

IMAGESAT INTERNATIONAL (I.S.I) LTD

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT JUNE 30, 2023

UNAUDITED

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* This Financial Statements is a translation of the Hebrew Financial Statements reported on Aug 17, 2023. In the event of any conflicts between the English and the Hebrew version, the Hebrew version shall supersede.



Auditors' Review

To the Shareholders of

IMAGESAT INTERNATIONAL (I.S.I.) LTD.

Introduction

We have reviewed the accompanying financial information of ImageSat International (I.S.I) Ltd. ("the Company), which includes the condensed consolidated statement of financial position as of June 30, 2023 and the condensed consolidated statements of income, other comprehensive income, changes in equity, and cash flow for the six- and three-month period then ended. The board of directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with International Accounting Standard IAS 34, Interim Financial Reporting, and are also responsible for the preparation of this interim financial information in accordance with Chapter D of the Israel Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of the review

We conducted our review in accordance with Israel Review Standard 2410 of the Institute of Certified Public Accountants in Israel, Review of Interim Financial Information by the Independent Auditor of the Entity. A review of interim financial information consists of making enquiries, primarily persons responsible for financial and accounting matters, and applying analytic and other review procedures. A review is substantially more limited in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to be certain that we are aware of all of the significant matters that could be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that this financial information has not been prepared, in all material respects, in accordance with IAS 34.

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

Tel Aviv
August 16, 2023

Kost Forer Gabbay and Kasierer
KOST FORER GABBAY & KASIERER
Certified Public Accountants

IMAGESAT INTERNATIONAL (I.S.I.) LTD.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	June 30		December 31
	2023	2022	2022
	Unaudited		Audited
	USD thousands		
CURRENT ASSETS:			
Cash and cash equivalents	9,349	13,065	27,173
Restricted cash	93	186	20,093
Short-term deposits	27,250	92,500	22,250
Trade receivables	5,843	13,062	4,057
Other account receivables	13,369	4,079	8,896
Inventories	1,306	1,184	1,306
	<u>57,210</u>	<u>124,076</u>	<u>83,775</u>
NON-CURRENT ASSETS:			
Property and equipment	188,837	7,014	8,710
Property and equipment under construction	13,051	-	180,143
Advances on account of property and equipment	2,065	95,053	12,017
Right-of-use assets	8,732	7,859	7,738
Intangible assets	637	744	690
Deferred taxes	408	657	560
Long term receivables	-	744	-
	<u>213,730</u>	<u>112,071</u>	<u>209,858</u>
	<u>270,940</u>	<u>236,147</u>	<u>293,633</u>

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

IMAGESAT INTERNATIONAL (I.S.I.) LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30		December 31, 2022
	2023	2022	
	Unaudited		Audited
USD thousands			
CURRENT LIABILITIES:			
Current maturities of lease liabilities	1,061	1,072	806
Current maturities of loan from a related party	10,311	-	9,955
Trade payables	3,427	1,010	618
Advances and deferred revenues	5,859	3,182	7,954
Income tax payable	553	482	664
Other account payables	37,398	4,762	29,275
	<u>58,609</u>	<u>10,508</u>	<u>49,272</u>
NON-CURRENT LIABILITIES:			
Lease liabilities	6,178	6,054	5,824
Other liabilities	166	166	33,166
Advances and deferred revenues	10,189	19,889	13,623
Employee benefit liabilities	74	145	90
Loan from a related party	30,408	38,955	29,863
	<u>47,015</u>	<u>65,209</u>	<u>82,566</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	-	-	-
Share premium and capital reserves	206,040	205,903	205,905
Share-based payments reserve	2,503	1,487	2,266
Accumulated deficit	(43,227)	(46,960)	(46,376)
	<u>165,316</u>	<u>160,430</u>	<u>161,795</u>
	<u>270,940</u>	<u>236,147</u>	<u>293,633</u>

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

August 16, 2023

Date of approval of the financial statements

Gillon Beck
Chairman of the Board of Directors

Noam Segal
CEO

Yuval Sipper
CFO

IMAGESAT INTERNATIONAL (I.S.I.) LTD.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	Unaudited				Audited
	USD thousands (other than earnings per share)				
Revenues	15,588	17,546	10,316	6,402	33,692
Operating costs	3,158	7,221	1,532	2,444	15,190
Depreciation	1,804	1,541	982	751	3,229
Gross profit	10,626	8,784	7,802	3,207	15,273
Selling and marketing	2,213	1,833	1,057	879	3,869
General and administrative	2,822	2,549	1,139	1,086	4,777
Research and development	1,592	1,351	825	664	2,571
Operating income	3,999	3,051	4,781	578	4,056
Finance expenses (income), net	164	161	48	(27)	356
Income before taxes on income	3,835	2,890	4,733	605	3,700
Taxes on income	686	583	647	170	881
Net income	3,149	2,307	4,086	435	2,819
<u>Other comprehensive loss (net of taxes):</u>					
Loss from remeasurement of defined benefit plans	-	-	-	-	72
Total other comprehensive loss	-	-	-	-	72
Total comprehensive income	3,149	2,307	4,086	435	2,891
<u>Earnings per share</u>					
Earnings per share attributable to equity holders of the Company (USD)	0.05	0.04	0.07	0.01	0.05
Earnings per share (fully diluted) (USD)	0.05	0.04	0.07	0.01	0.05

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

IMAGESAT INTERNATIONAL (I.S.I.) LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium and capital reserves	Share-based payments reserve	Accumulated deficit	Total capital
Unaudited					
USD thousands					
<u>Balance as of January 1, 2023</u>	-	205,905	2,266	(46,376)	161,795
Comprehensive income	-	-	-	3,149	3,149
Conversion of options	-	135	(135)	-	-
Share-based payment	-	-	372	-	372
<u>Balance as of June 30, 2023</u>	-	206,040	2,503	(43,227)	165,316

	Share capital	Share premium and capital reserves	Share-based payments reserve	Accumulated deficit	Total capital
Unaudited					
USD thousands					
<u>Balance as of January 1, 2022</u>	-	144,485	924	(49,267)	96,142
Comprehensive income	-	-	-	2,307	2,307
Issuance of shares, net	-	61,263	-	-	61,263
Conversion of options	-	155	(155)	-	-
Share-based payment	-	-	718	-	718
<u>Balance as of June 30, 2022</u>	-	205,903	1,487	(46,960)	160,430

	Share capital	Share premium and capital reserves	Share-based payments reserve	Accumulated deficit	Total capital
Unaudited					
USD thousands					
<u>Balance as of March 31, 2023</u>	-	206,040	2,340	(47,313)	161,067
Comprehensive income	-	-	-	4,086	4,086
Share-based payment	-	-	163	-	163
<u>Balance as of June 30, 2023</u>	-	206,040	2,503	(43,227)	165,316

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

IMAGESAT INTERNATIONAL (I.S.I.) LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium and capital reserves	Share-based payments reserve	Accumulated deficit	Total capital
Unaudited					
USD thousands					
<u>Balance as of March 31, 2022</u>	-	205,889	1,066	(47,395)	159,560
Comprehensive income	-	-	-	435	435
Conversion of options	-	14	(14)	-	-
Share-based payment	-	-	435	-	435
<u>Balance as of June 30, 2022</u>	-	205,903	1,487	(46,960)	160,430

	Share capital	Share premium and capital reserves	Share-based payments reserve	Accumulated deficit	Total capital
Audited					
USD thousands					
<u>Balance as of January 1, 2022</u>	-	144,485	924	(49,267)	96,142
Comprehensive income	-	-	-	2,819	2,819
Issuance of shares, net	-	61,263	-	-	61,263
Conversion of options	-	157	(157)	-	-
Share-based payment	-	-	1,499	-	1,499
Other comprehensive loss for the year	-	-	-	72	72
<u>Balance as of December 31, 2022</u>	-	205,905	2,266	(46,376)	161,795

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

IMAGESAT INTERNATIONAL (I.S.I.) LTD.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	Unaudited				Audited
	USD thousands				
<u>Cash flows from operating activities:</u>					
Net income	3,149	2,307	4,086	435	2,819
Adjustments to reconcile net income to net cash provided by operating activities:					
Adjustments to profit or loss:					
Depreciation of property and equipment	1,751	1,444	955	724	3,080
Depreciation of an intangible asset	53	96	27	26	149
Amortization of right-of-use asset	477	260	286	130	519
Share-based payment	372	718	163	435	1,499
Finance income, net	(899)	(313)	(873)	(464)	(158)
Taxes on income	686	583	647	170	881
Change in employee benefit liabilities, net	(16)	(24)	(13)	(21)	(7)
	<u>2,424</u>	<u>2,764</u>	<u>1,192</u>	<u>1,000</u>	<u>5,963</u>
Changes in assets and liabilities:					
Decrease (increase) in trade receivables	(1,786)	(6,077)	(2,238)	(2,229)	2,928
Increase in other receivables	(2,309)	(1,063)	(3,155)	(956)	(5,880)
Increase in inventories	-	-	-	-	(226)
Increase (decrease) in trade payables	645	437	(1,060)	(4,599)	193
Increase (decrease) in advances and deferred revenues	(5,529)	(830)	(3,730)	1,015	(2,324)
Increase (decrease) in other account payables	(474)	120	(341)	(530)	1,564
	<u>(9,453)</u>	<u>(7,413)</u>	<u>(10,524)</u>	<u>(7,299)</u>	<u>(3,745)</u>
Cash paid or received in the period for:					
Interest received	1,478	131	1,146	107	908
Taxes paid	(648)	(1,856)	(13)	(1,856)	(1,892)
	<u>830</u>	<u>(1,725)</u>	<u>1,133</u>	<u>(1,749)</u>	<u>(984)</u>
Net cash provided by (used for) operating activities	<u>(3,050)</u>	<u>(4,067)</u>	<u>(4,113)</u>	<u>(7,613)</u>	<u>4,053</u>

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

IMAGESAT INTERNATIONAL (I.S.I.) LTD.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2023	2022	2023	2022	2022
	Unaudited				Audited
	USD thousands				
<u>Cash flow from investing activities:</u>					
Purchase of property and equipment	(26,136)	(395)	(20,959)	(232)	(3,502)
Investment in property and equipment under construction	(2,839)	-	(636)	-	(39,888)
Advances on account of property and equipment	(260)	(4,137)	(165)	(2,727)	(4,794)
Net change in bank deposits	(5,000)	(47,750)	(5,000)	(57,500)	2,500
Deposit of restricted cash	20,000	506	20,000	-	599
Net cash used in investing activities	(14,235)	(51,776)	(6,760)	(60,459)	(45,085)
<u>Cash flow from financing activities:</u>					
IPO proceeds, net	-	61,170	-	64,548	61,170
Repayment of lease liabilities	(539)	(664)	(273)	(344)	(1,367)
Net cash provided by (used in) financing activities	(539)	60,506	(273)	64,204	59,803
<u>Increase (decrease) in cash and cash equivalents</u>	(17,824)	4,663	(11,146)	(3,868)	18,771
<u>Cash and cash equivalents at the beginning of the period:</u>	27,173	8,402	20,495	16,933	8,402
<u>Cash and cash equivalents at the end of the period</u>	9,349	13,065	9,349	13,065	27,173
<u>Material non-cash transactions</u>					
Purchase of property and equipment vs. trade payables	385	332	385	332	56,086
Conversation of options	135	155	-	14	157
Recognition of a right-of-use asset vs. lease liability	1,286	2,105	-	2,105	2,243

* Reclassified

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

A. General description of the Company and its activity

ImageSat International (I.S.I) Ltd. and its subsidiaries (“ImageSat” or “the Company”) provide advanced satellite-based intelligence solutions that combine remote sensing capabilities and control by an advanced ground system based on artificial intelligence capabilities. 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. In February 2022, the Company made an initial public offering of its shares. For further details, see Note 1(d) on the 2022 annual financial statements.

B. These financial statements have been prepared in condensed format as at June 30, 2023 and for the six and three months then ended (“the Interim Consolidated Financial Statements”). The financial statements should be read in the context of the Company’s annual financial statements as at December 31, 2022 for the year then ended, and their accompanying notes (“the Consolidated Annual Financial Statements”).

C. The Company chose to apply the relief for publication of interim separate financial information allowed by the Amendment to the Regulations for Periodic and Immediate Reporting, 2022.

D. Further to note 1(a) to the consolidated annual financial statements, on June 26, 2023, a series of in-orbit acceptance tests (hereafter "IOT") of the EROS C3 satellite (hereafter "the satellite") was completed and the satellite will begin to be integrated into the company's commercial activity. As of the end of the IOT, the satellite was classified from a property and equipment under construction to a property and equipment and began to be depreciated. As described in note 24(4) in the consolidated annual financial statements, the company paid the IOT a payment at the end of the IOT. The next payment will be paid 12 months from this date and therefore was classified as current liabilities in the statement of financial position. Following this classification, the company shows a deficit in working capital of approximately \$1.4 million. The company is examining various options, including expanding its sales and/or financing under several scenarios and assumptions, including a scenario in which interim financing will be needed to make the aforementioned payments.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. Format of preparation of the Interim Consolidated Financial Statements

The Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard IAS 34, Interim Financial Reporting, and in accordance with the disclosure requirements of Chapter D of the Israel Securities Regulations (Periodic and Immediate Reports), 1970. The accounting policy applied in the preparation of these Interim Consolidated Financial Statements is consistent with the policy applied in the preparation of the annual consolidated financial statements.

C. Functional currency and presentation currency

The presentation currency of the financial statements is the US Dollar.

NOTE 3:- DISCLOSURE OF NEW IFRS APPLICATION

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 below: "the Amendment"). in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

The Amendment is applicable on a prospective basis for annual periods beginning on January 1, 2023 and it applies to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. with earlier application permitted.

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

Amendment to IAS 12, Income Taxes:

In May 2021, the IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12" or "the Standard"), which narrows the scope of the initial recognition exception' for deferred taxes under sections 15 and 24 in IAS 12 ("the Amendment").

As part of the guidelines for the recognition of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities for certain temporary differences arising from initial recognition of assets and liabilities in certain transactions. This exception is referred to as "the initial recognition exception". The Amendment narrows the scope of the initial recognition exception and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from a transaction that is not a business combination and for which temporary differences that give rise to equal taxable and deductible temporary differences, even if they meet the other criteria of the initial recognition exception.

The Amendment applies for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. In relation to leases and decommissioning obligations, the Amendment is to be applied commencing from the earliest reporting period presented in the financial statements in which the Amendment is initially applied. The cumulative effect of the initial application of the Amendment should be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD

- A. On June 13, 2023, the RUNNER satellite (hereafter "the satellite") was successfully launched into space from the launch site in the USA. The satellite is a sensing satellite with very high resolution and the ability to perform color videography from space. In addition, the satellite entered into a proper orbit around the Earth and began transmitting data. At the end of a series of acceptance tests which are expected to take several months, the satellite will start to integrate into the company's commercial activities.
- B. As of June 30, 2023, the company has a debt balance to a related party in the amount of \$2.2 million.

NOTE 5:- REVENUES

Breakdown of revenues based on the geographic location of the customers:

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2023	2022	2023	2022	2022
	USD thousands				
Asia	10,215	12,978	6,509	4,050	23,833
America	3,954	2,611	2,400	1,306	7,565
Africa	-	1,014	-	296	1,014
Europe	67	476	64	325	463
Israel	1,352	467	1,343	425	817
	<u>15,588</u>	<u>17,546</u>	<u>10,316</u>	<u>6,402</u>	<u>33,692</u>
