

26 June 2024

t42 IoT Tracking Solutions plc

("t42" or the "Company")

Full year results

t42 IoT Tracking Solutions plc (AIM: TRAC) ("t42" or the "Company"), the provider of global shipping containers tracking solutions, is pleased to announce its audited results for the 12 months ended 31 December 2023.

Financials Highlights

- Revenues \$4.01m (2022: \$4.04m), with greater contribution from the supply chain solution products rather than vehicle tracking solutions.
- Adjusted EBITDA gain of \$341,000 (2022: EBITDA loss of \$812,000).
- Gross margin for the period was 53% (2022: 42%).
- General expenses decreased to \$1.3m (H1 2022: \$1.5m).

Post-period Highlights

- 4 major long term commercial agreements, representing total potential orders of up to 100,000 units, the majority of which are from customers in LATAM, which, subject to full delivery and deployment within the contract timeframes, would contribute c. \$20m hardware and SaaS revenue over 3 years.
- Continued implementation of the new strategy focusing on the supply chain markets, based on SaaS model

Avi Hartmann, CEO of t42, commented:

"We offer a comprehensive, cutting edge, technological solution for monitoring and securing containers, effectively addressing a critical challenge in maritime, land transportation and air cargo. Our solution guarantees reliability, security, and economic feasibility while significantly reducing implementation time and accelerating return on investment for our customers. We are actively pursuing business opportunities in key markets such as South and North America, evident from recent agreements signed and the substantial business potential they represent."

Contacts:

t42 IoT Tracking Solutions PLC

Michael Rosenberg, Chairman

Avi Hartmann, CEO

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The Annual Report will be made available to shareholders shortly and be available from the Company's website at: www.t42.co.uk/. A notice of AGM will be despatched to shareholders in due course.

The information contained within this announcement is deemed by the Company to constitute inside information pursuant to Article 7 of EU Regulation 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 as amended.

CHAIRMAN'S STATEMENT

We are pleased to report the audited financial statements for the year ended 31st December 2023.

Revenues were \$4.01m (2022: \$4.04m). However, we are pleased to report a gross margin of 53% for the year compared to 42% for the previous year, and a reduced net loss \$0.42m for the year (2022: \$1.01m loss). All in all, the financial indicators continue to show stability and improvement, with a decrease in expenses and loss which have led to a positive adjusted EBITDA of \$0.34m for the reporting period. These improvements are encouraging as they demonstrate stabilization in the business and progress in the Company's strategy. The Company has focused on long-term significant agreements and has concluded 4 of these since the end of reporting period as summarised below.

- In February 2024 a follow-up agreement was signed with a distributor, originally contracted in 2023 to whom 2,000 Lokies units had been delivered. Under the new agreement it was agreed to supply up to 30,000 units over 3 years, which we estimated would deliver up to \$7.5m in revenues, including SaaS revenues, if fully ordered and deployed.
- In April 2024 we announced a further significant agreement, with a Mexican distributor, involving the application of the tracking system for the control of a large number of petrol and diesel transporters enabling significant controls to be installed.
- In May 2024 another long-term agreement was entered into with a leading company in Brazil within the transportation and logistics security tracking sector. The agreement is for tracking units over a 3 year period and is expected by the Company to have a total value of c. \$4.5m over the agreement period on the basis of full deployment. The agreement was achieved after a long systems development process and is expected to produce an order for 10,000 tracking units during 2024.
- Later in May 2024 the Company concluded another agreement under which an initial order of 3,500 units (combination of Lokies and Tetis) has been received, as part of total expected orders of 10,000 units during 2024. The agreement has an estimated total value of c. \$7m over 3 years, for both hardware and SaaS revenues.

After a significant period of testing and comparing different solutions, DHL Israel have recently chosen Lokies as their standard solution in the field. After a testing period of over a month, DHL Israel has placed their first commercial order for Lokies, which will be implemented immediately in their fleet. This order marks a new and significant opportunity for the Company, and we expect it will open up additional commercial opportunities from DHL Israel.

During the reported period, t42 has significantly advanced its R&D efforts to enhance its product offerings and meet the evolving needs of its clients. We have successfully incorporated additional 4G modules from diverse suppliers, improving both pricing and availability. Our commitment to product reliability has been strengthened through the implementation of new and improved testing methods in our manufacturing processes.

In July 2023, we initiated a notable collaboration with a leading global firm providing sustainable solutions across the cold chain. Furthermore, we migrated our location by cellular antennas feature to our proprietary cloud infrastructure. This strategic move provides greater flexibility in selecting cellular module providers and reduces additional costs.

Our Lokies and Helios Pro products have been extended to support a variety of external BLE sensors, acting as gateways to supply users with comprehensive information from the device surroundings. Additionally, we released a new version of our flexible shackle for Lokies, specifically designed for a global retail company, enhancing security solutions across a broader range of trucks.

On the cloud and portal side, we have expanded our services to allow clients to use our systems as Data as a Service (DaaS), integrating seamlessly with their existing infrastructure. This initiative has attracted over 20 clients, opening new market segments. We also introduced a custom-made reporting system, integrated third-party devices for Latin American customs authorities, and added new security layers, including two-factor authentication for both web and mobile platforms. Our dashboards and reports now offer more business insights for our clients.

Special projects during 2023 included a tailored high-accuracy impact detection solution for an American company using Kylos and an extended portal for a client's special project requirements in Tanzania. We have also continued our close integration with Zero Motorcycles, enhancing the information they provide to their clients.

These R&D advancements emphasize our commitment to innovation and excellence, ensuring we remain at the forefront of the IoT tracking and security industry.

FINANCIAL REVIEW

Group revenues for the year were \$4.01m, compared with \$4.04m for the year ended 31 December 2022, a decrease of 1%. The gross margin for the year increased to 53% (2022: 42%).

Total operating expenditure for the year reduced to \$2.24m (2022: \$3.01m),

Net loss after taxation for the year decreased to \$0.42m compared with the 2022 net loss of \$1.01m. The reduced operating loss in the period was \$0.1m compared to an operating loss of \$1.37m in 2022.

The Group recorded an exchange rate gain of \$27k resulting from the weakness of the Israeli Shekel compared with the US dollar (2022: exchange rate loss of \$450k).

The Group balance sheet showed an increase in trade receivables to \$0.89m compared with \$0.49m as of 31 December 2022.

Group inventories at the period end were \$1.44m, compared to \$1.58m as of the end of 2022.

Trade payables at the year-end decreased at \$0.84m, compared with \$1.14m as of 31 December 2022.

Net cash used in operating activities in the period was approximately \$0.22m, compared with \$0.95m for the year ended 31 December 2022.

Post-period, in March 2024, the Company reached an agreement over the extension of its £925k unsecured convertible loans until January 2025 under new terms.

The auditors report draws attention to the deficit in current liabilities as of 31 December 2023. However, given the significant additional sales referred to in this report, the Board are confident that additional funding, if required, will be available. In addition, the Company has non-binding indications from the holders of the convertible loan notes maturing in January 2025 that they would convert or extend the loans, subject to agreeing terms.

OUTLOOK

We are expecting further growth in revenues during 2024 based on our current pipeline of potential new orders. The focus on long-term agreements demonstrates the market demand for our products and solutions, stemming from the strength of our R&D and technological advantages.

It is pleasing to have concluded four long-term agreements this year to date concluded as we continue to collaborate with market leaders to promote t42's strategy in accessing mass markets. We are confident that our cutting-edge technology will be translated into further contracts in the short- to mid-term.

As our strategic decision to focus on the shipping container market evolves, we believe that the technological advantages of our Helios solution will allow us to secure further development projects and opportunities.

Michael Rosenberg OBE
Non-Executive Chairman

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 T42 IoT Tracking Solutions PLC Board consists of four directors, two of whom are non-executive, including the Chairman. Although the Company 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 Israel with all Board members attending. However, given the current troubles in Israel it was decided to hold all meetings in 2023 by conference call. During 2023, a total of 11 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 one remuneration committee meeting held during the year under review, which all members attended.

The non-executive directors

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. However, given the current troubles in Israel it was decided to hold all meetings in 2023 by conference call

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 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 clear in the shipping container market. The Company's target is to reach each and every container and convert it into a transmitting data point. The Company is targeting to use the opportunity of the present global environment of supply chain challenges and logistics costs in order to penetrate the mass market. The Company's legacy products and experience will support the business to challenge this market and provide a comprehensive solution.

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 2023, 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, and via the website. Shareholders are encouraged to attend the Company's Annual General Meetings where they can meet and directly communicate with the Board.

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. Thus, 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. Where 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, foreign exchange 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 2023, 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 11-12 of this document.

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

The Board currently comprises two executive and two non-executive directors with an appropriate balance of sector, financial and public market skills, and experience. The experience and knowledge of each of the directors gives them the ability to constructively challenge strategy and to scrutinise performance. In addition, the Non-Executive Chairman, Michael Rosenberg, brings further strategic, commercial, transaction and leadership experience which will be invaluable as the Board pursues the Company's growth strategy and continues to transform the Company.

Ethical matters

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

Main governance structures and processes

The Non-Executive 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 OBE (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 t42 IoT Tracking Solutions PLC in 2004.

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 non-executive Chairman of the Board and Audit Chair at 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 t42 IoT Tracking Solutions PLC in December 2017 and brings highly qualified accounting experience to the Company. Since his appointment, he 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 the non-executive directors, 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 2023. In June 2023, the Audit Committee reviewed the financial statements for the year ended 31 December 2022, paying particular attention to the level of debtors. The Audit Committee met in September 2023 to consider the interim financial statements for the six months ended 30 June 2023. Again, the Committee focused on stock valuation and debtor levels. 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 2023. This will be kept under annual review by the Board.

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 plan 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 Martin Blair 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 2023. This will be kept under annual review by the Board.

On behalf of the Board,

M. Rosenberg, Non-Executive Chairman

t42 IoT Tracking Solutions PLC

Directors' Report

for the Year Ended December 31, 2023

The directors present the annual report together with the financial statements and auditors' report for the year ended December 31, 2023.

The Company was incorporated in Jersey and two wholly-owned trading subsidiaries: Starcom Systems Limited and t42 Ltd, were incorporated in Jersey and in Israel, respectively.

Principal activities and review of business

t42 pioneering Advanced Real-Time Tracking and Management Solutions

t42 is a global leader in the field of advanced, automated real-time systems, specializing in the remote tracking and management of vehicles, containers, and assets. Our commitment to innovation is underpinned using cutting-edge Artificial Intelligence (AI) and Machine Learning (ML) technologies. We offer a unique and revolutionary real-time cargo tracking solution that caters to a diverse clientele.

At the forefront of our product line are the revolutionary Tetis, Lokies, and Kylos products. These products provide a comprehensive 360 degree view of containers and goods throughout the entire supply chain. Our commitment to excellence is evident in the strength, stability, and continuous performance of all our systems.

Accounts production

The financial statements for the year ended December 31, 2023, 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
Igor Vatenmacher	Appointed January 2019
Martin Blair	Appointed May 2019

Remuneration of Directors

Remuneration of directors for the year ending 31 December 2023: (All amounts presented in thousands of USD)

Executive Director	Salary	Pension and Related Expenses	Fees	Total
A Hartmann	165	13	-	178
I Vatenmacher	105	25	-	130
Non-Executive Directors				
M Rosenberg	-	-	50	50
M Blair	-	-	45	45
Total 2023	270	38	95	403

Directors' remuneration in share options: (In thousands)

Executive Director	Total vested at 01/01/23	Exercised	Vested/ (Expired) during the year	Total Vested at 31/12/23	Total Un-vested at 31/12/23	Grant Total
A Hartmann	1,082	-	41	1,123	42	1,165
I Vatenmacher	292	-	41	333	42	375
Non-Executive Directors						
M Rosenberg	1,182	(279)	(89)	814	-	814
M Blair	615	(251)	-	364	-	364

Further details regarding the grants are detailed in note 14 within the financial reports. Some of the directors were also issued warrants as a part of the loan they provided to the Company, as detailed in Notes 11 and 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 a 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 Israeli Shekel. 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.

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 in common pays at least 30% 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.

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, Share Registrars Limited.

On behalf of the Board,

M. Rosenberg, Non-Executive Chairman



Jerusalem, 25 June 2024

Report of Independent Auditors
to the Board of Directors and Stockholders of
t42 IoT Tracking Solutions PLC

We have audited the accompanying consolidated statements of financial position of t42 IoT Tracking Solutions PLC and its subsidiaries (hereinafter - "the Group") as of December 31, 2023 and 2022 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, 2023 and 2022 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 1e in the financial statements regarding the Company's accumulated losses of 16M USD from operations since inception, the current convertible loans to be repaid by January 2025 and the management efforts to raise additional funds required. These factors indicate that there may be an uncertainty as to the Company's ability to continue as a going concern. The management is on the opinion that due to the growth in activity and other actions taken the Company will have the sufficient cash flow it requires to fund its ongoing operations as well as solve the requirement to repay the convertible loans.

Key Audit Matters

Key audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the board of directors and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgements. We determined that there are no key audit matters.

Barzily & Co.
Certified Public Accountants.
A Member of MSI Worldwide

T42 IOT TRACKING SOLUTIONS PLC
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
U.S. Dollars in thousands

		December 31,	
	Note	2023	2022
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment, net	6	422	546
Right-of-use assets, net	22	1,044	981
Intangible assets, net	7	952	1,021
Income tax authorities		-	57
Total Non-Current Assets		2,418	2,605
CURRENT ASSETS			
Cash and cash equivalents		186	174
Short-term bank deposit	5	35	130
Trade receivables, net	3	892	488
Other accounts receivable		27	71
Inventories	4	1,439	1,581
Total Current Assets		2,579	2,444
TOTAL ASSETS		4,997	5,049
DEFICIT AND LIABILITIES			
DEFICIT	14	(939)	(538)
NON-CURRENT LIABILITIES			
Long-term loans from banks, net of current maturities	10	88	142
Long-term leasehold liabilities	22	814	790
Conversion component of a convertible loan at fair value	11A,D	31	27
Amortized cost of a convertible loan	11A,D	917	292
Total Non-Current Liabilities		1,850	1,251
CURRENT LIABILITIES			
Short-term bank credit		42	42
Short-term bank loan	12	103	719
Current maturities of long-term loans from banks	10	64	70
Trade payables		844	1,144
Other accounts payable	9	433	260
Leasehold liabilities	22	168	112
Warrants at fair value	11B,C	12	84
Amortized cost of a convertible loan	11B,C,D	1,681	1,161
Related parties	20	739	744
Total Current Liabilities		4,086	4,336
TOTAL DEFICIT AND LIABILITIES		4,997	5,049

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

25 June 2024
Date of Approval
of the Financial Statements

Igor Vatenmacher
CFO

Avi Hartmann
CEO

T42 IOT TRACKING SOLUTIONS PLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
U.S. Dollars in thousands (except shares data)

	+	Year ended December 31,	
	<u>Note</u>	<u>2023</u>	<u>2022</u>
Revenues		4,005	4,041
Cost of sales	15	(1,882)	(2,358)
Gross profit		2,123	1,683
Operating expenses:			
Research and development		(92)	(125)
Selling and marketing		(485)	(652)
General and administrative expenses	16	(1,665)	(2,250)
Other expenses, net		(3)	(29)
Total operating expenses		(2,245)	(3,056)
Operating loss		(122)	(1,373)
Finance income	17	604	814
Finance expenses	18	(902)	(447)
Net finance income (expenses)		(298)	367
Total comprehensive loss for the year		(420)	(1,006)
Loss per share:			
Basic and diluted loss per share	14, 19	(0.008)	(0.019)

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

T42 IOT TRACKING SOLUTIONS PLC
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
U.S. Dollars in thousands

	<u>Share Capital</u>	<u>Premium on Shares</u>	<u>Capital Reserve</u>	<u>Capital Reserve in Regard to Share- Based Payment Transactions</u>	<u>Accumulated Loss</u>	
Balance as of January 1, 2022	-	13,351	89	1,151	(14,398)	
Issuance of share capital (net of expenses)	-	180	-	-	-	
Share based payment (see Note 14d)	-	-	-	95	-	
Comprehensive loss for the year	-	-	-	-	<u>(1,006)</u>	
Balance as of December 31, 2022	-	13,531	89	1,246	(15,404)	
Issuance of share capital (net of expenses)	-	12	-	-	-	
Share based payment (see Note 14d)	-	-	-	7	-	
Comprehensive loss for the year	-	-	-	-	<u>(420)</u>	

Balance as of December 31, 2023	<u>—</u>	<u>13,543</u>	<u>89</u>	<u>1,253</u>	<u>(15,824)</u>	<u>=</u>
The accompanying notes are an integral part of the consolidated financial statements.						

T42 IOT TRACKING SOLUTIONS PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. Dollars in thousands

	Year Ended December 31,	
	2023	2022
CASH FLOWS FOR OPERATING ACTIVITIES:		
Loss for the year	(420)	(1,006)
Adjustments to reconcile loss for the year to net cash used in operating activities:		
Depreciation and amortization	469	437
Interest expenses and exchange rate differences	43	(374)
Share-based payment expense	7	95
Capital gain	(10)	(24)
Changes in assets and liabilities:		
Decrease in inventories	142	209
Decrease (Increase) in trade receivables, net	(404)	191
Decrease in other accounts receivable	44	89
Increase in Income Tax Authorities	57	-
Decrease in trade payables	(300)	(90)
Increase (Decrease) in other accounts payable	173	(478)
Net cash used in operating activities	<u>(199)</u>	<u>(951)</u>
CASH FLOWS FOR INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(16)	(318)
Proceeds from sales of property, plant and equipment	52	-
Increase (Decrease) in short-term deposits	94	24
Cost of intangible assets	(134)	(166)
Net cash used in investing activities	<u>(4)</u>	<u>(460)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of short-term bank credit, net	(616)	(152)
Receipt of short-term bank loan, net	-	-
Receipt of convertible unsecured loans, net	-	250
Proceeds from related parties, net	(5)	28
Payment for leasehold liabilities	(183)	(174)
Receipt of short-term loans	250	-
Repayment of long-term loans	(546)	(81)
Receipt of convertible loans	1,300	-
Consideration from issue of shares, net	14	180
Net cash provided by financing activities	<u>214</u>	<u>51</u>
Increase in cash and cash equivalents	11	(1,360)
Cash and cash equivalents at the beginning of the year	174	1,534
Cash and cash equivalents at the end of the year	<u>186</u>	<u>174</u>
Appendix A - Additional Information		
Interest paid during the year	<u>313</u>	<u>251</u>
Appendix B - Non-Cash Financing Activities		
Issuance of a convertible loan note in lieu of settlement of a supplier debt	-	319
Significant non-cash transactions (entering into new lease agreements) are disclosed in Note 22	<u>—</u>	<u>—</u>

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

T42 IOT TRACKING SOLUTIONS PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. Dollars in thousands

NOTE 1 - GENERAL

a. The Reporting Entity

t42 IoT Tracking Solutions PLC ("the Company") was incorporated in Jersey on November 28, 2012. The Company and its subsidiaries ("the Group") is a global leader in the field of advanced, automated real-time systems, specializing in the remote tracking and management of vehicles, containers, and assets. Our commitment to innovation is underpinned using cutting-edge Artificial Intelligence (AI) and Machine Learning (ML) technologies. We offer a unique and revolutionary real-time cargo tracking solution that caters to a diverse clientele. At the forefront of our product line are the revolutionary Tetis, Lokies, and Kylos families of products. These products provide a comprehensive 360° view of containers and goods throughout the entire supply chain. Our commitment to excellence is evident in the strength, stability, and continuous performance of all our systems.

The Company fully owns t42 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 t42 IoT Tracking Solutions is: 96 Dereh Ramatayim Street, Hod Hasharon, 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 - t42 IoT Tracking Solutions PLC.
3. The Subsidiaries - t42 Ltd. and Starcom Systems Limited.
4. Starcom Jersey - Starcom Systems Limited.
5. The Group - t42 IoT Tracking Solutions PLC. and the Subsidiaries.
6. Related Party - As determined in International Accounting Standard No. 24.

T42 IOT TRACKING SOLUTIONS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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 re-measured 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.

e. As of December 31, 2023, the Group has incurred losses from its operations since its incorporation of approx USD 16 million that required the Company to raise funds in the form of convertible loans and secured debt facilities in the amount of approx. USD 3 million. The Group expects to experience a significant growth in orders over the next 12 months and has lately been experiencing ongoing and growing demand across the key markets. In addition, management plans to continue cut Group expenses as this has been successful during 2023. This is expected to improve the Group's operational results during 2024. The further growth may require additional funding to accelerate the opportunities provided from our technological teams and the necessary working capital needed for this growth.

As of December 31, 2023, the Group has current loan balances in the amount of approx. USD 2.5 million to be converted or repaid by January 2025. While this remains a significant aspect of the Company's balance sheet, the management team is dedicated to implementing effective strategies to resolve the loan balances while safeguarding the interests of our shareholders and maintaining the Group's financial stability.

The Company may raise additional funds or reach an agreement with lenders as to extension of the loans or their conversion to equity of the Company. The Company has approached the lenders as to an extension of the loans or conversion to equity of the Company and has received non-binding indications from the lenders for their intention to convert their loans to equity and believes that all of its actions will ensure the Company has the sufficient cash flow it requires to fund its ongoing operations as well as solve the requirement to repay the convertible loans.

T42 IOT TRACKING SOLUTIONS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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 2023 Consolidated Financial Statements on 25 June, 2024.

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.

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 11 - Financial liabilities of convertible loans and warrants

Information about assumptions and estimations that have significant risk of resulting in a material adjustment is included in the following Notes:

Note 3 - 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. Exchange rate differences are included in the statement of comprehensive income when incurred.

	As of December 31,	
	2023	2022
Exchange Rate of NIS in U.S. \$	0.276	0.284
Exchange Rate of GBP in U.S. \$	1.274	1.204
For the Year Ended December 31,		
	2023	2022
Change in Exchange Rate of U.S. \$	2.9%	(11.6%)
Change in Exchange Rate of GBP	(5.8%)	(0.1%)

c. Financial instruments

(i) 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 financial assets at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

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, as well this category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI.

(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 at amortized cost (debt instruments):

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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 and warrants at fair value

Compound financial instruments issued by the Company comprise interest-bearing loans and conversion options issued to lenders.

The option component of liabilities that are not denominated in foreign currency or are linked to the CPI or to foreign currency is recognized initially as an equity component at its fair value using a binomial calculation.

The liability components are recognized initially as the difference between the loan amount and the option component.

Any directly attributable transaction costs are allocated to the liabilities 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.

Liabilities that are convertible into shares denominated in foreign currency or are linked to the CPI or to foreign currency are presented fully as a financial liability.

The instrument is split into two components for measurement purposes: A liability component without a conversion future that is measured at amortized cost according to the effective interest method, and a conversion option that is an embedded derivative and is measured at fair value at each reporting date.

As well, warrants issued by the Company that are convertible into shares denominated in foreign currency or that are linked to the CPI or to foreign currency are also presented as a financial liability which is measured at fair value at each reporting date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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 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 2023, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2C - SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

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: between five to 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 - 10 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. Dollars in thousands****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 than 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. Dollars in thousands****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 the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 2C SIGNIFICANT ACCOUNTING POLICIES (cont.)

m. Allowance for expected credit losses

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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.

For the years ended December 31, 2023 and 2022, the Company incurred net losses which cannot be diluted; therefore, basic and diluted loss per common share is the same.

t. Statement of cash flows

The statement of cash flows from operating activities 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.

NOTE 2D - CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

There were no new standards or amendments that are relevant for the Group which are effective for annual periods beginning on or after 1 January 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 3 - TRADE RECEIVABLES, NET

	December 31	
	2023	2022
Group receivables	913	938
Allowance for credit losses	(21)	(450)

892 488

NOTE 4 - INVENTORIES

	December 31	
	2023	2022
Raw materials	1,076	1,122
Finished goods	363	459
	1,439	1,581

NOTE 5 - SHORT-TERM BANK DEPOSIT

The bank deposit sums of \$35 and \$130 as of December 31, 2023 and 2022, respectively, serve as a security deposit for repayment of bank loans in accordance with terms of the loans. The deposits bear yearly interest at the rate of 0-0.02%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

	<u>Computers and Software</u>	<u>Office Furniture and Equipment</u>	<u>Laboratory Equipment</u>	<u>Leasehold Improvements</u>	<u>Vehicles*</u>	<u>Total</u>
Cost:						
c Balance as of January 1, 2023	240	156	299	340	156	1,191
Additions during the year	-	3	7	5	(156)	(141)
Balance as of December 31, 2023	240	159	306	345	-	1,050
Accumulated Depreciation:						
c Balance as of January 1, 2023	203	109	181	31	121	645
Depreciation during the year	18	8	39	39	(121)	(17)
Balance as of December 31, 2023	221	117	220	70	-	628
Net book value as of December 31, 2023	19	42	86	275	-	422
	<u>Computers and Software</u>	<u>Office Furniture and Equipment</u>	<u>Laboratory Equipment</u>	<u>Leasehold Improvements</u>	<u>Vehicles*</u>	<u>Total</u>
Cost:						
c Balance as of January 1, 2022	218	131	297	71	156	873
Additions during the year	22	25	2	269	-	318
Balance as of December 31, 2022	240	156	299	340	156	1,191
Accumulated Depreciation:						
c Balance as of January 1, 2022	188	101	149	29	107	574
Depreciation during the year	15	8	32	2	14	71
Balance as of December 31, 2022	203	109	181	31	121	645
Net book value as of December 31, 2022	37	47	118	309	35	546

* See also Note 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 7 - INTANGIBLE ASSETS, NET

	<u>Total</u>
Cost:	
Balance as of January 1, 2023	1,884
Additions during the year	134

Balance as of December 31, 2023	<u>2,018</u>
Accumulated Amortization:	
Balance as of January 1, 2023	(863)
Amortization during the year	(203)
Balance as of December 31, 2023	<u>(1,066)</u>
Net book value as of December 31, 2023	<u>952</u>
	Total
Cost:	
Balance as of January 1, 2022	1,718
Additions during the year	166
Balance as of December 31, 2022	<u>1,884</u>
Accumulated Amortization:	
Balance as of January 1, 2022	(684)
Amortization during the year	(179)
Balance as of December 31, 2022	<u>(863)</u>
Net book value as of December 31, 2022	<u>1,021</u>

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: between five to ten years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS U.S. Dollars in thousands

NOTE 8 - TAXES ON INCOME

a. Israeli taxation

1. The Israeli corporate tax rate for 2023 and 2022 is 23%.
2. **Tax Benefits from the Encouragement of Capital Investments Law, 1959 ("The Encouragement Law")**
t42 Israel was determined in the past as a company which is entitled to a reduced tax rate. The Group does not expect to pay taxes in Israel in the next coming years.
3. t42 Israel has carryforward operating tax losses of approximately NIS 49 million as of December 31, 2023 (NIS 42 million as of December 31, 2022). As for deferred tax assets see Note 2C(r).
t42 Israel has been assessed by the Income Tax Authorities up to and including the year 2018.

b. Jersey taxation

Taxable income of the Company and Starcom Jersey is subject to tax at the rate of zero percent for the years 2023 and 2022.

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 2023 or was recorded in 2022.

NOTE 9 - OTHER ACCOUNTS PAYABLE

	December 31	
	2022	2022
Employees and payroll accruals	274	237
Advance payments from trade receivables	159	23
	<u>433</u>	<u>260</u>

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

1. Composition:

	December 31	
	2023	2022
Long-term liability	152	212
Less: current maturities	(64)	(70)
	<u>88</u>	<u>142</u>

2. Aggregate maturities of long-term loans for years subsequent to December 31, 2023 are as follows:

	Amount
First year	64
Second year	64
Third year	24
	<u>152</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. Dollars in thousands**

3. Additional information regarding long-term loans:

Date Received	Amount Received NIS (U.S. dollars) In thousands	Annual Interest Rate	Loan Terms and Maturity Dates	Interest Payment Terms
Dec 9, 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

*The loan is a state-guaranteed loan, received as assistance due to the spread of the Covid -19 virus, the State paid the interest for the first year.

As of December 31, 2023 the interest prime rate was 6.25%.

** See also Note 13.

NOTE 11 - FINANCIAL LIABILITIES OF CONVERTIBLE LOANS AND WARRANTS

a. During July 2023 the Company secured a loan, total amount of \$1.3m provided by Ewave Mobile Ltd. The loan bears interest of 10% per annum. The Loan, together with accrued interest at the time of conversion, may be converted, at the discretion of the Lender, at any time prior to the Loan repayment date of 20 January 2025, into such number of new t42 ordinary shares as corresponds to 29.5% of the Company's issued ordinary share capital immediately following such conversion. The Loan may be converted in part, on a pro rata basis to the above terms.

The loan was evaluated and divided into different components - a conversion component at fair value, and an amortized cost of the loan component.

The conversion component originally was \$464k but due to change in the Company's share price at year end, the fair value decreased.

The amounts as for December 31, 2023, are as follows:

- Conversion component of the convertible loan at fair value - \$31k
- Amortized costs of a convertible loan - \$917k

An effective interest rate was calculated for the liability component of the loan, based on its amortization table. The effective interest rate is 13.4% per annum, and after the deducting the conversion component it is 55% per annum.

During December 2021, The Company received from third parties loans in the total amount of \$1,251

b. thousand (£925 thousand) in the form of convertible loans enabling the lenders to convert the loans at an exercise price of £0.15 per share at any time, subject to compliance with the AIM Rules, Takeover Code and MAR regulations, up to December 31, 2023.

The convertible loans bore interest at the rate of 8% per annum calculated by reference to the principal amount of the convertible loans. If not converted, the loans were supposed to be repayable on December 31, 2023.

In addition, the lenders received warrants to subscribe 1,541,667 shares. These warrants expired on December 2023.

In addition, the lenders received warrants to subscribe 1,541,667 further shares at an exercise price of £0.19 per share. Any unexercised warrants expire at the end of three-years from grant (see note 25).

As of December 31, 2023 the loan was not yet repaid, the Company was in negotiations to extend the repayment date of the CLN with the Lenders, who have indicated their willingness to do so, subject to final terms.

After the reporting date the Company successfully negotiated an extension, see note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. Dollars in thousands****NOTE 11 - FINANCIAL LIABILITIES OF CONVERTIBLE LOANS AND WARRANTS (cont.)**

c. During December 2022, the Israeli subsidiary, T42 Limited, entered into a loan agreement with CSS Alpha Global Pte Ltd for the provision of a 12-month secured US\$500,000 debt facility. The Agreement provides, *inter alia*, for interest at 2 per cent per month, with 9 monthly repayments starting 3 months after drawdown. Security is by way of a second charge on assets, a personal, guarantee from the Company's CEO, limited to 20 per cent of the loan, and a deposit with CSS of 3,000,000 new t42 shares. In addition, warrants for a total of 2,976,185 shares in t42 have been issued to CSS, exercisable at 7p per share over 5 years. The initial drawdown was provided in December 2022, the second and last drawdown was provided in January, 2023.

d. In December 2022, the Company issued a £265,000 convertible loan note to a supplier, to be applied in lieu of settlement of a supplier debt, assisting with the Company's cashflow management. The CLN bears interest at 3% per annum, payable quarterly, and is repayable by 31 December 2024. The CLN is convertible at 9p per share at the discretion of the holder. In addition, the Company has the right to enforce conversion of £100,000 of the CLN in the event t42's share price exceeds 12p and the balance if the share price exceeds 15p. As of December 31, 2023 and 2022, the conversion component of the convertible loan note at fair value was \$0 and \$27K, respectively.

e.

In October 2023, 530,233 ordinary shares of no par value were issued following the exercise of options by directors at nil cost.

f. In March 2022, 500,000 ordinary shares of no par value were issued at a price of 12p per share following the exercise of warrants options by directors.

For the Year ended December 31, 2023, the estimated fair values of the various Warrants and Convertible components were measured by an independent appraiser as follows:

The level of the fair value hierarchy is level two.
Common Stock Market Value measured in calculation £0.0275
Year ended
December 31,
2023
Expected term 1-4 years
Expected average volatility 44%
Expected dividend yield -
Risk-free interest rate 3.9%-4.9%
Fair value at end of year 0.000p-0.004p

Total revaluation expenses regarding these components in the statement of comprehensive loss for the reported period are as follows:

	Loan components	Conversion components	Warrants
Balance as of January 1, 2023	1,453	34	78
Additions during the year	1,167	464	-
Finance (income) expenses			
Payments (22)		(467)	(66)
Conversion -		-	-
Balance as of December 31, 2023	2,598	31	12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 12 - SHORT-TERM BANK LOAN

Based on mutual understanding between the bank and the Company the short-term facility is being gradually amortized, reduced by \$616k during 2023 to a balance of \$103k.

NOTE 13 - CHARGES

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

1. A charge was placed on the t42 Israel's vehicle.
2. A floating pledge was placed on the assets of t42 Israel.
3. A cross-Group charge was placed.
4. A Pledge on the bank deposit of t42 Israel was placed.
4. Secondary floating pledge on t42 assets.

NOTE 14 - EQUITY

14 -

- a. Share composition - Common stock of no-par value, issued and outstanding:

Year Ended December 31,	
2023	2022
54,917,055	54,026,822

- b. Company share grants to its holder voting rights, rights to receive dividends and rights to net assets upon dissolution.
- c. See Note 11

During December 2022, the Company raised £90 (\$100) thousand before expenses through a placing of 1,000,000 Ordinary Shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 14 EQUITY (cont.)

d. Share-based payment

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

	2023		2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	£		£	
Share options & warrants outstanding at beginning of year	12,545,222	0.177	10,122,112	0.206
Warrants granted during the year	-	-	2,976,185	0.07
Options & Warrants exercised during the year	(530,233)	-	(500,000)	0.12
Options & Warrants expired during the year	(1,138,339)	0.37	(53,075)	0.12
Share options & warrants outstanding at end of year	<u>10,876,650</u>	<u>0.166</u>	<u>12,545,222</u>	<u>0.177</u>
Share options & warrants exercisable at end of year	<u>10,713,651</u>	<u>0.159</u>	<u>12,215,555</u>	<u>0.171</u>

See Note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. Dollars in thousands

NOTE 15 - COST OF SALES

	Year Ended December 31,	
	2023	2022
Purchases	1,184	1,508
Others	368	462
Amortization	187	180
Decrease in inventory	143	208
	1,882	2,358

NOTE 16 - GENERAL AND ADMINISTRATIVE EXPENSES

a.	Year Ended December 31,	
	2023	2022
Salaries and related expenses (see also Note 20)	978	1,205
Professional services (1)	138	555
Doubtful accounts and bad debts	12	(23)
Depreciation	267	257
Office maintenance	187	167
Car maintenance	83	89
	1,665	2,250

(1) Including share-based payment to directors and senior management in the amounts of \$6k and \$95k for the years ended December 31, 2023 and 2022, respectively. See also Note 14d.

b. Average Number of Staff Members by Category:

	Year Ended December 31,	
	2023	2022
Sales and marketing	4	7
Research and development	3	3
General and administrative	11	12
	18	22

NOTE 17 - FINANCE INCOME

	Year Ended December 31,	
	2023	2022
Exchange rate differences, net	27	455
Revaluation of financial instruments	577	359
	604	814

NOTE 18 - FINANCE EXPENSES

Interest to banks and others	(818)	(382)
Bank charges	(73)	(50)
Interest to suppliers	(1)	(5)
Interest to related parties	(10)	(10)
	(902)	(447)
Net finance income (expenses)	(298)	367

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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,	
2023	2022
54,064,060	52,830,858

NOTE 20 - RELATED PARTIES

a. The related parties that own shares in the Group are:
Mr. Avraham Hartman (10.33%), Mr. Uri Hartman (5.46%),

b. Short-term balances:

	December 31	
	2023	2022
<u>Credit balances</u>		
Avi Hartmann	52	(20)
Uri Hartmann	(570)	(545)
Total Credit Balance	(518)	(565)
<u>Loans</u>		
Avi Hartmann	6	69
Uri Hartmann	(227)	(248)
Total Loans	(221)	(179)

	2023	2022
	(739)	(744)

- c. Shareholders' credit balances are 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, 2023	2022
Key management compensation:		
Total salaries and related expenses for shareholders/related parties	339	381
Non-executive directors' fees	96	95
Total share-based payment	2	3
Interest to related parties	10	10
- 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.
- f. For the purposes of the AIM Rules other transactions with related parties are disclosed in note 14d.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2023						
Financial Assets:	NIS		U.S. Dollar	GBP	Euro	Total
	Unlinked	Variable Interest	Unlinked			
Financial Assets:						
Cash and cash equivalents	10	-	172	-	4	186
Short-term deposit	-	35	-	-	-	35
Trade receivables, net	45	-	812	-	35	892
Other accounts receivable	27	-	-	-	-	27
Financial Liabilities:						
Short-term bank credit	-	(42)	-	-	-	(42)
Short term	-	(103)	-	-	-	(103)

bank loan						
Non-Bank Loans	-	-	(1,395)	-	-	(1,395)
Trade payables	-	(489)	(200)	(153)	(2)	(844)
Other accounts payable	(433)	-	-	-	-	(433)
Leasehold liabilities	-	(982)	-	-	-	(982)
Related parties	-	(739)	-	-	-	(739)
Long-term loans from banks	-	(152)	-	-	-	(152)
Financial liabilities of convertible loans	-	-	(1,202)	-	-	(1,202)
	<u>(351)</u>	<u>(2,472)</u>	<u>(1,813)</u>	<u>(153)</u>	<u>37</u>	<u>(4,752)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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

	December 31, 2022					
	NIS	U.S. Dollar	GBP	Euro	Total	
	Unlinked	Variable Interest	Unlinked			
Financial Assets:						
Cash and cash equivalents	2	-	171	-	1	174
Short-term deposit	-	130	-	-	-	130
Trade receivables, net	100	-	371	-	16	487
Other accounts receivable	129	-	-	-	-	129
Financial Liabilities:						
Short-term bank credit	-	(42)	-	-	-	(42)
Short-term bank loan	-	(719)	-	-	-	(719)
Non-bank loans	-	-	(583)	-	-	(583)
Trade payables	-	(569)	(478)	(93)	(5)	(1,145)
Other accounts payable	(260)	-	-	-	-	(260)
Leasehold liabilities	-	(902)	-	-	-	(902)
Related parties	-	(744)	-	-	-	(744)
Long-term loans from banks	-	(142)	-	-	-	(142)
Financial liabilities of convertible loans	-	-	(981)	-	-	(981)
	<u>(29)</u>	<u>(2,988)</u>	<u>(1,500)</u>	<u>(93)</u>	<u>12</u>	<u>(4,598)</u>

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

	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
For the Year Ended December 31		
2023	(134)	134
2022	(149)	149

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

	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
For the Year Ended December 31		
2023	2	(2)
2022	1	(1)

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

	5% Increase in Exchange Rate	5% Decrease in Exchange Rate
For the Year Ended December 31		
2023	(8)	8
2022	(5)	5

c. **fair value**

As of December 31, 2023, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 of 5 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, 2022	629	61	690
Additions	417	38	455
Disposals	-	-	-
Depreciation expenses	(105)	(59)	(164)
Balance at December 31, 2022	941	40	981
Additions	-	231	231
Disposals	-	-	-
Depreciation expenses	(104)	(64)	(168)
Balance at December 31, 2023	837	207	1,044

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

	2023	2022
As at January 1	(902)	(706)
Additions)231((455)
Disposals	-	-
Exchange rate differences and accretion of interest	24	84
Payments	127	175
Balance at December 31	(982)	(902)
Current	(168)	(112)
Non-Current	(814)	(790)

Maturity analysis - contractual undiscounted cash flows

Less than one year	(222)
One to ten years	(963)
Total undiscounted lease liabilities at December 31, 2023	<u>(1,185)</u>

The following are the amounts recognized in profit or loss:

	2023	2022
Depreciation expenses of right-of-use assets	(168)	(164)
Interest expenses on lease liabilities	24	84
Total amount recognized in profit or loss	(144)	(80)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

NOTE 22 - Leases (cont.)

The Group had total cash outflows for leases of \$127 in 2023 (\$175 in 2022). The Group also had non-cash additions to right-of-use assets and lease liabilities of \$231 in 2023 (\$457 in 2022).

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.

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

NOTE 23 - CUSTOMERS AND GEOGRAPHIC INFORMATION

	<u>Year Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Customer A	8%	14%
Customer B	5%	11%
Customer C	4%	8%

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

	<u>Year Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Latin America	11%	12%
Europe	12%	16%
Africa	29%	38%
Asia	3%	4%
Middle East	27%	22%
North America	18%	8%
Total	100%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands

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:

	<u>Hardware</u>	<u>SaaS</u>
Year Ended 31.12.2023:		
Segment revenues	2,019	1,986
Cost of sales	(1,611)	(271)
Gross profit (loss)	408	1,715
Year Ended 31.12.2022:		
Segment revenues	2,065	1,976
Cost of sales	(2,105)	(253)
Gross profit (loss)	(40)	1,723

NOTE 25 - SIGNIFICANT EVENTS AFTER THE REPORTED PERIOD

The Company successfully negotiated extension of the maturity date of the £925,000 unsecured convertible loan notes ("CLNs") until 20 January 2025. Under the Agreement the following terms have been agreed with the holders of the CLNs ("Lenders"):

- Coupon: the interest payable on the CLNs shall be 10% per annum, commencing from 1 January 2024.
- Conversion: the Lenders will have the right to convert, at their discretion, the principal amount of the CLNs into such number of T42 shares ("Conversion Shares") corresponding to 28.82% of the Company's issued ordinary share capital immediately following the date of conversion, if the aggregate principal amount is converted, and into a pro-rata number of Conversion Shares in case of a partial conversion. The Lenders shall not issue a conversion notice if this would result in a breach of Rule 9 of the UK Takeover Code.
- Anti-Dilution: the Agreement includes anti-dilution provisions to protect the equity interest percentage of the Lenders, so that in the event of the exercise or conversion of existing warrants, options or other instruments convertible into new t42 ordinary shares (subject to certain exceptions), the Lenders will be issued for no additional consideration such number of t42 shares such that, together with the t42 shares already held, each Lender's percentage shareholding shall remain the same.
- Security: security is provided by way of parent guarantee and fixed and floating charges over the assets of t42. The floating charge ranks *pari-passu* with the floating charge provided to Ewave under the Ewave loan and the fixed charge security over the intellectual property rights of t42 is second ranking, subordinated only to the fixed charge in favor of Ewave under the Ewave loan.
- Conversion/Repayment Events: in the event of certain major transactions or financing investments the lender may elect for conversion or repayment of the CLNs.
- Cancellation of warrants: the 1,541,667 outstanding 3-year warrants granted to the Lenders in December 2021 have been cancelled.

In conjunction with the Agreement, the Company also entered into an addendum to the loan agreement with Ewave Mobile Ltd, pursuant to which they consented to the CLN extension and will also have the same conversion rights as the CLN holders in the event of a major transaction.

In addition, after the reporting period the Company announced 4 significant commercial long-term agreements.



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