STARCOM PLC

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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CHAIRMAN'S STATEMENT

I am pleased to provide the annual report and accounts for 2020. As we previously announced, the Covid-19 pandemic has disrupted Starcom's business in 2020 and this is reflected in the results. The results for the year to 31 December 2020 show that revenues reduced to $5.04m (2019: $6.8m), which has resulted in an operating loss for the year of $1.78m (2019: $0.7m loss) and an adjusted EBITDA* loss of $370,000 (2019: profit $296,000). Gross margin was down to 33% (2019: 41%) reflecting the lower sales revenues and the impact of increases in the cost of raw materials, shipment and logistics as experienced across the industry due to the pandemic.

However, the Company has been able to cope effectively with the crisis. Costs were adjusted quickly and a low-cost long-term bank loan, as well as government grants, were secured to ensure business continuity. This enabled the Company to focus on retaining its key assets, mainly the solid client base and pipeline of future opportunities, as well as to utilize its engineering resources to progress R&D plans to improve competitiveness, to be leveraged when higher customer demand returns.

Even during the long lock-down periods, the Company continued to maintain and further develop Starcom's strategic alliances and pipeline of potential projects. For example, work with Zero Motorcycles ("Zero") progressed during 2020 to integrate Starcom's technology with Zero's new generation of electric motorcycles. Additional projects included working with the National Transport and Safety Authority of Kenya and central authorities in South America for the potential deployment of Starcom's products in container and shipment transportation. More recently, the Company made its modest contribution to the global anti-Covid vaccination effort by providing certain vaccination organizations in Panama with the means to monitor temperature and other conditions of vaccines while in transit.

As many of the Company's customers were impacted by the pandemic, not only were some unable to place orders but some could not make scheduled payments for existing orders as expected, and therefore provisions of approximately $500,000 were made in the 2020 accounts which are included as general and administrative costs. We are hopeful that some of these debts may be recoverable during this year.

BUSINESS REVIEW BY PRODUCT

Although hardware sales were severely depressed by the pandemic at $2.8 million (2019: $4.8m), the newer and higher margin products – Kylos, Tetis and Lokies – still represented 40% of hardware sales.

Lokies

The Company's intelligent keyless padlock, branded as Lokies, was successfully launched in 2019 and well received by customers. It had been anticipated that significant orders would follow based on the positive interest shown, however these orders were not progressed as hoped in 2020. However, we still anticipate that these orders will be resumed later this year.

Kylos

Kylos is a real-time tracking and monitoring solution for the protection and management of any portable asset. One of our major opportunities for 2020 was a project with Cubemonk, a USA company that intended to incorporate Kylos into its shipping containers. However, Covid-19 restrictions resulted in this project being suspended. We remain in contact with this customer and hope that as conditions improve in the USA it may be possible to restart the project.

Kylos development continued to progress in 2020 and Kylos Dodge, a long range cellular based variant of Kylos was launched, allowing cross-device communication for low-cost operations.

Tetis
Tetis is a solution for the tracking, monitoring, and management of cargo shipped by the sea. New developments in the year have seen the Company establish new control centre dashboard software for Tetis, which is now integrated directly into a custom system for a customs authority in South America.
Tetis and Lokies are ideally suited to monitor goods for customs purposes and is a key target market for Starcom.

Helios
Helios Pro was launched in 2020. It is the next generation of our high-end vehicle tracking products and which can connect directly to the computer of over 2,600 vehicle models, to collect and transmit important data for driver security and external sensor integration. In addition, a new project for the monitoring of defibrillators in Israel using Helios was initiated and is expected to lead to more sales in 2021.

SaaS
It is encouraging to see that, even in such a challenging year, the Company could still rely on its strong and loyal customer base to generate $2.2 million of SaaS revenues (2019: $2m, an increase of approximately 9% compared to the previous year. We have also used the time to upgrade the entire structure of Starcom Online - our SaaS platform – and brought it up to date in both the software and underlying backbone. We have also integrated various third-party tracking units to allow easy transitions for customers from other companies to Starcom, developed a full vehicle maintenance module, and added support for Telegram Messaging App. In addition, we launched Olly - a new Android/iOS application for Helios end-users, allowing them to communicate with their vehicle securely using Bluetooth 5.

FINANCIAL REVIEW
Group revenues for the year were $5.04m, compared with $6.8m for the year ended 31 December 2019, a decrease of 26%.

The gross margin for the year was 33%, compared with 41% for 2019. This was due to lower sales revenues and the impact of increases in the cost of raw materials, shipment and logistics as experienced across the industry due to the pandemic.

Total operating expenditure for the year was $3.4m (2019: $3.4m), mainly due to non-cash expenses such as depreciation, share option provisions and exceptional provisions made for doubtful debt. Excluding the exceptional provisions, the operating expenditures were decreased by 12%.

Net loss after taxation for the year increased to $2.0m compared with the 2019 net loss of $1.0m. The operating loss in the period was $1.78m, compared to an operating loss of $0.76m in 2019.

The Group recorded an exchange rate loss of $0.14m resulting from the strengthening of the Israeli Shekel compared with the US dollar.

The Group balance sheet showed stability in trade receivables of $1.1m, compared with $2.0m as at 31 December 2019, due to exceptional provisions made for doubtful debts.

Group inventories at the period end were $2.1m, compared to $2.3m as at the end of 2019. An exceptional provision for obsolete stock was made of $0.08m.

Trade payables at the year-end were $1.6m, compared with $2.1m as at 31 December 2019.

Net cash used in operating activities in the period was approximately $0.4m, compared with zero for the year ended 31 December 2019.

OUTLOOK

At this time of the year, we would normally expect to have a stronger indication of how the current year might end but during this exceptional period many of our clients and prospects are still unable to commit or more safely predict their needs yet. Another factor that makes forecasting very difficult is the increase we have noticed in the cost of raw material and in the lead times for supply, by several weeks in some cases. The currency fluctuations also impact margins. We are working to mitigate this challenge.

However, our discussions with clients and prospects make us cautiously optimistic that the level of activity is starting to rise, and we are hopeful that this is now the beginning of the process of gradually enlarging the sales pipeline and order book and the resumption of projects that had been put on hold. We are therefore quite confident that revenues will increase in the second half of this year. With the solid technology we have kept at the forefront of our business and client relationships that have been maintained throughout the tough period, we will be ready and are well positioned to meet customer demand when it hopefully increases in the second half of 2021 as markets gradually return to some normality.

Michael Rosenberg
Non-Executive Chairman
March 24, 2021

CORPORATE GOVERNANCE STATEMENT

General

The Board has adopted the QCA Corporate Governance Code ("the QCA Code"), further detail of which is set out on the Company's website. The following comments are intended to provide an update on the application of these guidelines where appropriate. The Company seeks to comply with the principles of the QCA Code that the Board considers appropriate, given the size and nature of the business. However, there may be certain cases where non-compliance is appropriate due to the nature of the business and its non-UK status, as explained further below.

Division of responsibilities

The Starcom Board consist of five directors, three of whom are non-executive, including the Chairman. Although Starcom is a relatively small company with a small board, the roles of Chairman and Chief Executive are separate, clearly established roles, with a clear division of responsibilities between them.

The Chairman

The Chairman is responsible for the leadership of the Board. The Chairman sets the agenda for Board meetings and encourages an open and constructive debate. Since the Company is based in Tel Aviv, some Board meetings take place by conference call but normally at least two meetings a year take place physically in Tel Aviv with all Board members attending. Due to Covid restrictions on travel that was not possible during 2020. During 2020, a total of 7 Board meetings were held and all directors attended all meetings either in person or by conference call. There were 2 audit committee meetings held during the year under review, and all members of the committee attended. There was 1 remuneration committee meeting held during the year under review, which all members attended.

The Non-Executive directors

Starcom presently has three non-executive directors, namely Avi Engel, Michael Rosenberg and Martin Blair. The intention is to ensure that discussions and decisions are managed in a balanced way with no individual being able to dominate the decision-making process. There are no relationships or circumstances which could materially affect or interfere with the exercise of the judgement of the independent directors, save only in respect of their holdings of shares or options in the Company, as disclosed. The names of the directors with their biographical details are clearly set out on the Company's website and repeated on pages 7-8 of this Annual Report and Accounts.

Time Commitment

Each non-executive director is required to be able to devote sufficient time to his role as a director in the light of other commitments external to the Board. In practice, despite their limited contractual time obligations to the Board which in general are one or two days a month, the non-executive directors devote considerable time over and above their commitments to the Company in support of the other executive members of the Board. On average, they provide at least one day a week and sometimes more to assist the management. The executive directors are fully committed to the Company and spend as much time as is needed, both in normal working hours and very often much more.

The business model and strategy

The strategic objectives of the Company are becoming very clear. The five different families of products provide a strong base for expanding the revenues of the Company from its present level to much higher levels. Although most are fully developed and already on the market, further development is ongoing to meet the ever-changing needs of the Company's various markets. It is therefore the intention once conditions improve to further strengthen the teams involved in this process, both in marketing, sales and research and development. The Company's strategy is to seek to capitalize on the technological strength of the Company in its various sectors through further investment of time and money.

To understand and meet shareholder needs and expectations

The Board keeps in regular contact with investors with a view to understanding their needs and expectations. During 2020, with the assistance of the Company's brokers, presentations were made to a number of investors and further presentations are planned together with the release of these financial statements. In addition, the Board welcomes contact from investors via the Company's brokers, PR firm and via the website. In normal times shareholders are encouraged to attend the Company's Annual General Meetings where they can meet and directly communicate with the Board. That has not been possible during the covid restrictions.

Taking into account wider stakeholder and social responsibilities and their implications for long-term success

The Company's tracking products are sold via distributors, therefore the Company has little influence over individual product sales. Therefore, although the Company continues to monitor performance of its distribution network, it is not generally in touch with end users and has limited influence over the processes followed by distributors. However, the Board constantly reviews the distribution network by measuring the performance of individual distributors. When products are manufactured by external firms, the Company regularly inspects the production facilities and processes used.

The Board is committed to reviewing and assessing stakeholder expectations and guides the Company's senior management to act in accordance with feedback received.

Embed effective risk management

The Board is fully aware of, and monitors closely, the risks that may apply to the business. These include counterparty credit risk, Forex risk and, from time to time, political risks in countries where the Company is actively marketing its products. It is also influenced by the covenants imposed by its bankers on credit risk for certain countries. Operational risks are identified and assessed by management and are reported to the Board when necessary. The Audit Committee also addresses these risks at its regular meetings. During 2020, management has actively been seeking to widen the manufacturing bases for the Company's products so as to lessen reliance on any single manufacturer, thus minimizing risk to the business. In order to monitor risk, regular visits are made to the manufacturing facility and the Board is informed of any issues that need addressing. The key risks facing the Company together with any mitigation taken are considered further on pages 12 of this document.

Ensure that the directors have the necessary up-to-date experience and skills

The Board believes that the directors are fully aware of their responsibilities and the need to maintain their knowledge through, where appropriate, regular attendance at conferences and, with regard to regulatory matters, through regular contact with the nominated adviser. Whilst the Directors did not seek any external advice on any significant matter during the year under review, each director has direct access to the advice and services of independent professional advisers in the furtherance of his duties.

While it is aware of the need to consider succession planning, the Company does not consider this a priority at the current stage in development of the business. Due to the size and nature of the Board, there is no formal board performance evaluation process in place. However, the Chairman is responsible for informally evaluating the performance of board members, providing feedback where necessary.

Ethical matters

As a small company, the Directors are constantly in touch with members of the staff. There are only 20 members based in the office in Israel and their needs and aspirations are regularly reviewed.

Main governance structures and processes

The chairman, Michael Rosenberg, has responsibility for ensuring proper corporate governance and can also rely on the support of the CFO, Mr Vatenmacher, who is also very familiar with corporate governance requirements.

Further information on the Board and its Committees:

Michael Rosenberg *(Non-Executive Chairman)*

Michael has many years of experience both as a corporate financier and as an entrepreneur, involved in a number of new businesses in the healthcare, media and financial sectors. He has considerable global experience, having been chairman of the UK DTI committee on trade with Hong Kong and as member of the China Britain Business Council. He was, for many years, also chairman of the British Export Healthcare Association, now known as ABHI, and led a number of UK trade missions overseas. He was a founder of the investment bank now known as Numis Securities where he served as chairman for a number of years until his retirement in 1999.

Over many years he has also served on the boards of other Israeli companies listed on AIM, including Pilat Media Global PLC, as well as several other non-listed companies.

Avi Hartmann *(Chief Executive Officer)*

Avi has spent his life as an entrepreneur focused on the technology of tracking systems. He was a founder of Mobiltel Communications Services, which was purchased by Pelephone in Israel in 1999. Together with his son, Uri Hartmann, and his then partner, Doron Kedem, he founded Starcom PLC in 2004.

Avi Engel *(Non-Executive Director)*

Avi founded and led Pilat Media Global PLC as its CEO until its sale in March 2014 at a valuation of $100m. He brings a wealth of experience to the Board, in developing and growing a global business and assessing its strategic needs. Pilat was dual listed on the Tel Aviv Stock Exchange and AIM, and therefore Avi has a broad knowledge of the needs and requirements of companies listed on AIM and the regulatory environment. He has a BSc in industrial and management engineering from the Technion in Haifa and an MBA from Tel Aviv University.

Martin Blair *(Non-Executive Director)*

Martin qualified as a chartered accountant with Ernst & Young in 1982 and between 1983 and 1986 also worked for PwC. He then spent 15 years in a variety of senior financial roles, primarily for media and technology companies, both in UK and the US. Martin became the CFO for Pilat Media Global PLC, a company which previously traded on both AIM and the Tel Aviv Stock Exchange. Pilat Media Global developed, marketed and supported new generation business management software solutions for content and service providers in the media industry. Martin is also currently a non-executive director and Chairman of the audit committees at Kape Technologies PLC (AIM: KAPE) and Cake Box Holdings PLC (AIM: CAKE).

Igor Vatenmacher *(Chief Financial Officer)*

Igor is a certified public accountant in Israel and has a Bachelor's degree in Economics from Ben Gurion University of the Negev, and an executive MBA degree with honours, specializing in financing, banking, capital markets and financial engineering, from the Hebrew University in Jerusalem. He began his career with Ernst and Young. Igor joined Starcom in December 2017 and brings highly qualified accounting experience to the Company, and, since his appointment, has assisted with the development of more sophisticated internal systems and controls essential to the growth of the business. He joined the Board of the Company in January 2019.

Audit Committee

The Audit Committee consists of non-executive Directors, Avi Engel, Martin Blair and Michael Rosenberg, and is chaired by Martin Blair. The Audit Committee, inter alia, determines and examines matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the annual audit. The Audit Committee met twice during 2020. In March 2020 the Audit Committee reviewed the financial statements for the year ended 31 December 2019, paying particular attention to the valuation of stock and the level of debtors with a view to making provisions where necessary. The Audit Committee met in August 2020 to consider the interim financial statements for the six months ended 30 June 2020. Again, the Committee focused on stock valuation and debtor levels, as well as the reported gross margin. The Board considers that, given the size and nature of the business, it is not beneficial to include a full audit committee report in the annual report and accounts for 2020. This will be kept under annual review by the Board.

Remuneration Committee

The Remuneration Committee reviews the performance of the directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment. The committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. The committee meets as and when necessary to assess the suitability of candidates proposed for appointment by the Board, but not less than once per annum. Members of the remuneration committee comprise Michael Rosenberg, who acts as chairman of the committee, with Avi Engel as a member.

The Board considers that, given the size and nature of the business, it is not beneficial to include a remuneration committee report in the annual report and accounts for 2020. This will be kept under annual review by the Board.

On behalf of the board,

M. Rosenberg, Chairman

March 24, 2021

Starcom PLC

Directors' Report

for the Year Ended December 31, 2020

The directors present the annual report together with the financial statements and auditors' report for the year ended December 31, 2020.

The Company was incorporated in Jersey and two wholly-owned trading subsidiaries: Starcom Systems Limited and Starcom G.P.S. Systems Limited, were incorporated in Jersey and in Israel, respectively.

Principal activities and review of business

The Group's principal activity is in the development of wireless solutions for the remote tracking, monitoring and protection of various types of assets and people. Further information on the results of the Group for the period under review can be found in the Chairman's Statement.

Accounts production

The financial statements for the year ended December 31, 2020 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

Dividends

The directors do not propose a final dividend.

Directors

Michael Rosenberg	Appointed February 2013
Avi Hartmann	Appointed February 2013
Avi Engel	Appointed September 2015
Igor Vatenmacher	Appointed January 2019
Martin Blair	Appointed May 2019

Remuneration of Directors

Remuneration of Directors for the year ending 31 December 2020: (All amounts presented in Thousands USD)

Executive Director	Salary	Pension	Fees	Total
A Hartmann	167	24	-	191
I Vatenmacher	106	32	-	138
Non-Executive Directors				
M Rosenberg	-	-	40	40
A Engel	-	-	25	25
M Blair	-	-	25	25
Total 2019	**273**	**56**	**90**	**419**

Directors' remuneration in share options: (In thousands)

Executive Director	Total vested at 01/01/20	Exercised	Vested/ (Expired) during the year	Total Vested at 31/12/20	Total un-vested at 31/12/20	Grant Total
A Hartmann	6,073	-	4,543	10,616	667	11,283
I Vatenmacher	333	-	1,067	1,400	1,000	2,400
Non-Executive Directors						
M Rosenberg	4,973	-	3,783	8,756	667	9,423
A Engel	4,012	-	5,010	9,022	500	9,522
M Blair	-	-	2,410	2,410	500	2,910

Further details regarding the grants are detailed in note 14 within the financial report. Some of the Directors were also issued warrants as a part of the loan they provided to the Company, as detailed in note 14 within the financial report.

Charitable and Political Donations

The Group did not make any charitable or political contributions during the year.

Corporate governance

The Company adopts the Quoted Company Alliance's (QCA) Corporate Governance Code ("QCA Code") and the Board believes this is the appropriate code for the Company to adhere to. The Board assesses its compliance with the QCA Code on an annual basis.

In common with other organizations of a similar size, the Executive Directors are heavily involved in the day to day running of the business and meet regularly on an informal basis as well as at Board Meetings.

The Board of Directors meets regularly and is responsible for formulating strategy, monitoring financial performance and approving major items of capital expenditure.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law, the directors are required to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and parent Company and of the profit and loss of the Group for that period.

In preparing each of the Group and parent Company financial statements, the directors are required to:

i) Select suitable accounting policies and then apply them consistently;
ii) Make judgments and accounting estimates that are reasonable and prudent; and

iii) State whether they have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the parent Company financial statements; and prepare the financial statements on the "going concern" basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group and parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulations. They have general responsibility for taking such steps as are reasonably open to safeguard the assets of the Group and parent Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report to comply with that law and those regulations.

In determining how amounts are presented within terms in the income statement and balance sheet, the directors have regarded the substance of the reported transaction or arrangement in accordance with generally accepted accounting principles or practice.

So far as each of the directors is aware at the time the report is approved:

There is no relevant audit information of which the Company's auditors are unaware; and

The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Going concern

The Directors have prepared and reviewed sales forecasts and budgets for the next twelve months and, having considered these cash flows and the availability of other financing sources if required, have concluded that the Group will remain a "going concern." After this process and having made further relevant enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the "going concern" basis in preparing the accounts.

Risks

Foreign exchange risks

Most of the Group's sales and income are in US Dollars and the US Dollar is the currency in which the Company reports. The expenses, however, are divided between the US Dollar and the Israeli Shekel. The cost of goods (components) are paid in US Dollars and part of the operational costs, such as rent and other service providers, quote their fees in US Dollars. Labor costs are paid in Israeli Shekels. The Company has, therefore, a partial currency risk in the event that the Israeli Shekel strengthens against the US Dollar, which could have an effect on the bottom line of the Group's financial results.

The Group consults with foreign currency experts from main Israeli banks regarding the main financial institutions' expectations for foreign currency changes. Management reviews them carefully and will consider with the board whether it should purchase financial instruments sold by local banks to protect itself from this foreign exchange risk. <u>There are no financial instruments in use at the date of this report</u>.

Interest Rate Risks

The Company is exposed to interest risks as it uses credit lines and loans from its banks. Changes in the effective Prime interest rate published monthly by the Bank of Israel can influence the Company's financing costs.

Credit Risk

The Group is exposed to credit risks if its customers fail to pay for goods supplied by the Group. In order to minimize this risk, the Group has a policy of:

(a) Selling only to respectable integrators and distributors and not to the end customer.

(b) Orders from customers in certain regions are shipped only after an approved letter of credit is received by the Group's bank.

(c) New customers must pay 50% before initial shipping.

Capital Risk management

The Group manages its cash carefully. In order to reduce its risk, the Group may take measures to reduce its fixed costs (labor) if performance is below the Directors' expectations. The Group may conduct a placing for new shares of the Company in order to raise additional capital as required when monitoring its performance, and to continue its operations.

Supplier payment policy

It is the Group's policy to settle the terms of payment with suppliers when agreeing to the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them.

CREST

The Company's ordinary shares are eligible for settlement through CREST, the system for securities to be held and transferred in electronic form rather than on paper. Shareholders are not obliged to use CREST and can continue to hold and transfer shares on paper without loss of rights.

Auditors

A resolution reappointing Barzily as the Group's auditors will be proposed at the AGM in accordance with S485 of the Companies Act 2006.

Electronic Communications

The Company may deliver shareholder information, including Annual and Interim Reports, Forms of Proxy and Notices of General Meetings, in an electronic format to shareholders.

If you would like to receive shareholder information in electronic format, please register your request on the Company's Registrar's electronic database at www.linkassetservices.com. You will initially need your unique investor code which you will find at the top of your share certificate. There is no charge for this service.

If you wish to subsequently change your mind, you may do so by contacting the Company's Registrars by post or through their website.

If you elect to receive shareholder information electronically, please note that it is the shareholder's responsibility to notify the Company of any change in his name, address, email address or other contact details. Shareholders should also note that, with electronic communication, the Company's obligations will be satisfied when it transmits the notification of availability of information, or such other document as may be involved, to the electronic address it has on file. The Company cannot be held responsible for any failure in transmission beyond its control any more than it can be held responsible for postal failure.

In the event of the Company becoming aware that an electronic notification is not successfully transmitted, a further two attempts will be made. In the event that the transmission is still unsuccessful, a hard copy of the notification will be mailed to the shareholder. In the event that specific software is required to access information placed on the Company's website, it will be available via the website without charge.

Before electing for electronic communications, shareholders should ensure that they have the appropriate equipment and computer capabilities sufficient for this purpose. The Company takes all reasonable precautions to ensure no viruses are present in any communication it sends out but cannot accept responsibility for loss or damage arising from the opening or use of any email or attachments from the Company and recommends that shareholders subject all messages to virus checking procedures prior to use. Any electronic communication received by the Company that is found to contain any virus will not be accepted.

Shareholders wishing to receive shareholder information in the conventional printed form will continue to do so and need take no further action.

Should you have any further questions in this regard, please contact the Company's Registrars, Link: Asset Services.

On behalf of the board,

M. Rosenberg, Chairman

March 24, 2021

Barzily&Co.
Certified Public Accountants
ברזלי ושות', רואי חשבון

Jerusalem 24 March 2021

Report of Independent Auditors

to the Board of Directors and Stockholders of

Starcom PLC

We have audited the accompanying consolidated statements of financial position of Starcom PLC and its subsidiaries (hereinafter - "the Group") as of December 31, 2020 and 2019 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Group board of directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors' Regulations (Auditor's Mode of Performance - 1973). Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019 and the consolidated results of its operations, changes in equity and cash flows for the years then ended in conformity with international financial reporting standards (IFRS).

Without qualifying our conclusion, we draw attention to Note 25 in the financial statements regarding the pandemic outbreak of COVID-19 and its material negative impact on the Group's activity and Group's response and plans to manage its risks due to the COVID-19 pandemic.

Barzily & Co.
Certified Public Accountants.
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Member of msi Global Alliance Independent Legal & Accounting Firms

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www.barzily.co.il

STARCOM PLC
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
U.S. Dollars in thousands

ASSETS	Note	December 31, 2020	December 31, 2019
NON-CURRENT ASSETS			
Property, plant and equipment, net	6	318	378
Rights-of-use assets, net	22	330	228
Intangible assets, net	7	1,900	2,119
Income tax authorities		56	54
Total Non-Current Assets		2,604	2,779
CURRENT ASSETS			
Cash and cash equivalents		264	158
Short-term bank deposit	5	150	61
Trade receivables, net	3B	1,129	1,986
Other accounts receivable	3A	81	169
Inventories	4	2,127	2,346
Total Current Assets		3,751	4,720
TOTAL ASSETS		6,355	7,499
EQUITY AND LIABILITIES			
EQUITY	14	2,101	3,891
NON-CURRENT LIABILITIES			
Long-term loans from banks, net of current maturities	10	303	167
Long-term leasehold liabilities	22	236	115
Total Non-Current Liabilities		539	282
CURRENT LIABILITIES			
Short-term bank credit		25	79
Short-term bank loan	12	739	-
Current maturities of long-term loans from banks	10	12	136
Trade payables		1,579	2,081
Other accounts payable	9	303	227
Leasehold liabilities	22	136	135
Warrants at fair value	11	10	-
Conversion component of a convertible loan at fair value	11	42	-
Amortized cost of a convertible loan	11	254	-
Related parties	20	615	668
Total Current Liabilities		3,715	3,326
TOTAL EQUITY AND LIABILITIES		6,355	7,499

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

24/03/2021		
Date of Approval of the Financial Statements	Igor Vatenmacher CFO	Avi Hartmann CEO

STARCOM PLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
U.S. Dollars in thousands (except shares data)

	Note	Year ended December 31, 2020	2019
Revenues		5,041	6,817
Cost of sales	15	(3,374)	(4,019)
Gross profit		1,667	2,798
Operating expenses:			
Research and development		(206)	(231)
Selling and marketing		(580)	(776)
General and administrative expenses	16	(2,680)	(2,423)
Other income (expenses)	17	24	(74)
Total operating expenses		(3,442)	(3,504)
Operating loss		(1,775)	(706)
Finance income	18A	1	-
Finance expenses	18B	(271)	(313)
Net finance expenses		(270)	(313)
Total comprehensive loss for the year		(2,045)	(1,019)
Loss per share:			
Basic and diluted loss per share	19	(0.006)	(0.003)

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

STARCOM PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
U.S. Dollars in thousands

	Share Capital	Premium on Shares	Capital Reserve	Capital Reserve in Regard to Share-Based Payment Transactions	Accumulated Loss	Total
Balance as of January 1, 2019	-	11,460	89	687	(8,375)	3,861
Proceeds from issued share capital, net of mobilization costs	-	794	-	-	-	794
Share based payment (see Note 14c)	-	-	-	255	-	255
Comprehensive loss for the year	-	-	-	-	(1,019)	(1,019)
Balance as of December 31, 2019	-	12,254	89	942	(9,394)	3,891
Issued share capital, net of expenses (see Note 14)	-	74	-	-	-	74
Share based payment (see Note 14c)	-	-	-	181	-	181
Comprehensive loss for the year	-	-	-	-	(2,045)	(2,045)
Balance as of December 31, 2020	-	12,328	89	1,123	(11,439)	2,101

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

STARCOM PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. Dollars in thousands

	Year Ended December 31, 2020	2019
CASH FLOWS FOR OPERATING ACTIVITIES:		
Loss for the year	(2,045)	(1,019)
Adjustments to reconcile loss for the year to net cash used in operating activities:		
Depreciation and amortization	725	673
Interest expenses and exchange rate differences	50	(6)
Share-based payment expense	181	255
Capital loss	-	51
Changes in assets and liabilities:		
Decrease (Increase) in inventories	219	(321)
Decrease (Increase) in trade receivables, net	857	(89)
Decrease (Increase) in other accounts receivable	88	(82)
Increase in Income Tax Authorities	(2)	(8)
Increase (Decrease) in trade payables	(502)	669
Increase (Decrease) in other accounts payable	40	(131)
Net cash used in operating activities	(389)	(8)
CASH FLOWS FOR INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(18)	(220)
Proceeds from sales of property, plant and equipment	-	53
Increase in short-term deposits	(89)	(1)
Cost of intangible assets	(281)	(297)
Net cash used in investing activities	(388)	(465)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Receipt (Repayment) of short-term bank credit, net	(54)	51
Receipt (Repayment) of short-term bank loan, net	739	(462)
Receipt of convertible unsecured loans, net	290	-
Proceeds from related parties, net	57	87
Payment for leasehold liabilities	(162)	(128)
Receipt of long-term loans	312	290
Repayment of long-term loans	(299)	(76)
Consideration from issue of shares, net	-	780
Net cash provided by financing activities	883	542
Increase in cash and cash equivalents	106	69
Cash and cash equivalents at the beginning of the year	158	89
Cash and cash equivalents at the end of the year	264	158
Appendix A – Additional Information		
Interest paid during the year	(69)	(30)
Appendix B – Non-Cash Financing Activities		
Issuance of shares to a related party in payment of debt	74	15

Significant non-cash transactions (entering into new lease agreements) are disclosed in Note 22

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

NOTE 1 - GENERAL

a. The Reporting Entity

1. Starcom PLC ("the Company") was incorporated in Jersey on November 28, 2012. The Company and its subsidiaries ("the Group") specializes in easy-to-use practical wireless solutions that combine advanced technology, telecommunications and digital data for the protection and management of people, fleets of vehicles, containers and assets. The Group engages in production, marketing, distribution, research and development of G.P.S. systems.

   The Company fully owns Starcom G.P.S. Systems Ltd., an Israeli company, and Starcom Systems Limited, a company incorporated in Jersey.

   The Company's shares are admitted for trading on the AIM market of the London Stock Exchange ("AIM").

   The address of the official Company office in Israel of Starcom G.P.S. Systems Ltd. is: 16A Ha'Taas Street, Kfar Saba, Israel.

   The address of the Company's registered office in Jersey of Starcom Systems Limited is: Forum 4, Grenville Street, St. Helier, Jersey, Channel Islands, JE4 8TQ.

b. Definitions in these financial statements:

1. International Financial Reporting Standards ("IFRS") – Standards and interpretations adopted by the International Accounting Standards Board ("IASB") that include international financial reporting standards (IFRS) and international accounting standards (IAS), with the addition of interpretations to these Standards as determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations determined by the Standards Interpretation Committee (SIC), respectively.
2. The Company - Starcom PLC.
3. The Subsidiaries - Starcom G.P.S. Systems Ltd. and Starcom Systems Limited.
4. Starcom Jersey – Starcom Systems Limited.
5. Starcom Israel – Starcom G.P.S. Systems Ltd.
6. The Group – Starcom PLC. and the Subsidiaries.
7. Related Party - As determined in International Accounting Standard No. 24.

NOTE 1 - GENERAL (cont.)

c. Operating Turnover Period

The ordinary operating period turnover for the Group is a year. As a result, the current assets and current liabilities include items that are expected and intended to be realized at the end of the ordinary operating turnover period for the Group.

d. Functional and Presentation Currency

The consolidated financial statements are presented in U.S. dollars (hereinafter: "dollars") that is the functional currency of the Group and is rounded to the nearest thousands, except when otherwise indicated.
The dollar is the currency that represents the economic environment in which the Group operates.
The Group's transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars. All transaction gains and losses from remeasurement of monetary assets and liabilities denominated in non-dollar currencies are reflected in the statements of comprehensive income as financial income or expenses, as appropriate.

NOTE 2A - BASIS OF PREPARATION

a. Declaration in regard to implementation of International Financial Reporting Standards (IFRS)

The consolidated financial statements of the Company have been prepared in accordance with IFRS and related clarifications published by the IASB.

The Company's Board of Directors authorized the Consolidated Financial Statements on March 24, 2021.

b. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments at fair value through profit or loss that are stated at fair value.

U.S. Dollars in thousands

NOTE 2B - USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Upon formulation of accounting estimates used in preparation of the Group financial statements, management is required to make assumptions in regard to circumstances and events that are significantly uncertain. Management arrives at these decisions based on prior experiences, various facts, external items and reasonable assumptions in accordance with the circumstances related to each assumption.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgment in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements is included in the following Notes:
Note 7 – Capitalization of development costs and amortization of these costs.
Note 14 – Options issued.

Information about assumptions and estimations that have significant risk of resulting in a material adjustment is included in the following Notes:
Note 3B – Allowance for doubtful accounts.
Note 7 – Calculation of amortization.
Note 8 – Utilization of tax losses.
Note 11 – Financial liabilities of convertible loans and warrants

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

All intra-Group transactions, balances, income and expenses of the companies are eliminated on consolidation.

b. Foreign currency and linkage basis

Balances stated in foreign currency or linked to a foreign currency have been included in the consolidated financial statements according to the prevailing representative exchange rates at the balance sheet date. Balances linked to the Consumer Price Index in Israel are included in accordance with the Index published prior to balance sheet date. Linkage and exchange rate differences are included in the statement of comprehensive income when incurred.

	As of December 31,	
	2020	2019
CPI (in points) *	124.19	125.06
Exchange Rate of NIS in U.S. $	0.311	0.289
	For the Year Ended December 31,	
	2020	2019
Change in CPI	(0.69%)	0.6%
Change in Exchange Rate of NIS	7.6%	8.3%

* Base Index 2002 = 100.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Financial instruments

(i) Non-derivative financial assets
The Group initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group classified non-derivative financial assets into the following categories: Financial assets at fair value, through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets.

Financial assets at fair value through profit or loss:
A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend income, are recognized in profit or loss.

Financial assets designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

Loans and receivables:
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.
Loans and receivables are comprised of trade and other receivables, excluding short-term trade and other receivables where the interest amount is immaterial.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

c. Financial instruments (cont.)

(ii) Non-derivative financial liabilities
The Group initially recognizes debt securities issued and subordinated liabilities on the date that they originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(iii) Compound financial instruments
Compound financial instruments issued by the Company comprised: an interest-bearing loan with a conversion option issued to the lender.

The option component was recognized initially at its fair value using a binomial calculation.

The liability component was recognized initially as the difference between the loan amount and the option component

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

d. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

e. Share capital

Ordinary shares:

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

f. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and software	33
Office furniture and equipment	7 – 15
Vehicles	15
Laboratory equipment	15
Leasehold improvements	10

Leasehold improvements are depreciated by the straight-line method over the term of the lease, ten-year period, (including option terms) or the estimated useful lives of the improvements, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

At each balance sheet date, the Group examines the residual value, the useful life and the depreciation method it uses. If the Group identifies material changes in the expected residual value, the useful life or the future pattern of consumption of future economic benefits in the asset that may indicate that a change in the depreciation is required, such changes are treated as changes in accounting estimates. In the reported periods, no material changes have taken place with any material effect on the financial statements of the Group.

g. Intangible assets: Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

g. Intangible assets: Research and development (cont.)

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets: ten years.

At each balance sheet date, the Group reviews whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of the intangible assets. When such indicators of impairment are present, the Group evaluates whether the carrying value of the intangible asset in the Group's accounts can be recovered from the cash flows anticipated from that asset, and, if necessary, records an impairment provision up to the amount needed to adjust the carrying amount to the recoverable amount.

h. Short-term deposit

Deposits with maturities of more than three months but less than one year are included in short-term deposits.

i. Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

1. *Right-of-use assets*

   The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

   Property – 3 to 4 years
   Vehicles - 3 years

   If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

   The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2C(k).

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

i. Leases (cont.)

2. *Lease liabilities*

   At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

   Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

   In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

3. *Short-term leases and leases of low-value assets*

   The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognized as an expense on a straight-line basis over the lease term.

j. Inventories

Inventories are stated at the lower of cost or net market value.
Cost is determined using the "first-in, first -out" method.
Inventory write-downs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and discontinued products and for market prices lower than cost, if any. At the point of loss recognition, a new lower cost basis for that inventory is established.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

k. Impairment in value of assets

During every financial period, the Group examines the book value of its tangible and intangible assets to determine any signs of loss from impairment in value of these assets. In the event that there are signs of impairment, the Group examines the realization value of the designated asset. In the event that the realization cannot be measured for an individual asset, the Group estimates realization value for the unit where the asset belongs. Joint assets are assigned to the units yielding cash on the same basis. Joint assets are designated to the smallest groups of yielding assets for which one can identify a reasonable basis that is consistent with the allocation.

The realization value is the higher of net sale price of the asset as compared with its useful life that is determined by the present value of projected cash flows to be realized from this asset and its realization value at the end of its useful life.
In the event that the book value of the asset or cash-yielding unit is greater than its realization value, a devaluation of the asset has occurred in the amount of the difference between its book value and its realization value. This amount is recognized immediately in the statements of comprehensive income.

In the event that prior devaluation of an asset is nullified, the book value of the asset or of the cash-yielding unit is increased to the estimated current fair value, but not in excess of the asset or cash-yielding unit book value that would have existed had there not been devaluation. Such nullification is recognized immediately in the statements of comprehensive income.

l. Revenue recognition

The Group generates revenues from sales of products, which include hardware and software, software licensing, professional services and maintenance. Professional services include mainly installation, project management, customization, consulting and training. The Group sells its products indirectly through a global network of distributors, system integrators and strategic partners, all of whom are considered end-users, and through its direct sales force.

Revenue from products and software licensing is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable.
Revenues from maintenance and professional services are recognized ratably over the contractual period or as services are performed, respectively.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

m. Allowance for doubtful accounts

The Group evaluates its allowance for doubtful accounts on a regular basis through periodic reviews of the collectability of the receivables in light of historical experience, adverse situations that may affect the repayment abilities of its customers, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.
The Group performs ongoing credit evaluations of its customers and generally does not require collateral because (1) management believes it has certain collection measures in-place to limit the potential for significant losses, and (2) because of the nature of its customers that comprise the Group's customer base. Receivables are written off when the Group abandons its collection efforts. An allowance for doubtful accounts is provided with respect to those amounts that the Group has determined to be doubtful of collection.

n. Concentrations of credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits and trade receivables.

o. Provisions

Provisions are recognized when the Group has a current obligation (legal or derived) as a result of a past occurrence that can be reliably measured, that will in all probability result in the Group being required to provide additional benefits in order to settle this obligation. Provisions are determined by capitalization of projected cash flows at a rate prior to taxes that reflects the current market preparation for the money duration and the specific risks for the liability.

p. Employee benefits

The Group has several benefit plans for its employees:

1. Short-term employee benefits -
   Short-term employee benefits include salaries, vacation days, recreation and deposits to the National Insurance Institute that are recognized as expenses when rendered.
2. Benefits upon retirement -
   Benefits upon retirement, generally funded by deposits to insurance companies and pension funds, are classified as restricted deposit plans or as restricted benefits.
   All Group employees have restricted deposit plans, in accordance with Section 14 of the Severance Pay Law (Israel), whereby the Group pays fixed amounts without bearing any legal responsibility to pay additional amounts thereto even if the fund did not accumulate enough amounts to pay the entire benefit amount to the employee that relates to the services he rendered during the current and prior periods. Deposits to the restricted plan are classified as for benefits or for compensation and are recognized as an expense upon deposit to the plan concurrent with receiving services from the employee and no additional provision is required in the financial statements.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

q. Finance income and expenses

Finance income includes interest in regard to invested amounts, changes in the fair value of financial assets presented at fair value in the statements of comprehensive income and gains from changes in the exchange rates and interest income that are recognized upon accrual using the effective interest method.
Finance expenses include interest on loans received, changes in the time estimate of provisions, changes in the fair value of financial assets presented at fair value in the statements of comprehensive loss and losses from changes in value of financial assets. Gains and losses from exchange rate differences are reported net. Exchange rate differences in regard to issuance of shares are charged to equity.

r. Taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.
Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same Tax Authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

r. **Taxes (cont.)**
Since there is uncertainty in regard to existence of taxable revenues in the near future, a deferred tax asset was not recognized.
A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit (taxes on income) will be realized.

s. **Basic and Diluted Earnings per Share**
Basic earnings per share are computed based on the weighted average number of common shares outstanding during each year.
Diluted earnings per share are computed based on the weighted average number of common shares outstanding during each year, plus dilutive potential common shares considered outstanding during the year.

t. **Statement of cash flows**
The statement of cash flows from current operations is presented using the indirect method, whereby interest amounts paid and received by the Group are included in the cash flows in current operations.

u. **Dividend distribution**
Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

v. **Segment reporting**
Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and tax.

w. **Government grants**
A government grant is not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received. The Group received government grants, the nature of which is compensation for a decrease in revenues, the Group decided to record the grants received by the Government of Israel as revenues.

x. **New standards, interpretations and amendments adopted by the Group**
1. Amendments to IAS 1 and IAS 8 Definition of Material
The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

U.S. Dollars in thousands

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

x. **New standards, interpretations and amendments adopted by the Group** (cont.)

2. Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

3. Amendments to IFRS 16 Covid-19 Related Rent Concessions
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

NOTE 3A - OTHER ACCOUNTS RECEIVABLE

	December 31	
	2020	2019
Government institutions	78	119
Prepaid expenses	3	50
	81	169

NOTE 3B - TRADE RECEIVABLES, NET

	December 31	
	2020	2019
Group receivables	1,736	2,045
Allowance for doubtful accounts	(607)	(59)
	1,129	1,986

NOTE 4 - INVENTORIES

	December 31	
	2020	2019
Raw materials	1,284	1,470
Finished goods	843	876
	2,127	2,346

NOTE 5 - SHORT-TERM BANK DEPOSIT

The bank deposit sums of $150 and $61 as of December 31, 2020 and 2019, respectively, serve as a security deposit for repayment of bank loans in accordance with terms of the loans. The deposit bears yearly interest at the rate of 0.02%.

U.S. Dollars in thousands

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles*	Total
Cost:						
Balance as of January 1, 2020	194	121	279	60	152	806
Additions during the year	6	6	6	-	-	18
Balance as of December 31, 2020	200	127	285	60	152	824
Accumulated Depreciation:						
Balance as of January 1, 2020	164	85	93	17	69	428
Depreciation during the year	13	8	30	6	21	78
Balance as of December 31, 2020	177	93	123	23	90	506
Net book value as of December 31, 2020	23	34	162	37	62	318

* See also Note 13.

U.S. Dollars in thousands

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET (cont.)

	Computers and Software	Office Furniture and Equipment	Laboratory Equipment	Leasehold Improvements	Vehicles*	Total
Cost:						
Balance as of January 1 2019	191	118	157	52	242	760
Additions during the year	3	3	122	8	84	220
Disposals	-	-	-	-	(174)	(174)
Balance as of December 31 2019	194	121	279	60	152	806
Accumulated Depreciation:						
Balance as of January 1 2019	150	79	69	11	109	418
Depreciation during the year	14	6	24	6	30	80
Decrease	-	-	-	-	(70)	(70)
Balance as of December 31 2019	164	85	93	17	69	428
Net book value as of December 31 2019	30	36	186	43	83	378

* See also Note 13.

U.S. Dollars in thousands

NOTE 7 INTANGIBLE ASSETS, NET

	Total
Cost:	
Balance as of January 1, 2020	4,755
Additions during the year	281
Balance as of December 31, 2020	5,036
Accumulated Amortization:	
Balance as of January 1 ,2020	(2,434)
Amortization during the year	(500)
Balance as of December 31, 2020	(2,934)
Accumulated Impairment of assets	(202)
Net book value as of December 31, 2020	1,900

	Total
Cost:	
Balance as of January 1, 2019	4,458
Additions during the year	297
Balance as of December 31, 2019	4,755
Accumulated Amortization:	
Balance as of January 1, 2019	(1,977)
Amortization during the year	(457)
Balance as of December 31, 2019	(2,434)
Accumulated Impairment of assets	(202)
Net book value as of December 31, 2019	2,119

The expenditure capitalized includes the cost of materials and direct labor that are directly attributable to preparing the assets for their intended use. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.
Amortization is calculated using the straight-line method over the estimated useful lives of the assets: ten years.

See also Note 2C g and Note 2C k.

U.S. Dollars in thousands

NOTE 8 - TAXES ON INCOME

a. Israeli taxation

1. The Israeli corporate tax rate for 2020 and 2019 is 23%.

2. **Tax Benefits from the Encouragement of Capital Investments Law, 1959 ("The Encouragement Law")**
Starcom Israel presents its financial statements to the tax authorities as an Approved Enterprise. In the framework of the Law for Change of Priorities, an increase in tax rates was approved, commencing with 2014 and thereafter, on revenues from an approved enterprise, as stated in the Encouragement Law for an Approved Enterprise. An eligible company in Development Area A was entitled to a tax rate of 9% during 2015. During 2016 an amendment to the law was confirmed according to which an eligible company in Development Area A is entitled to a tax rate of 7.5% as of 2017.
In an area that is not Development Area A, the tax rate will be 16%.
Concurrently, the tax rate on dividend, for distribution from January 1, 2014, the source of which is preferred income as stated in the Encouragement Law, is 20%.
Starcom Israel is subject to a tax rate of 16% for the years 2020 and 2019.

3. Starcom Israel has carryforward operating tax losses of approximately NIS 30 million as of December 31, 2020 (NIS 27 million as of December 31, 2019). As for deferred tax assets see Note 2C(r).
Starcom Israel has been assessed by the Income Tax Authorities up to and including the year 2017.

b. Jersey taxation

Taxable income of the Company and Starcom Jersey is subject to tax at the rate of zero percent for the years 2020 and 2019.

c. Detail of tax income:

Since the recording of a deferred tax asset is limited to the amount of deferred tax liabilities, no deferred tax income will be recorded in 2020 or was recorded in 2019.

NOTE 9 - OTHER ACCOUNTS PAYABLE

	December 31	
	2020	**2019**
Employees and payroll accruals	303	223
Accrued expenses and notes payable	-	4
	303	227

U.S. Dollars in thousands

NOTE 10 - LONG-TERM LOANS FROM BANKS, NET OF CURRENT MATURITIES

1. Composition:

	December 31 2020	December 31 2019
Long-term liability	315	303
Less: current maturities	(12)	(136)
	303	167

2. Aggregate maturities of long-term loans for years subsequent to December 31, 2020 are as follows:

	Amount
First year	12
Second year	74
Third year	74
Fourth onwards	155
	315

3. Additional information regarding long-term loans:

Loan #	Date Received	Amount Received NIS (U. S. dollars)	Annual Interest Rate	Loan Terms and Maturity Dates	Interest Payment Terms
1.	June 3, 2018	150 ($40)	Prime + 3.85	36 equal monthly installments including principal and interest	Monthly commencing 20 March 2018
2.	Dec 09, 2020	1,000 ($310)	Prime + 1.5	48 equal monthly installments including principal and interest (once year grace for principal) *	Monthly commencing 09 Dec 2020

See also Note 13.

*The loan is a state-guaranteed loan, received as assistance due to the spread of the Covid -19 virus, the state pays the interest for the first year. See also Note 25.

NOTE 11 - FINANCIAL LIABILITIES OF CONVERTIBLE LOANS AND WARRANTS

During March 2020, The Company received from Directors Michael Rosenberg (via Montrose Securities Ltd), Avi Engel and Igor Vatenmacher and an employee (hereinafter: "the lenders") loans in the total amount of $290 thousand (£244 thousand) in the form of convertible loans enabling the lenders to convert the loans at an exercise price of £0.0125 per share at any time up to September 30, 2021, as detailed below:

Lender	Value of Loan provided	Number of Warrants granted
Montrose Securities Limited, a company controlled by Michael Rosenberg (Non-Executive Chairman)	£100,000	1,600,000
Avi Engel (Non-Executive Director)	429,330 Israeli Shekels (approximately £100,000)	1,600,000
Igor Vatenmacher (Chief Financial Officer)	100,000 Israeli Shekels (approximately £21,800)	400,000
Starcom Employee	100,000 Israeli Shekels (approximately £21,800)	400,000

U.S. Dollars in thousands

NOTE 11 - FINANCIAL LIABILITIES OF CONVERTIBLE LOANS AND WARRANTS (cont.)

The convertible loan bears interest at the rate of 8% per annum calculated by reference to the principal amount of the convertible loan. If not converted, the loans will be repayable on September 30, 2021.

In addition, the lenders received fully vested warrants to subscribe a total of 4 million further shares at an exercise price of £0.015 per share. Any unexercised warrants expire at the end of two-years from grant.

The loan was evaluated and divided into different components by independent appraisers as follows:
Conversion component at fair value – $59 thousand
Warrants at fair value – $12 thousand
Amortized cost of a loan – $210 thousand
Transaction costs were allocated according to the component's fair value ratio.
The part of the expenses that is attributed to the amortized cost of the loan was reduced from its cost.
An effective interest rate was calculated for the liability component of the loan, based on its amortization table. The effective interest rate is 35.2% per annum.
Total revaluation income regarding these components in the statement of comprehensive loss for the reported period amounted to $19 thousand, net.

See also Note 20.

Composition:

	Loan component	Option	Warrant
Balance as of January 1, 2020	-	-	-
Additions during the year	210	59	12
Finance (income) expenses	73	(17)	(2)
Payments	(29)	-	-
Balance as of December 31, 2020	254	42	10

NOTE 12 - SHORT-TERM BANK LOAN

During July 2020, Starcom Israel signed a loan agreement with an Israeli bank in order to receive loans and credits in an aggregate principal amount that will not exceed NIS 5 million (hereinafter – "the Loan").
The loan will bear annual interest in the amount of Prime + 3%, calculated and payable on a monthly basis, to be repaid after a year.
In the framework of the financial agreement that was signed, the Company is obligated to maintain financials covenants in regard to the Groups' EBITDA, Equity and growth targets.

As of December 31, 2020, the Company is in breach of the financial covenants.

NOTE 13 - CHARGES

In respect of the short-term and long-term bank loans set out in Notes 10 and 12 above-

1. A charge was placed on the Starcom Israel's vehicle.
2. A floating pledge was placed on the assets of Starcom Israel.
3. A cross Group charge was placed.
4. A Pledge on the bank deposit of Starcom Israel was placed.

U.S. Dollars in thousands

NOTE 14 - EQUITY

a. Composition - common stock of no-par value, issued and outstanding 351,479,801 shares and 345,329,513 shares as of December 31, 2020 and December 31, 2019, respectively.

b. A Company share grants to its holder voting rights, rights to receive dividends and rights to net assets upon dissolution.

c. **Share-based payment**

The following table lists the number of share options and warrants and the exercise prices of such during the current year:

	2020		2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		£		£
Share options outstanding at beginning of year	49,293,947	0.027	33,496,480	0.037
Warrants granted during the year*	4,000,000	0.015	16,290,000	0.007
Options & Warrants exercised during the year	-		-	-
Options & Warrants expired during the year	3,340,000	0.018	(492,533)	0.04
Share options & warrants outstanding at end of year	49,953,947	0.027	49,293,947	0.027
Share options & warrants exercisable at end of year	45,953,947	0.028	27,587,280	0.038

* See Note 11.

d. During May 2020 the Company issued 6,150,288 new ordinary shares to Mr. Avi Hartmann, the Company's CEO ("Ordinary Shares") at a price of 1 penny per Ordinary Share in order to convert $74 thousand (£61 thousand) of historic unpaid salary.

NOTE 15 - COST OF SALES

	Year Ended December 31, 2020	2019
Purchases and other	2,655	3,883
Amortization	500	457
Decrease (Increase) in inventory	219	(321)
	3,374	4,019

U.S. Dollars in thousands

NOTE 16 - GENERAL AND ADMINISTRATIVE EXPENSES

a.

	Year Ended December 31, 2020	2019
Salaries and related expenses (see also Note 20)	1,167	1,268
Professional services (1)	557	633
Doubtful accounts and bad debts	550	49
Depreciation	225	216
Office maintenance	112	153
Car maintenance	69	104
	2,680	2,423

(1) Including share-based payment to directors and senior management in the amounts of $181 and $255 thousand for the years ended December 31, 2020 and 2019, respectively. See also Note 14c

b. Average Number of Staff Members by Category:

	Year Ended December 31, 2020	2019
Sales and marketing	5	6
Research and development	3	3
General and administrative	12	15
	20	24

NOTE 17 - OTHER INCOME (EXPENSES)

	Year Ended December 31, 2020	2019
Capital loss from sale of property, plant and equipment	-	(51)
Other income (expenses)	24	(23)
	24	(74)

NOTE 18A - FINANCE INCOME

	2020	2019
Interest from deposits	1	-

NOTE 18B - FINANCE EXPENSES

Exchange rate differences	(140)	(183)
Interest to banks and others	(62)	(31)
Bank charges	(43)	(77)
Interest to suppliers	(16)	(13)
Interest to related parties	(10)	(9)
	(271)	(313)
Net finance expenses	(270)	(313)

U.S. Dollars in thousands

NOTE 19 - LOSS PER SHARE

Weighted average number of shares used in computing basic and diluted loss per share:

	Year Ended December 31, 2020	2019
Number of shares	349,205,039	323,934,018

NOTE 20 - RELATED PARTIES

a. The related parties that own shares in the Group are:
Mr. Avraham Hartman (7.0%), Mr. Uri Hartman (6.8%), Mr. Doron Kedem (6.8%).

b. Short-term balances:

	December 31 2020	2019
Credit balances		
Avi Hartmann	(56)	(176)
Uri Hartmann	(444)	(373)
Doron Kedem	(173)	(173)
Total Credit Balance	(673)	(722)
Loans		
Avi Hartmann	87	73
Uri Hartmann	(236)	(226)
Doron Kedem	207	207
Total Loans	58	54
	(615)	(668)

c. Shareholders' credit balances related to deferred salaries and are linked to the New Israel Shekel ("NIS"). Loans from shareholders accrue 4% annual interest.

d. Transactions:

	Year Ended December 31, 2020	2019
Key management compensation:		
Total salaries and related expenses for shareholders/related parties	312	365
Total share-based payment	80	112
Interest to related parties	10	9

e. Directors and the shareholders of the Group are each entitled to benefits, in addition to salaries, that include a vehicle, meals, cellular phones and a professional enrichment fund. Concurrently, the Group deposits for them amounts in a restricted benefit plan for implementation upon completion of their employment.
See also Note 11 and Note 14.

U.S. Dollars in thousands

NOTE 21 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS

a. **Financial Risk Factors:**

The Group's operations expose it to a variety of financial risks, including: market, currency, credit and liquidity risks. The comprehensive Group plan for risk management focuses on the fact that it is not possible to predict financial market behavior and an effort to minimize possible negative effects on Company financial performance.

In this Note, information is stated in regard to Group exposure to each of the risks abovementioned and the handling of these risks. Risk management and capital are handled by the Group management that identifies and evaluates financial risks.

1) **Exchange rate risk**

Group operations are exposed to exchange rate risks arising mainly from exposure of loans that are linked to the NIS from banks, suppliers and others.

2) **Credit risk**

Credit risks are handled at the Group level. These risks arise from cash and cash equivalents, bank deposits and unpaid receivable balances. The Group settled a credit insurance with one of the biggest credit insurance companies worldwide and manages its credit risk accordingly. Cash and cash equivalent balances of the Group are deposited in an Israeli bank. Group management is of the opinion that there is insignificant credit risk regarding these amounts.

3) **Liquidity risks**

Cautious management of liquidity risks requires that there will be sufficient amounts of cash to finance operations. Group management currently examines projections regarding liquidity surpluses deriving from cash and cash equivalents. This examination is based on projected cash flows, in accordance with procedures and limitations determined by the Group.

Short term loan covenants compliance is closely monitored by the financial department.

b. **Linkage terms of financial instruments:**

Group exposure to Index and foreign currency risks, based on par value, except for derivative financial instruments is as follows:

	December 31, 2020					
	NIS		U.S. Dollar	GBP	Euro	Total
	Unlinked	Variable Interest	Unlinked			
Financial Assets:						
Cash and cash equivalents	2	-	251	-	11	264
Short-term deposit	-	150	-	-	-	150
Trade receivables, net	233	-	872	5	19	1,129
Other accounts receivable	132	-	-	5	-	137
Financial Liabilities:						
Short-term bank credit	-	(25)	-	-	-	(25)
Short term bank loan	-	(739)	-	-	-	(739)
Trade payables	-	(1,018)	(412)	(146)	(3)	(1,579)
Other accounts payable	(303)	-	-	-	-	(303)
Leasehold liabilities	-	(372)	-	-	-	(372)
Related parties	-	(615)	-	-	-	(615)
Long-term loans from banks	-	(315)	-	-	-	(315)
Financial liabilities of convertible loans	-	(196)	-	(110)	-	(306)
	64	(3,130)	711	(246)	27	(2,574)

U.S. Dollars in thousands

NOTE 21 - FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (cont.)

	December 31, 2019					
	NIS		U.S. Dollar	GBP	Euro	Total
	Unlinked	Variable Interest	Unlinked			
Financial Assets:						
Cash and cash equivalents	-	-	158	-	-	158
Short-term deposit	-	61	-	-	-	61
Trade receivables, net	212	-	1,741	5	28	1,986
Other accounts receivable	162	-	-	7	-	169
Financial Liabilities:						
Short-term bank credit	-	(79)	-	-	-	(79)
Trade payables	-	(1,490)	(517)	(71)	(3)	(2,081)
Other accounts payable	(223)	-	-	(4)	-	(227)
Leasehold liabilities	-	(250)	-	-	-	(250)
Related parties	-	(668)	-	-	-	(668)
Long-term loans from banks	-	(303)	-	-	-	(303)
	151	(2,729)	1,382	(63)	25	(1,234)

Analysis of Sensitivity to Changes in the Exchange Rate of the U.S. Dollar Against the NIS:

For the Year Ended December 31	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
2020	(153)	153
2019	(126)	126

Analysis of Sensitivity to Changes in the Exchange Rate of the U.S. Dollar Against the Euro:

For the Year Ended December 31	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
2020	1	(1)
2019	1	(1)

Analysis of Sensitivity to Changes in the Exchange Rate of the U.S. Dollar Against the GBP:

For the Year Ended December 31	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
2020	(12)	12
2019	(3)	3

c. **Fair value**

As of December 31, 2020, there was no significant difference between the carrying amounts and fair values of the Company's financial instruments that are presented in the financial statements not at fair value.

U.S. Dollars in thousands

NOTE 22 - Leases

Group as a lessee

The Group has lease contracts for various items of property and vehicles used in its operations. The leases of property have lease terms between 3 to 4 years, while motor vehicles have lease terms of 3 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing.

There are several lease contracts that include extension and termination options, which are further discussed below.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Property	Vehicles	Total
Balance at January 1, 2019	79	100	179
Additions	185	-	185
Depreciation expenses	(84)	(52)	(136)
Balance at December 31, 2019	180	48	228
Additions	111	138	249
Depreciation expenses	(85)	(62)	(147)
Balance at December 31, 2020	206	124	330

Below are the carrying amounts of lease liabilities (included under Leasehold Liabilities) and the movements during the period:

	2020	2019
As at January 1	(250)	(194)
Additions	(249)	(185)
Exchange rate differences and others	(22)	16
Accretion of interest	(13)	(15)
Payments	162	128
Balance at December 31	(372)	(250)
Current	(136)	(135)
Non-Current	(236)	(115)

Maturity analysis – contractual undiscounted cash flows	
Less than one year	134
One to five years	118
Total undiscounted lease liabilities at December 31, 2020	252

The following are the amounts recognized in profit or loss:

	2020	2019
Depreciation expenses of right-of-use assets	(147)	(136)
Interest income (expenses) on lease liabilities	(13)	16
Accretion of interest	(22)	(15)
Total amount recognized in profit or loss	(182)	(135)

U.S. Dollars in thousands

NOTE 22 - Leases (cont.)

The Group had total cash outflows for leases of 162 in 2020 (128 in 2019). The Group also had non-cash additions to right-of-use assets and lease liabilities of 249 in 2020 (185 in 2019)

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and to align with the Group's business needs. Management performs significant judgment operations in determining whether these extension and termination options are reasonably certain to be exercised.
Below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term:

	Within 5 years	More than 5 years	Total
Extension options expected not to be exercised		-	
Termination options expected to be exercised	-	-	-
December 31, 2020		--	
Extension options expected not to be exercised	197	-	197
Termination options expected to be exercised	-	-	-
December 31, 2019	197	-	197

U.S. Dollars in thousands

NOTE 23 - CUSTOMERS AND GEOGRAPHIC INFORMATION

a. Major customers' data as a percentage of total consolidated sales to unaffiliated customers:

	Year Ended December 31,	
	2020	2019
Customer A	14%	10%
Customer B	12%	6%
Customer C	5%	6%

b. Breakdown of consolidated sales to unaffiliated customers according to geographic regions:

	Year Ended December 31,	
	2020	2019
Latin America	15%	15%
Europe	16%	16%
Africa	33%	31%
Asia	9%	10%
Middle East	20%	17%
North America	7%	11%
Total	100%	100%

NOTE 24 - SEGMENTATION REPORTING

The Group has two main reportable segments, as detailed below:
Reported operating segments include: Hardware and SaaS.
For each of the strategic divisions, the Group's CEO reviews internal management reports on at least a quarterly basis.
There are no inter-segment sales. Information regarding the results of each reportable segment is included below. Performance is measured based on segment gross profit included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments.

Segment information regarding the reported segments:

	Hardware	SaaS
Year Ended 31.12.2020:		
Segment revenues	2,833	2,208
Cost of sales	(3,070)	(304)
Gross profit (loss)	(237)	1,904
Year Ended 31.12.2019:		
Segment revenues	4,796	2,021
Cost of sales	(3,805)	(214)
Gross profit	991	1,807

NOTE 25 - SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (COVID-19)

Due to the pandemic outbreak since March 2020, most of the countries across the Globe had taken extra measures to prevent and reduce COVID-19 exposure.

Among the actions taken were noted: citizens transport limitations, closing its borders, shutting some business activity, limitation of number of employees per square feet, shutting the educations systems, etc.

The unprecedented conditions resulted in a decrease in revenues for the period. In addition, normal purchasing processes and difficult shipping limitations created additional costs and delays which impacted the fulfilment of some existing orders. Marketing activities were inevitably disrupted

Operational costs were reduced by approximately 20 per cent with effect from March 2020 including unpaid leave for employees.

In parallel the company submitted applications and secured both government supported loan for long term amounted $315 thousands (See also note 10) and grants amounted $196 thousands.

The continuing cases of COVID-19 and the developments surrounding the pandemic have had a negative impact on the Group's business. Significant events affecting the overall economy have historically had an impact on revenue volumes, with the full extent of the impact generally determined by the length of time the event influences decisions as well as general economic conditions. The COVID-19 outbreak and resulting economic conditions have had, and the Group believes will continue to have, an adverse impact on its operations and on its financial results and liquidity, and such negative impact may continue well beyond the containment of the outbreak.

The Group has taken, and plans to take further actions to manage its liquidity, including reducing operating expenses and strict cashflow monitoring, due to its uncertainty to assure its assumptions used to estimate its liquidity requirements will be correct because it has never previously experienced such a change in demand, and as a consequence, its ability to be predictive is uncertain. In addition, the duration of the pandemic is uncertain. However, based on current operational assumptions, the Group believes it has adequate liquidity beyond the next twelve months.