SIMIGON LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

U.S. DOLLARS IN THOUSANDS

INDEX

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Building a better working world

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

SIMIGON LTD.

We have audited the accompanying consolidated financial statements of SimiGon Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years ended December 31, 2013, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012, and its financial performance and cash flows for each of the years ended December 31, 2013, 2012 and 2011, in accordance with International Financial Reporting Standards as adopted by the European Union.

Kost, Forer, Gabbay & Kasierer

April 24, 2014
Tel-Aviv, Israel

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2013	December 31, 2012
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		8,100	6,550
Short-term bank deposits	3	511	556
Trade receivables	4	249	656
Other accounts receivable and prepaid expenses		69	41
Total current assets		8,929	7,803
NON-CURRENT ASSETS:			
Restricted cash	5	404	23
Long-term prepaid expenses		31	25
Property, plant and equipment	6	115	132
Intangible assets, net	7	1,223	1,274
Total non-current assets		1,773	1,454
Total assets		10,702	9,257

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2013	December 31, 2012
		U.S. dollars in thousands	
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Trade payables		143	140
Deferred revenues		1,218	1,005
Other accounts payable and accrued expenses	8	808	678
Total current liabilities		2,169	1,823
NON-CURRENT LIABILITIES:			
Employee benefit liabilities, net	9	177	141
Other non-current liabilities	12a	777	748
Total non-current liabilities		954	889
Total liabilities		3,123	2,712
EQUITY:	10		
Share capital		113	113
Additional paid-in capital		16,248	16,110
Accumulated deficit		(8,782)	(9,678)
Total equity		7,579	6,545
Total liabilities and equity		10,702	9,257

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

April 24, 2014			
Date of approval of the financial statements	Alistair Rae Non-Executive Chairman of the Board of Directors	Ami Vizer Chief Executive Officer and Director	Efraim Manea Chief Financial Officer and Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31,		
		2013	**2012 *)**	**2011 *)**
	Note	**U.S. dollars in thousands (except share and per share amounts)**		
Revenues	14	8,172	6,805	5,484
Cost of revenues	13a	2,070	1,367	828
Gross profit		6,102	5,438	4,656
Operating expenses:				
Research and development, net	13b	2,404	2,145	1,695
Selling and marketing	13c	1,652	1,568	1,699
General and administrative	13d	1,048	1,015	979
Total operating expenses		5,104	4,728	4,373
Operating profit		998	710	283
Other income		-	26	-
Finance income	13e	57	126	305
Finance expense	13f	159	154	267
Net income		896	708	321

*) Restated to reflect the implementation of IAS 19 (Revised) Employee Benefits.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	2013	2012 *)	2011 *)
		Year ended December 31,		
		U.S. dollars in thousands (except share and per share amounts)		
Net income		896	708	321
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Remeasurement gain (losses) from defined benefits plan		**) -	(16)	29
Total comprehensive income		896	692	350
Basic and diluted earnings per share in U.S. dollars		0.02	0.02	0.01
Weighted average number of shares used in computing basic earnings per share (in thousands)	15	47,188	45,884	42,867
Weighted average number of shares used in computing diluted earnings per share (in thousands)	15	49,131	46,454	42,932

*) Restated to reflect the implementation of IAS 19 (Revised) Employee Benefits.

**) Represents an amount lower than $ 1 thousand.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of shares	Share capital	Additional paid-in capital	Accumulated deficit	Total equity
	U .S. dollars in thousands (except share amounts)				
Balance as of January 1, 2011	41,642,283	98	15,644	(10,720)	5,022
Net income	-	-	-	321	321
Other comprehensive income:					
Actuarial gain from defined benefit plan *)	-	-	-	29	29
Total comprehensive income	-	-	-	350	350
Issuance of shares (Note 10c)	2,444,984	7	-	-	7
Share-based compensation	-	-	353	-	353
Exercise of stock options (Note 10d)	47,502	**) -	-	-	**) -
Balance as of December 31, 2011	44,134,769	105	15,997	(10,370)	5,732
Net income	-	-	-	708	708
Other comprehensive income:					
Actuarial losses from defined benefit plan *)	-	-	-	(16)	(16)
Total comprehensive income	-	-	-	692	692
Issuance of shares (Note 10b and Note 10e)	3,009,106	8	-	-	8
Share-based compensation	-	-	112	-	112
Exercise of stock options (Note 10f)	9,304	**) -	1	-	1
Balance as of December 31, 2012	47,153,179	113	16,110	(9,678)	6,545

*) Restated to reflect the implementation of IAS 19 (Revised) Employee Benefits.

**) Represents an amount lower than $ 1 thousand.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of shares	Share capital	Additional paid-in capital	Accumulated deficit	Total equity
	U .S. dollars in thousands (except share amounts)				
Balance as of January 1, 2013	47,153,179	113	16,110	(9,678)	6,545
Net income	-	-	-	896	896
Other comprehensive income:					
Actuarial losses from defined benefit plan	-	-	-	*) -	*) -
Total comprehensive income	-	-	-	896	896
Issuance of shares (Note 10b)	119,727	*) -	-	-	*) -
Share-based compensation	-	-	137	-	137
Exercise of stock options (Note 10g)	19,800	*) -	1	-	1
Balance as of December 31, 2013	47,292,706	113	16,248	(8,782)	7,579

*) Represents an amount lower than $ 1 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income	896	708 *)	321 *)
Adjustments to reconcile net income to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	98	98	85
Gain on disposal of fixed assets	-	(26)	-
Finance expense (income), net	(1)	(3)	16
Accrued interest on non-current liabilities	28	(12)	(124)
Share-based compensation	137	112	353
Change in employee benefit liabilities, net	36	17 *)	15 *)
Changes in asset and liability items:			
Decrease in trade receivables	407	584	2,137
Decrease (increase) in other accounts receivable and prepaid expenses (including long-term)	(21)	260	(222)
Increase (decrease) in trade payables	3	(34)	(31)
Increase (decrease) in deferred revenues	213	892	(296)
Increase (decrease) in other accounts payable and accrued expenses	132	(84)	72
	1,032	1,804	2,005
Cash paid and received during the year for:			
Interest paid	-	(1)	(24)
Interest received	1	4	9
	1	3	(15)
Net cash provided by operating activities	1,929	2,515	2,311

*) Restated to reflect the implementation of IAS 19 (Revised) Employee Benefits.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Cash flows from investing activities:			
Proceeds from disposal of fixed assets	-	36	-
Increase in restricted cash	(381)	(23)	-
Decrease (increase) in short-term bank deposits	45	(45)	-
Increase in long-term deposits	(12)	-	-
Purchase of fixed assets	(30)	(103)	(37)
Net cash used in investing activities	(378)	(135)	(37)
Cash flows from financing activities:			
Proceeds from share issuance	*) -	2	*) -
Exercise of stock options	1	1	*) -
Repayment of long-term bank loan	-	(188)	(563)
Proceeds from (repayment of) refundable grants	(2)	124	410
Net cash used in financing activities	(1)	(61)	(153)
Increase in cash and cash equivalents	1,550	2,319	2,121
Cash and cash equivalents at beginning of year	6,550	4,231	2,110
Cash and cash equivalents at end of year	8,100	6,550	4,231

(a) Supplemental disclosure of non-cash financing activities:			
Receivable in respect of issuance of shares	*) -	6	6

*) Represents an amount lower than $ 1 thousand.

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

NOTE 1:- GENERAL

a. The Company commenced its operations on October 1, 1998, and is engaged in developing advanced learning, training and simulation technologies and applications for use in professional communities. The Company's registered office is in Herzlia, Israel.

b. The Company has two wholly-owned subsidiaries in the United States, SimiGon Inc. and National Simulation Services Inc., which are engaged in the marketing of the Company's products in the United States and wholly-owned subsidiary in Singapore, SimiGon Pte Ltd which is engaged in marketing of the Company's products in the Far East.

c. On November 2, 2006, the Company completed its Initial Public Offering ("IPO") on the Alternative Investment Market ("the AIM") on the London Stock Exchange, by issuing 6,076,811 Ordinary shares of NIS 0.01 par value each at a price of £ 0.88 ($ 1.65) per share for a total net consideration of $ 8.4 million.

d. Definitions:

In these financial statements:

The Group	-	SimiGon Ltd. and its subsidiaries.
The Company	-	SimiGon Ltd.
Subsidiaries	-	Companies that are controlled by the Company.
Related parties	-	As defined in IAS 24.
Dollar	-	U.S. dollar

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b. Functional currency, presentation currency and foreign currency:

The consolidated financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.
The functional currency of the subsidiaries is U.S. dollars.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Transactions, assets and liabilities in foreign currency:

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

c. Consolidated financial statements:

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

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

d. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition.

e. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of acquisition. The deposits are presented according to their terms of deposit.

f. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Impaired debts are derecognized when they are assessed as uncollectible.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following four categories:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

Loans and Receivables:

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value.

2. Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Presentation of statement of comprehensive income:

The Company has elected to present a single statement of comprehensive income which includes both the items of the statement of income and the items of other comprehensive income.

i. Leases:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

The Group as lessee:

Operating leases:

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

j. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses.

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

	%
Computers and peripheral equipment	33
Office furniture and equipment	7 - 15 (mainly 15%)
Leasehold improvements	Over the term of the lease or the expected life, whichever is shorter

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from the derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the financial statements) is included in profit or loss when the asset is derecognized.

k. Intangible assets:

Intangible assets (Technology) acquired in a business combination are included at fair value at the acquisition date (see Note 7). After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.

According to management's assessment, intangible assets have a finite useful life. The assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively as changes in accounting estimates. The amortization of intangible assets with finite useful lives is recognized in the profit or loss.

The useful life of the Technology is 10 years.

l. Research and development:

Research and development costs are charged to profit or loss as incurred as development costs do not meet the criteria for recognition as an intangible asset.

m. Impairment of non-financial assets:

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

The following criteria are applied in assessing impairment of these specific assets:

Goodwill in respect of business combination:

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company reviews goodwill for impairment once a year as of December 31 or more frequently if events or changes in circumstances indicate that there is impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

n. Government grants:

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

Government grants received from the Office of the Chief Scientist ("OCS") and the Korea Israel Industrial R&D Foundation as support for research and development projects which grants include an obligation to pay royalties that are conditional on future sales arising from the project, are recognized upon receipt as a liability if future economic benefits are expected from the project that will result in royalty-bearing sales. If no such economic benefits are expected, the grants are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as contingent liability in accordance with IAS 37.

At the end of each reporting period, the Company evaluates, based on its best estimate of future sales, whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties). If there is such reasonable assurance, the appropriate amount of the liability is derecognized and recorded in profit or loss as a reduction of research and development expenses. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate amount of the liability that reflects expected future royalty payments is recognized with a corresponding adjustment to research and development expenses.

Grants received after January 1, 2009, which are recognized as a liability, are accounted for as forgivable loans, in accordance with IAS 20 (Revised), pursuant to the provisions of IAS 39, "Financial Instruments: Recognition and Measurement". Accordingly, when the liability for the loan is first recognized, it is measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grants received and the fair value of the liability is accounted for upon recognition of the liability as a government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Changes in the projected cash flows are discounted using the original effective interest and recorded in profit or loss in accordance with the provisions of IAS 39.AG8.
Royalty payments are treated as a reduction of the liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Revenue recognition:

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. When the Company acts as a principal and is exposed to the risks associated with the transaction, revenues are presented on a gross basis. Revenues are measured at the fair value of the consideration less any trade discounts.

The Company generates revenues mainly from licensing the software products and sales of software licenses that require significant customization. The Company also generates revenues from maintenance, support and training.

Revenues from software licensing that requires significant customization are recognized by reference to the stage of completion of the transaction at the end of the reporting period. When the outcome of the transaction cannot be estimated reliably, revenues are recognized only to the extent of the costs recognized that are recoverable. A provision for estimated losses on uncompleted contracts is recorded in the period in which such losses are first identified. As of December 31,2013 and 2012, no provision for such losses has been identified.

Maintenance and support revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement. The fair value of the undelivered elements (maintenance and support services) is determined based on the price charged for the undelivered element when sold separately.

Deferred revenue includes unearned amounts received under maintenance and support contracts, and amounts received from customers but not recognized as revenues.

Revenues from software arrangements:

Software arrangements contain multiple elements (software, integration, installation, upgrades, support, training, consultation etc.). The Company evaluates the arrangement's elements, including those delivered on a "when and if available basis", in order to determine if the elements can be separately identified.

The Company recognizes revenues from the sale of software only after the significant risks and rewards of ownership of the software have been transferred to the buyer for which a necessary, but not sufficient condition, is delivery of the software, either physically or electronically, or providing the right to use or permission to make copies, of the software. The Company recognizes revenues from providing software related services when the outcome can be measured reliably by reference to the stage of completion of the transaction at the end of the reporting period. If the services consist of a number of activities that are not defined over a specified period of time, revenues are recognized on a straight-line basis over the specified period, unless there is evidence that some other method better represents the stage of completion.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Earnings per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

q. Provisions:

A provision in accordance with IAS 37 is recognized when the Company has a present (legal or constructive) obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

r. Employees benefit liabilities:

The Company's liability for severance pay pursuant to the Israel's Severance Pay Law (for those who elected not to be fully included under section 14 of the Severance Pay Law, 1963) is based on the last monthly salary of the employee multiplied by the number of years of employment, as of the date of severance.

The cost of providing severance pay is determined using an independent actuary. Remeasurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Pursuant to Section 14 of the Severance Pay Law, which covers 75% of most of the employees' severance pay, monthly deposits with insurance companies release the Company from any future severance obligations in respect of those employees (defined contribution). Deposits under Section 14 are recorded as an expense in the Company's statements of comprehensive income.

s. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term bank deposits, trade receivables, other accounts receivable, short-term bank loans, trade payables and other accounts payable approximate their fair value due to the short-term maturity of such instruments.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Share-based payment transactions:

The Company applies the provisions of IFRS 2, "Share-Based Payment". IFRS 2 requires an expense to be recognized where the Company buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares of rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Company is the expensing of employees' and directors' share options (equity-settled transactions).

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

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

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration of equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted .

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

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

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

u. Finance income and expenses:

Finance income includes interest income on amounts invested and exchange rate gains.
Finance expenses comprise interest expense on bank loan fees and exchange rate loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements. In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments:

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

  The fair value of share-based payment transactions is determined using an acceptable option-pricing model. The model includes data as to the share price and exercise price, and assumptions regarding expected volatility, expected life, expected dividend and risk-free interest rate.

b. Estimates and assumptions:

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

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

- Chief Scientist grants:

  Government grants received from the Office of the Chief Scientist at the Ministry of Industry, Trade and Labor are recognized as a liability if future economic benefits are expected from the research and development activity that will result in royalty-bearing sales. There is uncertainty regarding the estimated future cash flows and the estimated discount rate used to measure the amount of the liability. As for the accounting treatment of grants received from the OCS, see also Note 12.

- Impairment of goodwill:

  The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit to which the goodwill has been allocated and also to choose a suitable discount rate for those cash flows. Further details are given in Note 7.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Commencing from January 1, 2013, the company applies IFRS 10. "Consolidated financial statements", IFRS 12, "Disclosure of Interests in Other Entities" and IFRS 13, "Fair Value Measurement". This adoption did not have any effect on the company's financial statements.

As a result of the application of IAS 19R, the Company has retroactively applied the following amendments:

- Actuarial gains and losses are recognized in other comprehensive income when incurred and not carried to profit or loss.
- Return on plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities regardless of the actual result of the investment portfolio.

See note 9.

x. Disclosure of new standards in the period prior to their adoption

1. IFRS 9, "Financial Instruments":

a. The IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("IFRS 9") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

Amendments regarding derecognition and financial liabilities (Phase 2) have also been issued. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option (designated as measured at fair value through profit or loss) has not been elected; that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

In November 2013, the IASB issued a new version of IFRS 9 (IFRS 9 (2013)) which includes the new hedge accounting requirements and related amendments to IFRS 9, IFRS 7 and IAS 39.

IFRS 9 (2013) does not have a mandatory effective date, but it is available for adoption now.

The Company believes that IFRS 9 (including all its phases) is not expected to have a material impact on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Amendments to IAS 36, "Impairment of Assets":

   In May 2013, the IASB issued amendments to IAS 36, "Impairment of Assets" ("the amendments") regarding the disclosure requirements of fair value less costs of disposal. The amendments include additional disclosure requirements of the recoverable amount and fair value. The additional disclosures include the fair value hierarchy, the valuation techniques and changes therein, the discount rates and the principal assumptions underlying the valuations.
   The amendments are effective for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

   The appropriate disclosures will be included in the Company's financial statements upon the first-time adoption of the amendments.

NOTE 3:- SHORT-TERM BANK DEPOSITS

The short-term bank deposits (between three months and a year) as of December 31, 2013 and 2012 in a total of $ 511 thousand and $ 556 thousand, respectively, bearing an annual interest rate of 0.04%.

NOTE 4: - TRADE RECEIVABLES

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Trade receivables (1)	249	656
(1) Net of allowance for doubtful debts	326	369

Trade receivables are non-interest bearing and are generally on 30 - 90 days' terms.

The aging analysis of trade receivables is as follows:

		Past due but not impaired				
	Neither past due nor impaired	< 30 days	30 - 60 days	60 - 90 day	> 90 days	Total
	U.S. dollars in thousands					
2013	101	115	*) -	-	33	249
2012	407	153	80	16	*) -	656

*) Represents an amount lower than $ 1 thousands.

NOTE 5:- RESTRICTED CASH

a. As part of a $6.7 million contract signed on May 2013 in which SimiGon was selected as a prime contractor to deliver a SIMbox based training solution, on June 10, 2013 the Company issued a Performance Bond in favor of its customer in a total amount of $335 thousand prior to contract deliveries and receiving payments from the client. The Performance Bond expires on December 17, 2015.

b. To operate an ongoing business account in Bank Mizrahi, the Company is obligated to secure a deposit in a total amount of $45 thousand in its favor.

c. As part of SimiGon Ltd premises lease agreement, the Company is obligated to secure a deposit in a total amount of $24 thousand in favor of the landlord.

NOTE 6:- PROPERTY, PLANT AND EQUIPMENT

Composition and movement:

	Computers and peripheral equipment	Office furniture and equipment	Leasehold improvements	Total
	U.S. dollars in thousands			
Cost:				
Balance as of January 1, 2012	686	161	54	901
Disposal during the year	(6)	(18)	-	(24)
Acquisitions during the year	42	61	-	103
Balance as of December 31, 2012	722	204	54	980
Disposal during the year	(13)	-	-	(13)
Acquisitions during the year	26	4	-	30
Balance as of December 31, 2013	735	208	54	997
Accumulated depreciation:				
Balance as of January 1, 2012	643	118	53	814
Disposal during the year	(6)	(8)	-	(14)
Depreciation during the year	32	16	*) -	48
Balance as of December 31, 2012	669	126	53	848
Disposal during the year	(13)	-	-	(13)
Depreciation during the year	31	16	*) -	47
Balance as of December 31, 2013	687	142	53	882
Depreciated cost as of December 31, 2013	48	66	1	115
Depreciated cost as of December 31, 2012	53	78	1	132

*) Represents an amount lower than $ 1 thousands.

NOTE 7:- GOODWILL AND AN INTANGIBLE ASSET

The carrying amount of intangible assets acquired as of December 31, 2013 and 2012 in the accounts of the Company was as follows:

	Carrying amount as of December 31,	
	2013	2012
	U.S. dollars in thousands	
Technology **)	155	206
Goodwill	1,068	1,068
Total	1,223	1,274

As the activities of VTSG have been fully integrated into those of the Company, the goodwill arising in the acquisition of VTSG is evaluated for impairment purposes as part of the cash generating unit representing the Company. As of December 31, 2013, the recoverable amount determined based on the value in use exceeded the carrying amount of the Company's net assets (equity).

**) During the years ended December 31, 2013, 2012 and 2011, the Company recorded amortization in the amount of $ 51 thousand, $ 50 thousand and $ 50 thousand, respectively, which was recorded in cost of revenues.

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2013	2012
	U.S. dollars in thousands	
Employees and payroll accruals	451	342
Accrued expenses	357	336
	808	678

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES, NET

Employee benefits consist of short-term benefits, post-employment benefits, other long-term benefits and termination benefits.

a. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to Section 14 to the Severance Pay Law, as specified below.

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

c. The amounts recognized in the balance sheet are as follows:

	December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Liability at the beginning of the year	141	108	122
Expense recognized in the profit or loss	65	68	(52)
Benefits paid	(29)	(35)	38
Liability at the end of the year	177	141	108

b. Amounts recognized in the statements of comprehensive income are as follows:

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Current service cost	56	47	2
Interest cost	9	5	*) -
Remeasurement loss (gain) recognized in the year	*) -	16	(54)
Total expense (income) included in profit or loss	65	68	(52)

*) Represents an amount lower than $ 1 thousand.

c. Changes in the present value of defined benefit obligation:

Composition:

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Balance at January 1	141	108	122
Interest cost	9	5	*) -
Current service cost	56	47	2
Benefits paid	(29)	(35)	38
Net actuarial loss (gain)	*) -	16	(54)
Balance at December 31	177	141	108

*) Represents an amount lower than $ 1 thousand.

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

d. The actuarial assumptions used are as follows:

	Year ended December 31,		
	2013	2012	2011
Discount rate	4.26%	4.57%	4.83%
Future salary increases	4.43%	4.72%	2%
Average expected remaining working years	6.65	6.30	6.38

NOTE 10:- EQUITY

a. On November 2, 2006, the Company completed its Initial Public Offering ("IPO") on the Alternative Investment Market ("the AIM") on the London Stock Exchange, by issuing 6,076,811 Ordinary shares of NIS 0.01 par value each at a price of £ 0.88 ($ 1.65) per share for a total net consideration of $ 8,411 thousand.

b. On April 23, 2009, the Board of Directors approved the implementation of a one-year plan for salary reduction of 15% for senior management and other employees ("the Reduction Plan"). According to the Reduction Plan, the individuals, in exchange for the reduction on salary, are to be granted 2,263,383 Ordinary shares of the Company with an equivalent fair value on date of grant of $ 0.15. The shares which have been issued and are being held by a trustee will vest in 12 equal monthly installments. Out of the issued shares, a total of 380,313 Ordinary shares were returned to the Company due to departure of employees and recorded as treasury shares ("the Treasury Shares"). On November 30, 2010, Mr. Ami Vizer, the Chief Executive Officer of the Company and also a Director of the Company, acquired the Treasury Shares at a price of £ 0.0512 ($ 0.7979) per share, reflecting the fair market value of the stock on the purchase date.

Further to the Reduction Plan, on July 27, 2009, the Non-Executive Board members also decided to implement a one-year salary reduction of 15% and instead will be granted 119,727 Ordinary shares of the Company, with an equivalent fair value on date of grant of $ 0.165, which will vest in 12 equal monthly installments. The shares were issued to the trustee in January 2010.

The salary reduction of 15% for the Non-Executive Board members will be effective for additional 2 years commencing October 2010, and the Non-Executive Board members will be granted additional Ordinary shares of the Company.

NOTE 10:- EQUITY (Cont.)

On April 12, 2012 the Company issued a total of 72,000 and 47,727 Ordinary Shares of 0.01 NIS each to the Company's Non-Executive Directors and to Non-Executive Chairman of the Board respectively in return for a one year salary reduction.

On October 9, 2013 the Company issued a total of 72,000 and 47,727 Ordinary Shares of 0.01 NIS each to the Company's Non-Executive Directors and to Non-Executive Chairman of the Board respectively in return for a one year salary reduction.

c. On November 2, 2010, the Board of Directors approved the implementation of a share bonus plan ("the Share Bonus Plan").

According to the Share Bonus Plan, the Bonus Compensation will be granted with an equivalent value of Ordinary shares based on the quoted fair market price of the shares as of November 2, 2010, which is equal to $ 0.0821 per Ordinary share ("the Bonus Shares"). The Bonus Shares will vest upon receiving actual payment from the customer under the relevant PO ("the Bonus Shares Vested Date").
The fair value on date of grant equal to $ 0.08 per Ordinary Share

On July 4, 2011 the Company issued a total of 2,444,984 ordinary shares of 0.01 NIS each ("Ordinary Shares") to its senior management and other employees. Out of the shares issued, 1,984,530 and 103,703 Ordinary Shares were issued to the Company's Chief Executive Officer and Chief Finance Officer, who are also Directors of the Company, respectively.

As of December 31, 2010 the Company recorded share-based compensation expenses of $ 212 thousand, in respect of the bonus compensation.

d. On August 10, 2011, a total of 47,502 options were exercised under the Company's Stock Option Plan at an exercise price of NIS 0.01.

e. On September 12, 2011, the Board of Directors approved the implementation of a share bonus plan ("the Share Bonus Plan") for year 2011.

According to the Share Bonus Plan, the Bonus Compensation will be granted with an equivalent value of Ordinary shares based on the quoted fair market price of the shares as of September 12, 2011, which is equal to $ 0.0812 per Ordinary share ("the Bonus Shares"). The Bonus Shares will vest upon receiving actual payment from the customer under the relevant PO ("the Bonus Shares Vested Date").
The fair value, on date of grant equal to $ 0.08 per Ordinary Share.

Based on full vesting as of December 31, 2011, the Company's senior management and other employees are entitled to a total of 2,889,379 Ordinary Shares and a total of 3,141,288 Options at an exercise price of NIS 0.01 per share of the Company, which Ordinary Shares and Options were issued in 2012.

NOTE 10:- EQUITY (Cont.)

On April 12, 2012 the Company issued a total 2,055,838 Ordinary Shares of 0.01 NIS each ("Ordinary Shares") and 3,141,288 Options at an exercise price of 0.01 NIS each ("Options") to its senior management and other employees. Out of the shares issued, 1,972,233 and 22,109 Ordinary Shares were issued to Mr. Ami Vizer the Company's Chief Executive Officer and to Mr. Efraim Manea Chief Finance Officer, who are also Directors of the Company, respectively. Out of the Options issued, 2,926,533 and 37,582 Options were issued to Mr. Ami Vizer the Company's Chief Executive Officer and to Mr. Efraim Manea Chief Finance Officer, who are also Directors of the Company, respectively.

Further to the above, on October 11, 2012, a total of 833,541 Ordinary Shares of 0.01 NIS each have been issued to senior management and employees, including 516,921 Ordinary Shares to Mr. Ami Vizer the Chief Executive Officer of the Company and also a Director of the Company.

The Company recorded share-based compensation expenses of $ 66 thousand and $53 thousand, in respect of the bonus compensation for year 2013 and 2012, respectively.

f. On October 17, 2012, a total of 9,304 options were exercised under the Company's Stock Option Plan at an average exercise price of $ 0.09.

g. On August 5, 2013, a total of 19,800 options were exercised under the Company's Stock Option Plan at an average exercise price of $ 0.043.

h. Composition of share capital:

	December 31, 2013, 2012 and 2011	**December 31,**		
		2013	**2012**	**2011**
	Authorized	**Issued and outstanding**		
	Number of shares			
Ordinary shares of NIS 0.01 par value each	100,000,000	47,292,706	47,153,179	44,134,769

i. Stock option plan:

In August 2000, the Company's Board of Directors authorized an incentive share option plan ("the Option Plan") and has since granted options to purchase Ordinary shares to employees and consultants. Under the Option Plan, options generally vest ratably over a period of four years, commencing with the date of grant. The exercise price of the options granted under the Option Plan may not be less than the par value of the shares. The options generally expire no later than 10 years from the date of the grant, and are non-transferable, except under the laws of succession. On November 2, 2010, the Company decided to increase its Option Plan reserves by 8,000,000 options to accumulate a total of 17,500,000. As of December 31, 2013, an aggregate of 2,281,148 Ordinary shares of the Company are still available for future grant.

NOTE 10:- EQUITY (Cont.)

On November 24, 2013, the Company's Board of directors approved the extension of the Israeli Share and Option Plan for 2003 for additional 10 years under the same terms and conditions.

On January 31, 2012 the Board of Directors granted to the Company employees a total of 190,000 options to purchase Ordinary shares of the company. Such options are granted in accordance with the Company's Employees' Stock Option Plan (the "ISOP") and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price of US$0.14.

On April 11, 2013 the Board of Directors granted to the Company employees a total of 155,000 options to purchase Ordinary shares of the company. Such options were granted in accordance with the Company's Employees' Stock Option Plan and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price of $0.33 U.S. dollars.

On May 30, 2013 the Board of Directors granted to the Company employees a total of 150,000 options to purchase Ordinary shares of the company. Such options were granted in accordance with the Company's Employees' Stock Option Plan and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price of $0.42 U.S. dollars.

The fair value of share options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The following are the inputs to the model used for the three years ended December 31, 2013: risk-free interest rates of 1% in year 2013 and a risk-free interest rates for years 2012 and 2011 ranging from 0.87%-1.92%; a dividend yield of 0%; volatility factor of the expected market price of the Company's Ordinary shares of 80%; and a weighted average expected life of the options of 6 years. The weighted average fair values of the options granted in 2013, 2012 and 2011 were $ 0.38, $ 0.01 and $ 0.15, respectively.
A summary of the activity in options to employees, consultants, and directors (including the senior management, see j. below) for the years 2013, 2012 and 2011 is as follows:

	Year ended December 31,					
	2013		2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	5,021,788	$ 0.133	1,993,248	$ 0.315	2,673,444	$ 0.371
Granted	305,000	$ 0.377	3,331,288	$ 0.01	315,000	$ 0.148
Exercised	(19,800)	$ 0.043	(9,304)	$ 0.09	(47,502)	$ 0.002
Expired	-	$ -	(103,946)	$ 0.6	(110,245)	$ 0.617
Forfeited	(344,517)	$ 0.053	(189,498)	$ 0.17	(837,449)	$ 0.453
Outstanding at end of year	4,962,471	$ 0.134	5,021,788	$ 0.133	1,993,248	$ 0.315
Exercisable options	2,549,519	$ 0.187	1,067,526	$ 0.428	648,683	$ 0.834

NOTE 10:- EQUITY (Cont.)

The options outstanding as of December 31, 2013, have been separated into ranges of exercise price as follows:

Exercise price	Options outstanding as of December 31, 2013	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2013
\$ 0.003 - \$ 0.127	3,897,788	7.84	2,018,726
\$ 0.129 - \$ 0.630	864,683	4.04	345,793
\$ 1.33 - \$ 2.170	200,000	3.36	185,000
	4,962,471		2,549,519

j. Options to the CEO and senior employees:

1. On January 27, 2010, the Board of Directors granted 1,249,000 options as follows:

a) A total of 360,000 options were granted to the CEO at an exercise price of NIS 0.01 per share.

b) A total of 312,000 options were granted to senior management at an exercise price of NIS 0.01 per share.

c) A total of 132,000 options were granted to employees at an exercise price of NIS 0.01 per share.

d) A total of 304,000 options were granted to employees at an exercise price of \$ 0.13 per share.

e) A total of 141,000 options were granted to the former CFO at an exercise price of NIS 0.01 per share.

The options will vest in 3 tranches annually equal amounts commencing as of January 1, 2010 and will be conditional upon the following:

a) Employee being employed by the Company, and

b) The EBITDA of the Company (on a consolidated basis) for the relevant fiscal year (2011, 2012 and 2013) shall increase by more than 20% compared to the previous year.

The 2011 EBITDA performance goal was not achieved therefore the first tranche did not vest.

The 2012 and 2013 EBITDA performance goal was achieved.

NOTE 10:- EQUITY (Cont.)

Vesting will be fully accelerated in the event of any of the following:

a) Merger, acquisition or reorganization of the Company with one or more other entities;

b) A sale of all or substantially all of the assets or shares of the Company;

c) An investment in the Company of at least $ 2 million.

As of December 31, 2013 a total of 280,667 options have been vested and the Company recorded share-based compensation expenses in a total of $15 thousand, $12 thousands and $6 thousands in respect to Mr. Ami Vizer, the Company's Chief Executive Officer who is also a Director of the Company, to senior management and to employees, respectively.

2. On July 28, 2010, the Board of Directors approved that all vested options granted to the former CFO in total amount of 319,388 options at the date of termination of his engagement by the Company will be exercisable until December 31, 2011, or an M&A event (whichever is sooner).

   On September 27, 2010, the Board of Directors approved that all vested options granted to a former senior employee in total amount of 90,171 options at the date of termination of her engagement by the Company will be exercisable until December 31, 2011, or an M&A event (whichever is sooner).

   The effect of the modification in terms of the options was an increase in their fair value in the amount of $49 thousand which was recorded as share based compensation expense in 2010.

3. On June 29, 2011 the Company's Board of Directors approved. the extension in terms of options granted to former senior employee according to which, options in a total of 75,000 will be exercisable until June 10, 2012 only in case of a Transaction (as defined in the Company's Share Option Plan). All other vested options in a total of 85,400 will be exercisable until December 7, 2012 only in case of a Transaction (as defined in the Company's Share Option Plan).

4. On November 28, 2011 the Annual General meeting of the Company's approved the grant of 40,000 options to purchase ordinary shares of the Company to Mr. Efraim Manea, a director of the Company and its CFO. Such options are granted to Mr. Manea in accordance with the Company's Employees' Stock Option Plan (the "ISOP") and in the same terms that similar options are granted to the employees of the Company. The options will be vested over 36 months commencing September 2012 at an exercise price of US$0.08. The Vested Options are exercisable only in an event of an Transaction as defined under the ISOP.

NOTE 10:- EQUITY (Cont.)

5. Further to note 10e, on April 12, 2012, the Company issued 2,926,533 and 182,541 Options to Mr. Ami Vizer, the Company's Chief Executive Officer who is also a Director of the Company, and to senior management, respectively.

   As of December 31, 2013, the Company recorded share-based compensation expenses in a total of $51 thousand in respect to the CEO.

   Further to note 10e, on December 20, 2013 the Annual General meeting of the Company's approved the grant of 37,582 options to purchase Ordinary Shares to Mr. Efraim Manea, a director of the Company and its CFO.

k. Shares to the CEO and senior employees:

1. The Reduction Plan as mentioned under Note 10b above includes a total of 342,717 and 435,495 Ordinary shares of the Company which were granted to the CEO and senior management; respectively, with an equivalent fair value on date of grant of $ 0.15. The shares which have been issued and are being held by the Company's trustee, are fully vested.

2. The Share Bonus Plan as mentioned under Note 10c includes a total of 1,984,530 and 333,601 Ordinary shares of the Company that were granted to the CEO and senior management, respectively, with an equivalent fair value on date of grant equal to $ 0.0821 per Ordinary Share.

   As of December 31, 2010, the Company recorded share-based compensation expenses in a total of $ 163 thousand and $ 28 thousand in respect to the CEO and senior management, respectively.

3. Further to Note 10e, on April 12, 2012 the Company issued a total 1,972,233 and 66,291 Ordinary Shares to Mr. Ami Vizer the Company's Chief Executive Officer who is also a Director of the Company and to senior management, respectively.

   Further to the above, on October 11, 2012, a total of 516,921 and 309,711 Ordinary Shares of 0.01 NIS each have been issued, to Mr. Ami Vizer the Chief Executive Officer of the Company and also a Director of the Company and to senior management, respectively.

   For the years ended December 31, 2013 and 2012, the Company recorded share-based compensation expenses in a total of $66 thousand and $ 51 thousand, respectively, in respect to the shares granted to the CEO and for the year ended December 31, 2011, the Company recorded share-based compensation expenses in a total of $45 thousand in respect to the shares granted to the senior management.

NOTE 11:- INCOME TAXES

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959:

The Company has been granted an "Approved Enterprise" status for an original program and an additional expansion program, ("the programs") under the Law for the Encouragement of Capital Investments, 1959 ("the Law"). According to the provisions of the Law, the Company has elected to enjoy the "alternative benefits track" - a waiver of grants in return for tax holidays. The "Approved Enterprise" status will allow the Company a tax holiday on undistributed income derived from the "Approved Enterprise" program. The income derived from this "Approved Enterprise" will be tax-exempt for a period of two years, and may enjoy a reduced tax rate of 10% to 25% (based on percentage of foreign ownership) for an additional five years. The seven-year period of benefits will commence with the first year in which the Company earns taxable income.

The Company completed the implementation of its original and expansion programs.

The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval. The period of benefits has not yet commenced, and will expire in the year 2016

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the above Law, regulations published thereunder and the letters of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest.

Should the Company derive income from sources other than the "Approved Enterprise" during the period of benefits, such income shall be taxable at the regular corporate tax rate.

If tax-exempt profits are distributed to shareholders, they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits, currently between 10%-25% for an "Approved Enterprise".

An amendment to the Law, which became effective in 2005 ("the Amendment") changed certain provisions of the Law. As a result of the Amendment, a company is no longer obliged to implement an "Approved Enterprise" status in order to receive the tax benefits previously available under the alternative benefits provisions, and therefore there is no need to apply to the Investment Center for this purpose (Approved Enterprise status remains mandatory for companies seeking grants). Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the Amendment. A company is also granted a right to approach the Israeli Tax Authorities for a pre-ruling regarding their eligibility for benefits under the Amendment.

NOTE 11:- INCOME TAXES (Cont.)

Tax benefits are available under the Amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of the company's business income from export. In order to receive the tax benefits, the Amendment states that a company must make an investment in the beneficiary enterprise exceeding a minimum amount specified in the Law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the beneficiary enterprise ("the Year of Election").

Where a company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a beneficiary enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In this case, the minimum investment required in order to qualify as a beneficiary enterprise is required to exceed a certain percentage of the company's production assets before the expansion. The duration of tax benefits is subject to a limitation of the earlier of 7 years from the Commencement Year, or 12 years from the first day of the Year of Election.

Amendments to the Law for the Encouragement of Capital Investments, 1959:

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment"), which prescribes, among others, amendments in the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The Amendment became effective as of January 1, 2011.

According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income. Commencing from the 2011 tax year, the Company will be able to opt to apply (the waiver is non-recourse) the Amendment and from the elected tax year and onwards, it will be subject to the amended tax rates that are: 2011 and 2011 - 15% (in development area A - 10%), 2013 and 2014 - 12.5% (in development area A - 7%) and in 2015 and thereafter - 12% (in development area A - 6%).

b. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index ("CPI"). As explained in Note 2d, the financial statements are presented in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a difference between taxable income or loss and the income or loss before taxes reflected in the financial statements.

c. Tax reconciliation:

In 2013, 2012 and 2011, the main reconciling item between the statutory tax rate of the Company and the effective tax rate (0%) is carryforward tax losses and tax exemption for which no deferred taxes were provided.

NOTE 11:- INCOME TAXES (Cont.)

d. Carryforward losses:

Domestic:

As of December 31, 2013, 2012 and 2011, the Company had accumulated losses for Israeli tax purposes of approximately $ 3.4 million, $ 5.3 million and $ 6.5 million, respectively, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

Foreign:

As of December 31, 2013, 2012 and 2011, the federal tax loss carryforwards of the U.S. subsidiaries amounted to approximately $ 6.4 million, $ 6.1 million and $ 5.5 million, respectively. Such losses are available for offset against future U.S. taxable income of the subsidiaries and will expire in the years 2023-2026.

As of December 31, 2013, the tax loss carryforwards of the Singaporean subsidiary amounted to approximately $ 44 thousands, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

Deferred tax assets relating to carryforward operating losses were not recognized because their utilization in the foreseeable future is not probable.

e. Tax rates applicable to the income of the Company and its subsidiaries:

Domestic:

The Israeli corporate tax rate was 24% in 2011 and 25% in 2012 and 2013.
A company is taxable on its real (non-inflationary) capital gains at the corporate tax rate in the year of sale. A temporary provision for 2006-2009 stipulates that the sale of an asset other than a quoted security (excluding goodwill that was not acquired) that had been purchased prior to January 1, 2003, and sold by December 31, 2009, is subject to corporate tax as follows: the part of the real capital gain that is linearly attributed to the period prior to December 31, 2002 is subject to the corporate tax rate in the year of sale as set forth in the Israeli Income Tax Ordinance, and the part of the real capital gain that is linearly attributed to the period from January 1, 2003 through the date of sale is subject to tax at a rate of 25%.

On December 5, 2011, the "Knesset" (Israeli parliament) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25%, as above, the real capital gain tax rate and the real betterment tax rate were also increased accordingly.

NOTE 11:- INCOME TAXES (Cont.)

On August 5, 2013, the "Knesset" issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law"), which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years.

These changes include, among others, increasing the corporate tax rate from 25% to 26.5%, cancelling the reduction in the tax rates applicable to privileged enterprises (9% in development area A and 16% elsewhere) and, in certain cases, increasing the rate of dividend withholding tax within the scope of the Law for the Encouragement of Capital Investments to 20% effective from January 1, 2014. There are also other changes such as taxation of revaluation gains effective from August 1, 2013. The provisions regarding revaluation gains will become effective only after the publication of regulations defining what should be considered as "retained earnings not subject to corporate tax" and regulations that set forth provisions for avoiding double taxation of overseas assets. As of the date of approval of these financial statements, these regulations have not been issued.

Foreign:

The subsidiaries were incorporated in Orlando, Florida, U.S.A., and are taxed according to U.S. tax laws. The statutory federal tax rate is 35%.

f. Tax assessments:

The Company's tax assessments in Israel for the years until and including 2006 are considered final, subject to the powers vested with the director of the Tax Authority pursuant to sections 145, 147 and 152 to the Income Tax Ordinance.

g. Deferred taxes:

On December 31, 2013, there was no recognized deferred tax liability for taxes that would be payable on unremitted earnings of the Company and its subsidiaries.

NOTE 12:- OTHER LIABILITIES AND COMMITMENTS

a. Royalty commitments:

1. In June 2001, the Company and a third party signed a Cooperation and Project Funding Agreement with Britech, which is an establishment of the United Kingdom-Israel Industrial Research and Development Fund.

   According to the agreement, Britech agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company and the third party for a research and development project in the maximum amount of £ 227 thousand.

NOTE 12:- OTHER LIABILITIES AND COMMITMENTS (Cont.)

The Company shall make repayments to Britech, based on gross sales derived from the sale, leasing or other marketing or commercial exploitation of the innovation, including service or maintenance contracts, commencing with the first commercial transaction. Such payments shall be repaid in Pounds Sterling at the rate of 2.5% of the first year's gross sales and, in succeeding years, at the rate of 5% of the gross sales until 100%-150% of the conditional grant and other sums have been repaid (incremental 50% based upon agreed milestone which was not fulfilled).

The Company received a total amount of $ 324 thousand, of which $ 150 thousand and $ 174 thousand were deducted from the research and development expenses in 2001 and 2003, respectively.

Although the development of technology had been completed by the third party and the Company, the Company has never received the third party's portion of the developed technology upon completion of the project although it requested it from both the third party and Britech. Therefore, since the Company cannot utilize the developed technology without the essential portion developed by the third party, the Company has not paid any royalties to Britech and the Company's management believes that it will not be required to pay royalties in the future for the abovementioned project. In addition, the Company did not submit any patent applications in connection with the Britech grant.

2. On September 1, 2009, the Company and a third party signed a Cooperation and Project Funding Agreement with KORIL ("the Agreement"), which is an establishment of the Korea-Israel Industrial Research and Development Fund. According to the agreement, KORIL agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company ("the proposal") and the third party for a research and development project in the maximum amount of $ 273 thousand.

   As of December 31, 2013, the Company received a total amount of $ 254 thousand.

   The Company shall make repayments to KORIL, based on gross sales derived from the gross invoiced sales value of the products, processes, inventions, technology, discoveries, improvements, modifications, methods, software, specifications, or any form of technical information developed or arising from the proposal (gross sales). Such payments shall be repaid in U.S. dollars at the rate of 2.5% of the first year's gross sales until 100% of the conditional grant and other sums have been repaid.

   The total non-current liability for the years ended December 31, 2013 and 2012 was $ 200 thousand and $ 197 thousand, respectively.

NOTE 12:- OTHER LIABILITIES AND COMMITMENTS (Cont.)

3. On September 16, 2010, the Company signed a Project Funding Agreement ("the Agreement") with the Israeli Chief Scientist ("the OCS"). According to the Agreement, the OCS agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company for a research and development project in the maximum amount of $ 365 thousand.

   On March 29, 2011, the Company signed on a supplement to the Agreement ("the Supplement"). According to the Supplement, the OCS agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company for a research and development continued project in the maximum amount of $ 278 thousand.

   As of December 31, 2013, the Company received total amount of $ 611 thousand.

   The Company shall make repayments to the OCS, based on gross sales derived from the gross invoiced sales value of the products, processes, inventions, technology, discoveries, improvements, modifications, methods, software, specifications, or any form of technical information developed or arising from the proposals (gross sales). Such payments shall be repaid in NIS at the rate of 3% of the first year's gross sales until 100% of the conditional grant and other sums have been repaid.

   The total non-current liability for the years ended December 31, 2013 and 2012 was $ 499 thousand and $ 483 thousand, respectively.

4. On April 7, 2011, the Company and a third party signed a Cooperation and Project Funding Agreement with the Israeli Chief Scientist ("the OCS"), which is an establishment of the Italian-Israel Industrial Research and Development Fund. According to the agreement, the OCS agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company ("the proposal") and the third party for a research and development project in the maximum amount of $ 91 thousand.

   As of December 31, 2013, the Company received a total amount of $ 95 thousand.

   The Company shall make repayments to the OCS, based on gross sales derived from the gross invoiced sales value of the products, processes, inventions, technology, discoveries, improvements, modifications, methods, software, specifications, or any form of technical information developed or arising from the proposal (gross sales). Such payments shall be repaid in NIS at the rate of 3% of the first year's gross sales until 100% of the conditional grant and other sums have been repaid.

   The total non-current liability for the year ended December 31, 2013 and 2012 was $ 78 thousand and $ 68 thousand, respectively.

NOTE 12:- OTHER LIABILITIES AND COMMITMENTS (Cont.)

As of the financial statement approval date, the Company has not paid any royalties to the OCS as no related gross sales were recorded.

b. Lease commitments:

1. Premises occupied by the Company are rented under various non-cancelable lease agreements until December 31, 2014.

2. The Company has leased various motor vehicles under cancelable operating lease agreements, which expire on various dates, the latest of which is in 2016.

3. Premises occupied by the subsidiaries are rented under non-cancelable lease agreements. The latest rental agreement for the premises expires in March 2016 as determined under a lease agreement signed on December 14, 2011 by SimiGon Inc.

4. 4. Future minimum rental payments under non cancellable operating leases are as follows:

Year ended December 31,	U.S. dollars in thousands
2014	327
2015	99
2016	69
	495

The total expense for the years ended December 31, 2013, 2012 and 2011 was $ 317 thousand, $ 301 thousand and $ 367 thousand, respectively.

NOTE 13:- SUPPLEMENTARY INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2013	**2012**	**2011**
	U.S. dollars in thousands		
a. Cost of revenues:			
Salaries and related benefits	595	468	604 *)
Lease and office maintenance	72	54	124
Travel expenses, net	139	64	(50)
Depreciation and amortization	59	57	59
Share-based compensation	14	10	8
Subcontractors	1,191	714	83
	2,070	1,367	828
b. Research and development expenses:			
Salaries and related benefits	2,084	1,793 *)	1,453 *)
Lease and office maintenance	319	323	245
Depreciation and amortization	25	28	16
Share-based compensation	16	12	21
Other	2	1	1
Government grants	(44)	(12)	(41)
	2,404	2,145	1,695
c. Selling and marketing expenses:			
Salaries and related benefits	1,118	1,000 *)	968 *)
Lease and office maintenance	80	70	105
Consultant fees	123	123	141
Advertising and sales promotion	41	70	54
Travel expenses	92	113	106
Depreciation	9	8	6
Share-based compensation	93	67	296
Commission	96	117	23
	1,652	1,568	1,699

*) Restated to reflect the implementation of IAS 19 (Revised) Employee Benefits.

NOTE 13:- SUPPLEMENTARY INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME (Cont.)

	Year ended December 31,		
	2013	**2012 *)**	**2011**
	U.S. dollars in thousands		
d. General and administrative expenses:			
Salaries and related benefits	681	608 *)	543 *)
Lease and office maintenance	63	60	67
Travel expenses	14	21	21
Professional fees and public company expenses	314	324	334
Depreciation	5	5	4
Share-based compensation	14	22	28
Doubtful debt provision	(43)	(25)	(18)
	1,048	1,015	979
e. Finance income:			
Exchange rate differences	56	122	296
Interest income from banks	1	4	9
	57	126	305
f. Finance cost:			
Exchange rate differences	124	147	231
Government grants interest	29	7	3
Bank loans and fees	6	-	33
	159	154	267

*) Restated to reflect the implementation of IAS 19 (Revised) Employee Benefits.

NOTE 14:- REVENUES

The Company manages its business on the basis of one reportable segment.

a. Revenues:

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
Software licenses and customization	6,356	5,420	4,507
Recurring Maintenance & Support	1,745	1,342	910
Training	71	43	67
	8,172	6,805	5,484

b. Geographical information:

Revenues classified by geographical destinations based on the customer location:

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
EMEA and South America (1)	1,399	1,730	1,475
North America	5,032	4,928	3,892
Asia Pacific	1,741	147	117
	8,172	6,805	5,484

(1) Europe, South America, Middle East, Australia and Africa.

The carrying amounts of non-current assets (fixed assets, investment property and intangible assets) in the Company's country of domicile (Israel) and in foreign countries, based on the location of the assets, are as follows:

	December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
EMEA and South America	41	37	54
North America	1,297	1,369	1,357
	1,338	1,406	1,411

NOTE 14:- REVENUES (Cont.)

c. Information about major customers:

Revenues from major customers, each of whom amount to 10% or more of total revenues reported in the financial statements:

	Year ended December 31,		
	2013	2012	2011
Customer A	21%	24%	49%
Customer B	10%	8%	12%
Customer C	15%	17%	13%
Customer D	20%	19%	-
Customer E	6%	13%	-
Customer F	20%	-	-

NOTE 15:- EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Year ended December 31,		
	2013	2012 *)	2011*)
	U.S. dollars in thousands		
Net income for the year	896	708	321

	2013	2012	2011
Weighted average number of Ordinary shares for computing basic earnings (loss) per share	47,188	45,884	42,867
Effect of dilution: Share options	1,943	570	65
Weighted average number of Ordinary shares adjusted for the effect of dilution	49,131	46,454	42,932

There have been no significant transactions involving Ordinary shares or potential Ordinary shares between the balance sheet date and the date of approval of these financial statements.

*) Restated to reflect the implementation of IAS 19 (Revised) Employee Benefits.

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
a. Expenses to related party of a shareholder:			
Sales and marketing *)	-	18	-

*) As part of a sales consulting agreement signed with a company whom one of its shareholder is also a shareholder in SimiGon, holding less than 10%.

	Year ended December 31,		
	2013	2012	2011
	U.S. dollars in thousands		
b. Compensation of key management personnel of the Company:			
Employee benefits *)	1,560	1,448	1,281
Share-based payments **)	83	87	314
	1,643	1,535	1,595

*) Includes increase in long-term employee benefits due to change in provision for severance pay in a total amount of $ 40 thousand, $ 47 thousand and $ 37 thousand for the years ended December 31, 2013, 2012 and 2011, respectively.

Year 2013 include bonus payment in a total of $ 17 thousand to the VP of Business Development and VP Projects.

Year 2013 includes bonus provision to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2013 in the amount of $33 thousands (see Note 16d).

Year 2013 includes bonus provision to Mr. Ami Vizer, the Company's Chief Executive Officer and executive director (“the CEO”) in respect to fiscal year 2013 in the amount of $115 thousands, and a payment of $ 6 thousand paid to the CEO in respect of the bonus of the fiscal year 2012 (see Note 16e).

Year 2012 and 2011 include the provision for sales bonus in a total of $ 2 thousand and $ 10 thousand to the VP of Business Development, respectively.

Year 2012 includes bonus in a total of $ 30 thousand and a bonus provision of $114 thousand to the CEO in respect of the fiscal year 2011 and 2012; respectively (see Note 16e).

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

**) Years 2013 and 2012 include share-based compensation in a total of $ 51 thousand and $51 thousand; respectively, due the Share Bonus Plan as described under Note 10e, in respect to the CEO.

Year 2013 includes share-based compensation in a total of $ 15 thousand and $17 thousands due Options granted in section 1 under Note 10i, in respect to the CEO and senior management, respectively.

Year 2012 includes share-based compensation in a total of $ 15 thousand and $12 thousands due Options granted in section 1 under Note 10i, in respect to the CEO and senior management, respectively.

Year 2011 includes share-based compensation in a total of $ 248 thousand and $ 45 thousand due the Share Bonus Plan as described under Note 10e, in respect to the CEO and senior management, respectively.

c. Compensation policy for the Company’s Directors and officers:

On November 24, 2013, the Company’s Board of directors approved the adoption of a Compensation policy for the Company’s Directors and officers (the “Compensation Policy Plan”) as required by the Israeli Companies Law in order to provide the Company the ability to attract, retain, reward and motivate highly skilled Officers and to assure that the compensation structure meets the Company's interests and its overall financial and strategic objectives.

The Compensation policy for the Company’s Directors and officers was approved at SimiGon Annual General Meeting for year 2013 held on December 30, 2013.

d. Agreement with CFO:

On December 6, 2012, the Board of Directors approved the grant of a one-time cash bonus to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2013 in the amount of up to $34 thousands, subject to revenues, net profit and share price criteria and milestones.

On November 24, 2013, the Board of Directors approved the grant of a one-time cash bonus to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2014 in accordance to the Company’s Compensation Policy Plan mentioned above. The granted bonus is in the amount of up to $35 thousands, subject to revenues, net profit and share price criteria and milestones.

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

e. Significant agreements with shareholders:

1. On September 21, 2006, the Company signed an agreement with Mr. Ami Vizer, the Chief Executive Officer of the Company, according to which Mr. Ami Vizer is engaged with a current salary of $ 313 thousand per annum (excluding bonuses and benefits), terminable by either party on nine months' notice. In addition, pursuant to this agreement, Mr. Vizer received options.

   On April 23, 2009, the Board of Directors approved the implementation of a one-year plan for salary reduction of 15% for senior management and other employees ("the Reduction Plan"). According to the Reduction Plan, Mr. Ami Vizer, in exchange for the reduction on salary, was granted 342,717 Ordinary shares of the Company with an equivalent fair value on date of grant of $ 0.15. The shares which have been issued and are being held by a trustee will vest in 12 equal monthly installments.

   On January 27, 2010, the Board of Directors approved an increase of 10% in his salary effective January 1, 2010.

   On December 6, 2012, the Board of Directors approved a one-time cash bonus grant to Mr Ami Vizer with respect to fiscal year 2011 in the amount of $ 30 thousands. It has also approved the grant of a one-time cash bonus to Mr Ami Vizer with respect to fiscal years 2012 and 2013 in the amount of up to $ 125 thousands per year, subject to revenues, net profit and share price criteria and milestones (the "Conditions"). Based on the Conditions above, the Company recorded as of December 31, 2012, a provision of $114 thousands in respect to Mr Ami Vizer bonus for year 2012. The actual bonus was paid on April 2013 amounted to $ 120 thousands.

   On November 24, 2013, the Board of Directors approved the grant Mr. Ami Vizer, the Company's Chief Executive Officer and executive director a one-time cash bonus to with respect to fiscal year 2014 in accordance to the Company's Compensation Policy Plan mentioned above. The granted bonus is in the amount of up to $125 thousands, subject to revenues, net profit and share price criteria and milestones. On December 30, 2013 the Company's Annual General Meeting for year 2013, approved 2014 bonus grant to Mr Ami Vizer.

   Total salary (excluding share bonus grant mentioned under Notes 10e) of Mr. Ami Vizer during year 2013 amounted to an annual salary of $ 345 thousand, related benefits include bonus for 2012 fiscal year of $120 thousands, annual social benefits of $ 43 thousands (12.5% out of his annual salary), expenses allowance of $6 thousands, car insurance of $2K work insurance of $2 thousands, recovery fees of $1 thousands, severance pay of $29 thousands, vacation days of $39 thousands and health insurance of $31 thousands. In addition, the Company has made a provision for 2013 bonus in a total of $ 114 thousands.

   In the annual general meeting for year 2013 held on December 30, 2013, the shareholders, reapproved the employment agreement of Mr. Ami Vizer as the Company's Chief Executive Officer and an executive director.

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

2. On September 27, 2006, the Company entered into an agreement with Mr. Rami Weitz, pursuant to which Mr. Weitz receives a fee of $ 122 thousand per annum in consideration of consulting services. The agreement may be terminated by either party by at least six months' written notice. In addition, pursuant to this agreement, Mr. Weitz received options. Prior to this agreement, Mr. Rami Weitz had been the Chairman of the Board of Directors of the Company.

   On April 22 2014, the Company signed on a Loan Agreement with Mr. Rami Weitz (“the Loan Agreement”) according to which, the Company will provide Mr.Weitz with a loan in a total of $60 thousand baring an accrue interest at the minimum rate mandated by law, repayable within 12 months till April 7, 2015. According to the Loan Agreement, the Company shall have the right at any time (even prior to the due repayment date) to set-off and deduct any amount due hereunder from any amount payable by the Lender to Mr.Weitz, to Packet Science Ltd. or to any company in which Mr.Weitz and/or his immediate family and/or third respective affiliates have a controlling interest.

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital management:

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and sufficient capital in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

Financial risks factors:

The Company's activities expose it to various financial risks such as market risk (including foreign exchange risk), credit risk and liquidity risk.

a. Foreign exchange risk:

   The Company operates in a number of countries and is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the NIS. As of December 31, 2012, balances in foreign currency are immaterial.

b. Credit risk:

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

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

Cash and cash equivalents and short-term bank deposits are invested in major banks in Israel and the United States. Management believes that the financial institutions that hold investments of the Company and its subsidiaries are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The Company trades only with creditworthy customers. The Company performs ongoing credit evaluation of its customer's financial condition and requires collateral as deemed necessary.

The Company has no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

The Company has no significant concentrations of credit risk. The Company has a policy to ensure collection through sales of its products to wholesalers with an appropriate credit history and through retail sales in cash or by credit card.

As of December 31, 2013, cash and cash equivalents together with the Company's short time bank deposits amounted to $ 8,612 thousand.

c. Liquidity risk:

The table below presents the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

December 31, 2013:

	Less than one year	**3 to 4 Years**	**Total**
	U.S. dollars in thousands		
Government grants	38	777	815
Trade payables	143	-	143
Other accounts payable and accrued expenses	770	-	770
	951	777	1,728

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

December 31, 2012:

	Less than one year	3 to 4 Years	Total
	U.S. dollars in thousands		
Government grants	38	748	786
Trade payables	140	-	140
Other accounts payable and accrued expenses	640	-	640
	818	748	1,566

NOTE 18:- SUBSEQUENT EVENTS

On April 24, 2014 the Company's Board of Directors approved the distribution of a maiden interim dividend in the amount of $268 thousands (approximately $0.0543 cent per share).

The dividend is payable on May 30, 2014. The record date for payment of the dividend is May 9, 2014. The ex-dividend date is May 7, 2014.

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