EROS C3 satellite; or (ii) the earlier of: (a) an IPO of the Company; or (b) the date FIMI receives an aggregate of $ 40 million for the Preferred A shares purchased in the investment agreement between the Company and FIMI, subject to the terms stipulated in the Amended Loan Agreement. In the event of: (a) the total loss, constructive total loss or complete malfunction of the EROS-C satellite; or (b) termination of the EROS-C3 Agreement pursuant to its terms, the first installment shall be payable upon the earlier of (A) one year following an IPO, and (B) such time as FIMI receives an aggregate of $ 40 million as provided in Section (ii)(a) above. Also, according to the Amended Loan Agreement, all previous agreements regarding loans and related rights that had been signed between the Company and IAI before the Amended Loan Agreement became effective - are null and void.

The Company used an external valuation expert for estimating the fair value of the loan as of the date of signing the Amended Loan Agreement. Consequently, the Company recognized a capital reserve attributable to equity holders of the Company in the amount of $ 1,221 thousand which was carried to share premium and capital reserves. In 2020, the first loan repayment date was updated in accordance with the

NOTE 16:- FINANCIAL INSTRUMENTS (Cont.)

expected changes in the EROS C3 delivery date and the finance expenses arising from the fair value of the loan were adjusted accordingly.

1. Market risk:

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

2. Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates.

3. Customer credit risk:

The management of credit risk in respect of customers is performed by the Group in keeping with its credit risk management policies, procedures and controls. The evaluation of customer credit quality relies on an analysis of each customer's credit rating which serves for determining the credit terms of each specific customer.

4. Financial liabilities:

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

December 31, 2022:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	Dolllars in thousands						
Trade payables	618	-	-	-	-	-	618
Payables	29,275	-	-	-	-	-	29,275
Other liabilities	55	55	56	-	-	-	166
Loan from controlling shareholder	9,955	9,955	9,954	9,954	-	-	39,818
Lease liabilities	806	808	808	816	848	3,099	7,185
	40,709	10,818	10,818	10,770	848	3,099	77,062

December 31, 2021:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
	Dolllars in thousands						
Trade payables	612	-	-	-	-	-	612
Payables	4,426	-	-	-	-	-	4,426
Other liabilities	12	60	61	44	-	-	177
Loan from controlling shareholder	-	9,523	9,523	9,523	9,523	-	38,092
Lease liabilities	1,272	639	639	639	639	3,205	7,033
	6,322	10,222	10,223	10,206	10,162	3,205	50,340

NOTE 17:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

a. Post-employment benefits:

Labor laws and agreements require the Company 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 (the "Expansion Order"), the Company is liable to make deposits with provident funds, pension funds or other such funds, to cover its employees' pension insurance as well as some of its severance pay liabilities. Under the terms of the Expansion Order, the Company 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 Israeli Severance Pay Law.

The Company's 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 Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in qualifying insurance policies.

b. Composition:

	December 31,	
	2022	2021
	U.S. dollars in thousands	
Defined benefit obligation	818	931
Fair value of plan assets	(728)	(762)
Net defined benefit liability	90	169

c. Actuarial assumptions:

	2022	2021	2020
Discount rate as of December 31,	5.41%	2.81%	0.85%
Rate of salary increase for existing employees	4.9%	4.6%	2%

NOTE 18:- TAXES ON INCOME

a. Tax jurisdictions applicable to the Company:

The Company has only been assessed for tax purposes in Israel since inception.

ImageSat NV has been assessed for tax purposes as an Israeli resident company since 2013 is concurrently also subject to tax laws in its country of incorporation – Curacao. From its inception through the end of the 2021 tax year, ImageSat NV has never paid taxes in Curacao. As of December 31, 2021, ImageSat NV is tax exempt in Curacao.

The U.S. subsidiary, ISI USA LLC, has not yet begun operating and is therefore exempt from reporting to the IRS (other than a technical declaration of inactivity and fee payment).

b. The Restructuring:

On May 13, 2021, the Company and ImageSat NV completed the Restructuring process which took place in three stages simultaneously. In stage one, ImageSat NV assigned and transferred its assets and liabilities, including interests in the Company and excluding contracts with parties and/or customers that could not be assigned ("the transferred operation" and "the continuing operation", respectively), to a new sister company (“Newco”). In the second stage, the Newco merged with the Company and transferred the entire assets and liabilities to the Company and was then dissolved without liquidation. In the third stage, 99.996% of ImageSat NV's shareholders transferred their interests in ImageSat NV to the Company for allocation of shares in the Company (the remaining 0.004% of the Company's share capital will be held by a trustee in trust until and subject to the transfer of rights to the shareholders). The Company also allocated employees stock options to ImageSat NV's stock options holders instead of the options held by such stock options holders in ImageSat NV.

c. Tax laws applicable to the Group companies:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the Israeli parliament passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancelation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

NOTE 18:- TAXES ON INCOME (Cont.)

Amendment to the Encouragement of Capital Investments Law, 1959 (Amendment No. 68)

In January 2011, the Economic Policy Law for 2011 and 2012 (Legislative Amendments), 2011 was published and, *inter alia*, that law made amendments to the Encouragement of Capital Investments Law, 1959 ("the Law"). The amendment changed the benefits tracks under the Law and applied a uniform tax rate to all of the surplus income of the Company, which was to be deemed to be a preferred company holding a preferred enterprise. Effective from the 2011 tax year, the Company was entitled to elect (such election being irrevocable) whether to adopt the amendment, such that the amended tax rates that will be set forth below would apply to all of its preferred income from the preferred enterprise as from the tax year in respect of which the election would be made.

Amendment to the Encouragement of Capital Investments Law, 1959 (Amendment No. 71)

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 was published. This included Amendment No. 71 to the Encouragement of Capital Investments Law ("the "Amendment"). The Amendment provided that the tax rate on the preferred income of a preferred enterprise in 2014 and onward would be 16% (in Development Area A, 9%). See below regarding the changes to the tax rates arising from Amendment No. 73 of the Law.

In addition, the Amendment provided that a tax rate of 20% would apply to a distribution of dividends to an individual or a foreign resident out of the profits of the preferred enterprise.

Amendment to the Encouragement of Capital Investments Law, 1959 (Amendment No. 73)

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2017 was published. This included Amendment No. 73 to the Encouragement of Capital Investments Law ("the "Amendment"). The Amendment provided that the tax rate that would apply from January 1, 2017 and onward to a preferred enterprise located in Development Area A would be 7.5% instead of 9% (the tax rate for a preferred enterprise not located in Development Area A remained 16%).

In addition, Amendment No. 73 to the Encouragement of Capital Investments Law established special tax tracks for technology enterprises, which entered into effect in 2017, as follows:

A preferred technology enterprise, as defined in the Encouragement of Capital Investments Law, whose group has total income in the tax year of less than NIS 10 billion, would be subject to corporate tax at a rate of 12% in respect of profits arising from intellectual property (in Development Area A, 7.5%).

NOTE 18:- TAXES ON INCOME (Cont.)

A special preferred technology enterprise – whose group has income exceeding NIS 10 billion in the tax year – would be subject to a tax rate of 6% irrespective of the geographic location of the enterprise.

A distribution of dividends to a "foreign resident company," as defined in the Law, originating from income from technology enterprises would be subject to tax at a rate of 4% subject to the conditions prescribed in Section 51 of the Encouragement of Capital Investments Law.

In light of the Restructuring described in Note 18b, the Company met the definition of preferred technology enterprise effective from 2021.

d. Tax rates applicable to the Group:

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2017 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

The Israeli corporate tax rate was 23% in 2021 and 2022.

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

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

e. Tax assessments:

Tax assessments filed by the Company and ImageSat NV by 2016 are considered final.

NOTE 18:- TAXES ON INCOME (Cont.)

f. Deferred taxes:

The Company recognizes deferred taxes due to timing differences arising from the gap between recognizing income or expenses in conformity with IFRS and in conformity with Israeli tax laws.

Deferred taxes are presented in the statements of financial position as follows:

	December 31,	
	2022	**2021**
	U.S. dollars in thousands	
Non-current assets	560	524

Composition and movement:

	Statements of financial position		**Statements of profit or loss**		
	December 31,		**Year ended December 31,**		
	2022	**2021**	**2022**	**2021**	**2020**
	U.S. dollars in thousands				
Deferred tax liabilities:					
Lease liability	193	-	193	-	-
Property, plant and equipment	195	341	(146)	(446)	787
Tax reserve on fair value of interested party loan	125	176	(51)	(146)	9
	513	517	(4)	(592)	796
Deferred tax assets:					
Future R&D expenses	602	678	76	72	(750)
Carryforward losses	-	-	-	348	(348)
Employee benefits and other accruals	197	200	3	42	(242)
Lease liability	-	64	64	(28)	(36)
Prepayments for surplus expenses	-	99	-	(7)	(92)
	274	-	-		
	1,073	1,041	143	427	(1,468)
Deferred tax expenses (income)			139	(165)	(672)
Deferred tax assets (liabilities), net	560	524			

NOTE 18:- TAXES ON INCOME (Cont.)

g. Taxes on income included in profit or loss:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Current taxes	742	1,769	1,365
Deferred taxes, see also f above	139	(165)	(672)
	881	1,604	693

h. Theoretical tax:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Income before taxes on income	3,700	9,037	7,827
Statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	851	2,078	1,800
Increase (decrease) in taxes on income due to the following factors:			
First time recognition of deferred taxes	-	-	(447)
Non-deductible expenses	348	194	60
Temporary differences for which no deferred taxes were carried	-	-	347
Utilization of tax losses from previous years for which deferred taxes were not recognized in the past	-	-	(975)
Utilization of prepayments on surplus expenses	-	-	(92)
Effect of change in tax rate	(331)	(668)	-
Other	13	-	-
Taxes on income	881	1,604	693

NOTE 19:- GUARANTEES

The Company issued financial guarantees to several of its business partners to secure its liabilities:

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Building lease related guarantee	93	185
Potential customer tender guarantee	-	506
Performance and advance guarantees for customer	35,636	35,636
	35,729	36,327

NOTE 20:- EQUITY

a. Composition of share capital:

	December 31, 2022 Issued and outstanding	December 31, 2021 Issued and outstanding
	Number of shares	
Ordinary shares with no par value	60,984,732	1,893,044
Preferred A shares with no par value	-	2,188,111
Preferred B shares with no par value	-	846,235
	60,984,732	4,927,390

b. Investment in the Company's shares:

On June 23, 2021, ImageSat NV entered into an investment agreement with DCM. According to the agreement, which was entered into effect on July 15, 2021, ImageSat NV allocated to DCM Preferred B shares representing on the allocation date about 17.17% of ImageSat NV's issued and outstanding share capital in return for an investment of $ 31,725 thousand. The Company recorded related expenses (net from tax) in the amount of $ 2,022 thousand as a reduction of premium on the allocated shares. In February 2022, the Company issued its shares on the Tel Aviv Stock Exchange. For additional details, see Note 25d.

c. company share capital split:

Upon completion of the offering as described in note 1d, the company's share capital was split in ratio of 1:10 so each ordinary share of the company without par value would be equivalent to ten ordinary shares without par value.

NOTE 20:- EQUITY (Cont.)

d. Rights attached to shares:

1. General:

Ordinary shares, Preferred A shares and Preferred B shares all confer their holders a right to vote in shareholders' meetings, a right to appoint directors, a right to receive dividends and a right to a share of the Company's assets upon liquidation or sale. The above rights are stipulated in the shareholder rights agreement ("the SRA") signed with ImageSat NV on November 2, 2017 and updated on July 15, 2021.

2. Dividend and distribution order and preference:

In any type of distribution, holders of Preferred B shares are entitled to a share of the distribution pro rata to their interests in the Company.

Concurrently, according to the internal distribution mechanism established between FIMI and IAI, the following applies:

First, holders of Preferred A shares are entitled to receive the "Preferred A Preference Amount" (if the distribution is in the form of a dividend, the distribution will be made simultaneously with a partial repayment of the loan to IAI (see Note 16b)), all as defined in the SRA.

Second, holders of Ordinary shares are entitled to receive their pro rata share based on the ratio of their interests to the interests of holders of Preferred A shares multiplied by the "Preferred A Preference Amount", all as defined in the SRA.

Third, the Company shall pay all outstanding amounts due to the loan to IAI as prescribed in the Amended Loan Agreement subject to the loan's maturity dates.

Lastly, any remaining amount shall be distributed among the Company's Ordinary and Preferred A shareholders on a pro rata basis.

Nevertheless, the Company shall not distribute any dividends or other distributions until IAI has received at least 80% of payment in respect of the EROS C3.

Following the sale of all Preferred A shares or an IPO of the Company and subject to the provisions mentioned in the SRA, the Preferred A shares shall not have any preferences and shall be automatically converted into Ordinary shares.

3. Adjustment to shares due to IPO:

In the event of an IPO of the Company (as describe in Note 1d) and subject to the provisions of the SRA, Preferred A and B shares shall not confer any surplus rights.

NOTE 20:- EQUITY (Cont.)

e. Restructuring:

The structure of the Company's share capital described above is identical before and after the Restructuring (other than shares accounting for about 0.004% of the Company's share capital, as explained in Note 18b, and other than the cross-ownership of the parent and subsidiary which was switched in the context of the Restructuring).

NOTE 21:- SHARE-BASED PAYMENT TRANSACTIONS

a. Expenses recognized in the financial statements:

The expense recognized in the financial statements for employee services received is shown in the following table:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Equity-settled share-based payment plans	1,499	428	263

b. Share-based payment plan:

On August 12, 2018, the Company's Board approved the 2018 option plan. According to the plan, 178,973 options for the purchase of ordinary shares can be granted to employees, consultants and directors of the Company. According to the Plan, the options vest over a period of up to four years, and their term period is ten years. Each option granted under the plan can be exercised into one ordinary share (with no par value) and will expire as stated in the letter of grant. Each forfeited or unexercised option will be available for future grants.

On November 15, 2021, the Company's Board increased the option pool under the plan by another 108,820 options with no other change in the plan terms.

The amount of the aforementioned options was adjusted to the company's share capital split ratio as described in note 20c.

On January 26, 2022, the Company's Board increased the option pool under the plan by another 1,500,000 options with no other change in the plan terms and subject to the completion of the offer according to the company's prospectus and prior to the listing for trading of the company's shares on the Tel Aviv Stock Exchange.

NOTE 21:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

c. Grants:

Following is a description of the share-based payment transactions entered into between the Company and employees in the context of the 2018 option plan:

1. Subject to the Plan terms and condition, the Company issued 159,798 stock options to few management members on September 20, 2018. The vesting period is graded so that the options shall be vested in three equal portions, each at the end of 2019, 2021 and 2021. The options shall be expired six years from the grant date. The exercise price is $ 18.28061 per share. The fair value of each option is $ 2.25, calculated based on the Black & Scholes model. The grants are in accordance with section 102 to Israel's Income Tax Ordinance.

2. On September 8, 2021, the Company's CEO was granted options for the purchase of 7,717 Ordinary shares. The vesting period is two years from the grant date. The options expire six years from the grant date. The exercise price is $ 18.28061 per share. The fair value of each option is $ 15.56, calculated based on the Black & Scholes model. The grants are in accordance with section 102 to Israel's Income Tax Ordinance.

3. On November 15, 2021, the Company's board of directors approved an aggregate grant of 103,820 options to purchase 103,820 ordinary shares, to several key management personnel. The vesting period is graded and the options will vest in three equal annual portions as follows: 50% vest on July 15, 2022 (in case of IPO an acceleration will be made on half of this portion), 25% vest on July 15, 2023 and 25% vest on July 15, 2024. The opinions will expire 6 years from the grant date. The exercise price of the options granted is $ 37.490135 per share. The fair value of each option is $ 8.9, calculated based on the Black & Scholes model The grants are in accordance with section 102 to Israel's Income Tax Ordinance.

4. In January 2022, the board of directors of the Company approved an allotment of 1,500,000 (non-negotiable) options convertible into up to 1,500,000 Ordinary Shares of the Company to 36 employees of the Company, as follows: (a) 350,000 options to the CEO; (b) 495,000 options to 7 officers who report to the CEO and (c) 655,000 options to 28 employees who are not officers. The options were granted subject to the completion of the offering (which was indeed completed, as described above) and subject to a 1-for-10 split of the shares of the Company (such that each share would be split into 10 shares). As of the date of the actual allotment, the fair value of the options that were granted was approximately $3.8 million.

5. On September 6, 2022, options were granted to the CFO for the purchase of 30,000 Ordinary Shares. The vesting period of each grant is staggered so that the options will vest in three groups as follows: 33% will vest on September 6, 2024, 33% will vest on September 6, 2025 and 33% will vest on September 6, 2026. The options will expire after six years from the date of the grant. The exercise price of each option was set at NIS 18.16 per share. The fair value set for each option was NIS 6.64 based on the Black and Scholes Model. The grants were made pursuant to the equity track (with a trustee) under Section 102 of the Income Tax Ordinance.

NOTE 21:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

d. Movement in the number of share options and their related weighted average exercise prices are as follows:

The following table presents the changes in the number of share options and the weighted average exercise prices of share options:

	2022		2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Outstanding at beginning of year	2,713,350	2.563069	271,335	25.63069
Granted during the year	1,464,000	5.75231	-	-
Exercise of options	(696,009)	1.828061		
Outstanding at end of year	3,481,341	2.47558	271,335	25.63069
Exercisable at end of year	1,498,241	2.49362	159,798	18.28061

e. Measurement of the fair value of equity-settled share options:

The Company uses the Black & Scholes model when estimating the grant date fair value of equity-settled share options. The measurement was made at the grant date of equity-settled share options since the options were granted to employees.

The following table lists the inputs to the Black & Scholes model used for the fair value measurement of equity-settled share options for the Company's plan:

	Grant made on	
	September 15, 2022	February 10, 2022
Dividend yield (%)	-	-
Expected volatility of the share prices (%)	52.7%	52.22%
Risk-free interest rate (%)	2.77%	0.87%
Expected life of share options (years)	6	6
Calculated Ordinary share price ($)	5.32	5.9
Calculated fair value of option ($)	1.94	2.55

The expected life of share options is based on their contractual life and on various evaluations which do not necessarily reflect the future exercise patterns of the share options.

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

a. Information on revenues according to customers:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Revenues from significant customers each accounting for 10% or more of total revenues reported in the financial statements:			
Customer A	8,917	9,000	9,917
Customer B	7,937	6,810	7,847
Customer C	1,015	2,383	2,776
Customer D	5,730	2,198	2,698
Customer E	1,248	10,100	-
Customer F	7,123	1,843	-
	31,970	32,334	23,238

Information on revenues according to geographical location:

The revenues reported in the financial statements were produced in the Company's country of residence (Israel) and overseas based on the location of customers, as follows:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Israel	817	1,331	392
Overseas	32,875	34,937	25,525
	33,692	36,268	25,917

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Asia	23,833	28,931	21,015
America	7,565	3,033	1,432
Africa	1,014	2,463	2,790
Europe	463	510	288
Israel	817	1,331	392
	33,692	36,268	25,917

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

b. Operating costs:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Wages, salaries and related expenses	2,419	1,859	1,675
Satellite operating costs	1,140	719	351
Satellite insurance costs	991	1,191	970
Depreciation of right-of-use assets and related expenses	321	349	284
Equipment, procurement and labor delivered to customers	9,480	5,273	1,463
Sales promotion and customer liaison expenses	839	1,490	3,293
	15,190	10,881	8,036

c. Selling and marketing expenses:

	2022	2021	2020
Wages, salaries and related expenses	2,295	1,831	1,695
Travel and related expenses	452	193	113
Subcontractor costs	515	228	160
Business development and showcase expenses	470	123	188
Depreciation of right-of-use assets and related expenses	113	89	72
Other	24	104	52
	3,869	2,568	2,280

d. General and administrative expenses:

	2022	2021	2020
Wages, salaries and related expenses	2,614	1,526	1,421
IT and data security	451	503	342
Professional services	482	823	434
Directors' fees	381	182	180
Depreciation of right-of-use assets and related expenses	174	188	133
Other	675	549	304
	4,777	3,771	2,814

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

e. Research and development expenses:

	Year ended December 31,		
	2022	**2021**	**2020**
	U.S. dollars in thousands		
Wages, salaries and related expenses	1,719	3,981	1,377
Subcontractor costs	105	382	377
Other research and development expenses	747	527	185
	2,571	4,890	1,939

f. Finance expenses:

	Year ended December 31,		
	2022	**2021**	**2020**
	U.S. dollars in thousands		
Finance income:			
Interest income from bank deposits	1,619	220	463
Finance expenses:			
Interest expenses from loan from related party	1,726	1,651	1,236
Lease related finance expenses (income)	(681)	279	43
Exchange rate valuation losses (gains)	446	(99)	12
Other	484	287	50
	1,975	2,118	1,341
	356	1,898	878

NOTE 23:- NET EARNINGS PER SHARE

Details of the number of shares and income used in the computation of net earnings per share:

	Year ended December 31,					
	2022		**2021**		**2020**	
	Weighted number of shares	**Net income**	**Weighted number of shares**	**Net income**	**Weighted number of shares**	**Net income**
	In thousands	**U.S. dollars in thousands**	**In thousands**	**U.S. dollars in thousands**	**In thousands**	**U.S. dollars in thousands**
Number of shares and net income	60,984	2,819	49,273*	7,433	49,273*	7,134

* Retroactively adjusted due to share split

NOTE 24:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. The parent company, controlling shareholder and subsidiaries:

The controlling shareholder in the Company is FIMI. As for subsidiaries, see Note 10.

b. Balances with related parties:

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Receivables:		
Trade receivable (see e(1)(a))	-	161
Inventory purchased (see e(2))	-	52
Advances on account of property and equipment (see e(4))	-	40,040
Payables:		
Loan (see e(3))	39,818	38,092
Trade payable (see e(1)(b))	-	158
Expenses (see e(1)(b))	369	115
Expenses (see e(2))	-	187
Accrued expenses interested party (see e(5))	53,000	-
Director's fee	51	-

c. Transactions with interested and related parties:

	Year ended December 31, 2022	2021	2020
	U.S. dollars in thousands		
Revenues (see e(1)(a))	39	351	283
Purchase (see e(1)(b))	108	224	69
Purchase (see e(2))	289	113	98
Purchase (see e(6))	8	22	-
Management fees (see e(5))	180	182	180
Director's fee	201	-	-
Finance expenses on loan (see e(3))	1,726	1,651	1,236

NOTE 24:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

d. Remuneration of key management personnel:

	Year ended December 31,		
	2022	**2021**	**2020**
	U.S. dollars in thousands		
Short-term employee benefits	1,396	1,463	1,354
Grants	439	-	304
Share-based compensation	809	357	228
	2,644	1,820	1,886
No. of employees to whom the benefit relates	5	5	5

e. Details of transactions:

1. Current operations with IAI:

a) The Company recognizes revenues from current operations with IAI consisting of operating services for the Venus research satellite owned by a third party. In 2022 and 2021, IAI's maximum debt amounted to $ 0 thousand and $ 161 thousand, respectively.

b) The Company receives from IAI support services for its satellites and for third-party satellites and the ground station.

2. Current operations with Orbit Technologies Ltd. ("Orbit"):

The Company purchases from Orbit hardware and software which is used by the Company's ground station and by the ground stations set up on the Company's customer sites. Orbit is defined as a related party.

3. Loan from IAI:

See Note 16.

NOTE 24:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

4. Purchase of EROS C3:

   On December 28 2017, the Company and IAI entered into the EROS C3 satellite purchasing agreement. The satellite launched on December 30, 2022, as described in note 1a. The EROS C3 is an OptSat 3000 model satellite with very-very high resolution and multi spectral capabilities.

   As of December 31, 2022, the outstanding payment to IAI for the EROS C3 is $ 53 million to be paid as follows: (i) $ 20 million at the End of the In Orbit Acceptance Test (or earlier in case of a " Dissolution Event" as defined in the EROS C3 Satellite Supply Contract) and; (ii) $ 33 million - 12 months after the In Orbit Acceptance Test (or earlier in case of a " Dissolution Event" as defined in the EROS C3 Satellite Supply Contract).

5. Management fees to controlling shareholder:

   The Company is engaged with FIMI for management services for an annual fee of $180.

6. Current operations with E&M Computing Ltd.:

   The Company purchases software licenses and support services from E&M Computing Ltd. E&M is defined as a related party.